EKONOMSKA ISTRAŽIVANJA-ECONOMIC RESERACH
ISSN 1331-677X print

2013 Volume 26(4): 1-20

# ON *ECONOMIC FRONTIERS*: EXPLORING THE RATIONALE BEHIND MODERN MARKET INTEGRATION

Valentin Cojanu [a]

[a] Full Professor, Ph.D, Bucharest University of Economic Studies, Department of International Business and Economics, Piata Romana 6, Bucuresti, Romania, cojanu@ase.ro

ARTICLE INFO

Article data:
- Received: 25 September 2013
- Accepted: 19 October 2013

JEL classification: F15, O10, R12, R58

Keywords:
- Territory
- Optimal jurisdiction
- Market area
- Competitiveness
- Romania

ABSTRACT

This paper suggests that the benefits of market integration project reach an asymptotic limit in the realm of close communities when adherence to the same values is critical to achieve internal market reform rather than the other way round. An optimal context of market integration is hypothesized as a territory circumscribed by economic frontiers within which jurisdictions are willing, on the one hand, to share resources with other members to reap the benefits from externalities and economies of scale, and, on the other hand, are able to target policy initiatives at a geographical scale that reflect directly regional commonality. This theoretical framework is illustrated with a discussion of Romania as a country case by drawing on cluster analysis and trade integration data.

**Reference** to this paper should be made as follows: Cojanu, V. 2013. On *economic frontiers*: exploring the rationale behind modern market integration, *Ekonomska istraživanja – Economic Research* 26(4): *1-20*

## I. INTRODUCTION

At the time of this writing, the European Union (EU) nears a moment of decision. Prolonged financial instability, fragile economic recovery, and credible threats about the Euro-zone disintegration are frequent distressing news which seems to indicate that the process of regional integration exhausted most of the political and economic gains associated with the formation of the European Economic Community (EEC) in 1957 and its development into a Common Market in 1992. Besides monetary costs, the intensity and duration of the 2008 financial crisis have also inflicted institutional strain by exposing the weakness of the EU in defending its landmark goal of creating an economic and political union. The 'integration fatigue' has emerged as a matter of academic concern (Monti, 2010; Lianos and Gerard, 2012).

To advance solutions for the viability of the European integration project, further resources for growth are to be found in circumstances markedly different from that of the 1950s and even of the 1980s. Completion of the single market has not only reached an advanced stage in the regulatory realm, but also become a continental feature, with 28 European countries currently implementing the *acquis communautaire*. With each step forward, the complexity required by the governance of the Union has changed the operating logic of integration with an increasing emphasis on the subsidiarity principle narrowing the focus of the EU initiatives to preferences of actors others than member states such as disadvantaged social groups, underdeveloped regions, regions of knowledge, or territorial groupings. To sustain the sources of future benefits, the economic view of liberalism needs revisiting in light of the present-day challenge of European integration à géométrie variable which eclipsed the adoption of common policies as the preeminent force behind market integration. The ensuing argument rests on the observation that the benefits of liberalism depend increasingly on policy measures that incorporate *the economic frontier* as a distinct analytical issue.

One remarkably illustrative case to anticipate our discussion is Belgium, a polity and actor of international relations founded on a cohabitation of two historical areas, Flanders and Wallonia, set apart by linguistic differences, political divergence and dissimilar economic governance. Oosterlynck (2010) produces a rich historical narrative to illustrate how this political-economic space, labelled Belgium in 1830, hampered or stimulated, depending on 'contingent territorial and scalar politics', a functioning economic entity able 'to territorialise social relations.' At origin, a project of a coalition between the Catholic Church and the liberal bourgeoisie, mainly residing in Brussels, the Belgian state seemed no more than a political compromise struggling to encompass the Belgian national scale against a background of diverging economic structures and interests of its two communities.

Although Ohmae (1995) has long suggested that the nation-state is no longer the optimal unit for organizing economic activity, the hypothesis implying that national borders are weak descriptors of economic frontiers is admittedly in need of 'a little theory' to 'come up with predicted effects of redrawing some sensitive political boundaries' (Frankel and Rose, 2000). The Belgian case reveals a complex yet uncontroversial story behind regional partitioning based on the governance of a socio-spatial basis apt to offer the necessary coherence supporting relevant policy development. However, factual observations do not make up for a theory. We recognize economic frontiers demarcating areas of affluence, for example, Upper Rhine Valley, San Francisco Bay Area, or Hong-Kong-South China, when we see them, although are not equally adept at prefiguring such territorial configurations of variable geometry before they take off. In this paper, we aim to contribute to a theory of the *economic frontier* inspired in particular by the contemporary process of European integration. This understanding should prepare us to devise a new model for the

European integration project (as should do for the theory of integration in general).

Our argument advances in two steps. First, we break down the theoretical case of the existence of economic frontiers into macro- and micro-views. A juxtaposition of both perspectives delineates a welfare-maximizing integration area within which business patterns take advantage of self-enforcing growth opportunities; in other words, areas that are competitively viable on their own. As a working concept, we call such a region *unitary economic area* (UEA). Second, we put to test the hypothesized existence of UEAs by exploring the case of Romania, a typical peripheral member country, to infer some experimental propositions about how our theoretical framework applies to a country's economic frontiers in the context of European integration.

## II. A THEORETICAL FRAMEWORK OF ECONOMIC FRONTIERS

In economists' interpretation (Lösch, 1940 (1954), p. 198; Pelkmans, 2006, p. 2), an *economic frontier* is a geographical boundary beyond which the economic flows (of factors, goods, services and information) of a community transact at increased costs. The concept has also drawn the attention of other social researchers. Probably most famous among all, historian Fernand Braudel considered book-length arguments about the foundation of a world-economy or économie monde in his native French, delineated by spatial, as well as temporal boundaries. His world-economies examples include the *Mediterranean* (Braudel, 1995 (1949)) and *Capitalism* (Braudel, 1984 (1979)), two spatial-temporal contexts of development, co-existing with political jurisdictions, which inform about the intricate fabric of historical, social, and political decision-making processes accounting directly for a community's welfare.

Independent contributions from political science (Kohr, 1941; Garreau, 1981; Dupeyron, 1998), economic geography (Simmie and Martin, 2010; Groot et al, 2011), cultural studies (Florida et al, 2008), business studies (Porter, 2000; Ricart et al, 2004) or even businessmen (Heineken, 1992) concur in observing that modern economic life has a strong territorial rather than political foundation. An area of integrated markets may reveal itself from a macro-perspective, as an aggregate of multiple jurisdictions, or alternatively from base level where the economic space appears as a hub-and-spoke pattern of myriad business connections.

The macro-view works by carrying out incremental additions and exclusions of units of analysis to find an *optimal* grand jurisdiction whereby 'optimization' designates a *welfare-improving* process. Ideally, the degree of heterogeneity between area members is sufficiently low to permit collectively the best economic prospects and sufficiently high to reap the highest attainable economies of scale. At the micro level, the removal of border barriers leaves behind a rugged landscape over which the economic activities disperse or concentrate geographically: some businesses find now easier to operate over vast distances, building up production networks along the same or related commodity chains; at the same time, other activities tend to locate within small territorial areas, giving rise to agglomerations of people, industries and infrastructure. We'll discuss in turn these conceptual premises of an 'economic frontier'.

## A. A macro-view of the economic frontier

Dating back to the 1950s, preoccupations with the impact of varying economic policies on a countries group's welfare resulted in a series of studies investigating optimal institutional design. Examples of such interests include the cases of establishing a customs union (Viner, 1950), or redistribution in federal countries (Scott ,1950; Rothenberg, 1970). Among them, and probably the most resonating with the current EU economic turmoil, was the issue of optimum currency areas, OCA (Mundell, 1961).

Also originating in the same period, the theory of clubs, with contributions from Olson (1965) and Buchanan (1965) among others, has the merit of creating a more general schema of *how* and *why* countries (or more generally, individual actors) would find it advantageous to be part of the same group. A club thus appears as a negotiated jurisdiction which provides its members with benefits resulting from economies of scale and externalities associated with the consumption of some 'core' goods, goods that are essential for the club formation in the first place. At the same time, club members incur costs with each new entrant whose choice over the club goods diverges from the common set of preferences and so leads to inefficient outcomes for the group as a whole. The net effect of the benefits of scale and externality and the costs of heterogeneity depends on both club objectives and membership size and eventually places a club members' welfare level closer to or further from the *optimal* state.

Seen through club lenses, Mundell's theory, for example, implies that the size of a union has (1) a lower limit set by the number of countries permitting free movement of factors and goods and (2) an upper limit set by the transactions costs that tend to increase with the number of currencies. The world will be then the ideal currency area unless the stabilization effects of monetary policy appear highly ineffectual to this end over a large territory. Such a club reaches its *optimum* size when trespassing the OCA boundary becomes costly for a non-member: macroeconomic shocks such as a fall in demand for domestic goods cannot be absorbed (e.g. by keeping employment stable) unless jobs and investors move effortlessly and find quickly other opportunities in locations beyond national borders. As subsequent research has emphasized, the optimal size of this club (called *a monetary union*) depends also on other criteria, including for example similarity of 'development potentials, political interests and societal preferences' (Ahrens et al, 2005). This leads us to a more accurate view of the determinants on one hand, although it makes the marginal impact of scale and heterogeneity increasingly hard to assess, on the other hand. As Bayoumi and Eichengreen (1997) commented on the OCA argument, 'it remains difficult to move from theory to empirical work and policy analysis', a conclusion that other studies (e.g. Brixiova et al, 2009, Cerqueira and Martins, 2011) attempting to search for an unambiguous test for the optimum size of a monetary union seem not to contradict.

Adopting a common currency illustrates just one of the possible key decisional areas specific to a complex club. The EU project has built on the assumption that every one of its various common policies, for example, on the internal market, agriculture, external trade, exchange rate, regional development, or research and innovation, would create better conditions for growth than independent national policy making. This premise has been, however, contested by research (e.g. Casella, 1992; Manzini and Mariotti, 1999; Feldman and Martin, 2004; Ahrens et al, 2005) showing that increased institutional complexity leads to sub-optimal states for the 'consumption' of each of the co-existing club goods (read: common policy). The attempt to arrive at a reducible common denominator for welfare improvement branches off in as many venues for research as optimality criteria exist.

The concept of 'differentiated integration' (Watson, 2004; Dyson and Marcussen, 2010) suggests that the EU political integration advances to the extent that a negotiated decision can be found as to the optimal conditionalities of its various clubs. The first stages of integration could accommodate relatively easy overlapping membership of apparently conflicting clubs; say the 'agriculture' and the 'customs union' ones. The present, however, raises the stakes considerably, in terms of the *optimal* degree of heterogeneity suitable to sustain a workable integration mechanism.

### B. A micro-view of the economic frontier

The economic benefits of market integration will fare even better, runs the textbook argument, if the four fundamental freedoms of the EU (free mobility of goods and services, as well as the production factors of labour and capital) extend to the global scale of the economy. The EU promotes free trade agreements with third parties indeed [1], in the sound logic of liberalism, yet it can hardly contemplate the perspective of its internal market ceasing to be regulated differently from the rest of the world.

At smaller geographical scale, an EU member faces a similar ambivalent position: to make progress towards a deeper level of integration responds to its own interest even though some local circumstances of development may escape the logic of economic liberalism. This effect is a result of the varying degrees of spatial availability of the production factors. For highly mobile factors like labour and capital, the larger the available area wherein they are able to move, the better the chances are to find the most profitable opportunities. Other factors like land and landscape, social capital or tacit knowledge do not move; they underpin production within a relatively small geographical area, the area of their origin. The removal of barriers thus makes possible a more efficient use of some of the factors through increased mobility, although has little or no direct impact on those factors whose value depends on their local use alone. In this way, the spatial organization of economic activity unfolds within a large area of variable geometry along *spokes* of dispersed chains of business networks, outsourcing factors at their most efficient location, as well as around *hubs* of agglomerations of regional economic linkages overlapping little if at all the neat demarcations of administrative jurisdictions.

It is only lately that the sustained removal of barriers has led to sizeable reconfigurations of industrial and specialization patterns at territorial level, and so permitted a broader view of the actual contours of a community's economy whose prosperity depends as much on the efficient allocation of resources as on the synergy of regional factors. Economics informed by geography complements standard microeconomics with a value creation model (see Table 1) which ties the gains from trade to a spatial organization of the economy in *networks*, *agglomerations* or a combination between the two. These two modes of market organization 'are located between the atomistic structure of an uncoordinated market and the organic structure of a vertical hierarchy' (EC, 2012, p. 179), a conceptualization that shifts the focus of analysis towards loci of value-added creation emerging as *geographical representations* rather than abstract transactional flows and eliciting empirical evidence on *spatial commonality* rather than market optimality. The novel interpretation of market integration has made the awareness about *economic frontiers* inevitable.

**TABLE 1 - GAINS FROM MARKET INTEGRATION**

| *Study area* | *Classical view* | *Modern view* |
|---|---|---|
| Source of gains | Specialization and trade | Networks and agglomerations |
| Actors | Atomized market participants | Community-based market participants |
| Empirical evidence | Market optimization | Spatial commonality |

*Source: Research results*

Lösch's (1940 (1954)) study of 'punctiform' and 'areal' spatial configurations of the market produced not only the first elaborate analysis of economic *frontier* ('boundary' in his terminology), but also prefigured the difficulties in making it a subject matter on its own. On the conceptual side, Lösch thinks of market transactions 'basically in terms of space' (Lösch, 1954, p. 252) and consequently draws boundaries around market areas that are 'entirely self-sufficient economically' and naturally arranged, i.e. without deliberate state interference, 'in such a way that, once set going, it shall continue on the whole by itself.' (Lösch, 1954, p. 196). From a spatial perspective, he argues, benefits that accrue to 'a typical exporter' or 'importer' (Lösch, 1954, p. 253) are contingent on varying costs and location conditions of a market area that either extend beyond or lie within political boundaries, in which case the theory of comparative cost becomes largely ineffective in explaining international trade as flows between countries treated as points.

Yet, it is on the analytical side where Lösch's guidance falls short of mapping the 'economic width' of a boundary. His selection of historical examples informs that simple and uniform 'economic interests' lead to a more productive 'adjustment of politics to economics' (Lösch, 1954, p. 202). The premise was reinforced later by Linder (1961), who determines the pattern of trade as a result of the similarity of supply and demand areas to which a country's production system is part so that a greater overlap of product categories is conducive to a greater potential of trade [2]. However, mapping *spatial commonality* of this kind has proved an elusive target to accompany the geographical dimension. One of the most notable attempts to reconcile economics with geography, the World Bank's *World Development Report 2009*, faced criticism manifestly for 'paradigmatic blind spots' and for policy recommendations ignoring 'highly important issues of power and politics, gender and ethnicity, justice and environment' (cf. Mäki and Marchionni, 2011).

What seems to explain the difficulty in moving conclusively towards a new framework centred on *territorial* rather than *market* optimality is that the characteristics of local economies able to support businesses' value-creation chain are hardly a topic of mono-disciplinary concern. Lösch's 'economic width', the area of *uniform* economic interests, is, in fact, a multi-layered socio-economic habitat of apparently disparate influences. Its territorial limits, political organization and economic specialization result from a complex interplay between path dependencies, history, culture and developmental capabilities (Florida et al, 2008; Yeung and Lin, 2003; Simmie and Martin, 2010; Woolcock et al, 2011; Krapohl and Fink, 2013). In need of a unifying concept, we call this spatial locus of economic value-creation *a unitary economic area* (UEA) [3] to replace *national economy* as the main unit of analysis in assessing gains from market integration.

## C. Summary: mapping economic frontiers into the integration space

With ever larger membership, the economic frontier of an optimal club is less supposed to overlap the outer territorial limits of the joining members. If we aim at finding an optimal organization of club constituencies, we should expect instead to map an integration area into self-governing spaces of integration or UEAs. In our bi-dimensional framework, an UEA is a club designed to provide an optimal context of development to its members, which, on the one hand, are willing to share resources with other members to reap the benefits from externalities and economies of scale brought about by their union, and, on the other hand, are able to target policy initiatives at a geographical scale that reflect directly regional commonality. In reference to the EU integration project in particular, we advance two propositions in defence of our hypothesis.

First, the changing landscape of integration has brought out a remodelling of the EU territory from national to multiple yet non-excludable identities transversal to administrative jurisdictions. The tendency became visible in the 1980s when the Union meant to represent 'a Europe of regions', only to be re-baptized lately by such proxies as 'communities of communities' (Etzioni, 2007) or 'a union for the peoples of Europe' (State of the Union, 2012, p. 18). The range of searches is illustrative for the conceptual gap to interpret societal modernity within a complex project of integration: Is it the nation-state or are there other relevant jurisdictions that should guide the Union's governance blueprint for a welfare-increasing (optimal) integration? Field researches, as well as sociological and cultural surveys (e.g. Schild, 2001; Mols et al, 2009) tell us that the European citizen has grown up used to eschew the dichotomy between *European* and *national* to appeal to a *thick* community representation, of social, cultural, and historical nature, to assert her/his belongingness. The task of configuring the fitting territorial arrangement is by all means challenging: a conference call identified no less than thirteen primary categories of 'institutionalized, legal or customary' autonomy arrangements in the world [4], including shared or negotiated sovereignty, federalism, territorial autonomy, personal autonomy, or functional autonomy.

Lianos and Le Blanc (2012) argue for a paradigmatic shift relative to the theory of EU integration on the ground of the 'ontological requirement' of enabling a progressive state of integration between 'competing rationalities' of different sub-systems interacting across national boundaries. This is an institutional framework, runs their argument, within which the welfare effects are likely to improve in the presence of trust-enhancing mechanisms among market participants, where 'trust' is operationalized by proxies such as geographical proximity, common language, shared values and preferences. At the origin of this thesis lies an apparent paradox: whereas the services sector accounts for 70 per cent of the EU GDP, this is the perennial laggard as to the regulatory framework tasks precisely because the policy options have to confront 'deep identity-loaded social choices' only nurtured in a 'system trust' based integration environment (Lianos and Gerard, 2012). In other words, in the current constellation of political (national) jurisdictions, the social fabric of integration makes the greatest EU source of wealth creation one of the least apt to play a decisive role in the completion of the internal market.

This view of *close* communities resonates well with parallel efforts arguing for a positive correlation between decision-making effectiveness and identity capital in the form, for example, of the institutional capability to share values (Sen, 1999; Michaels, 2009), symbolic meanings (James et al, 2007; Mukerji, 2011), power and influence (Johnson and Berrett, 2011). The main lesson of this scholarship is that the benefits of market liberalization reach an asymptotic limit in the realm of *close* communities when adherence to the same (fundamental) values is critical to achieve internal market reform rather than the other way round. The silent transformation of the identitary profile of integration actors facilitates a clear-cut distinction between geographical proximity and regional commonality. Research capitalizing on this distinction (e.g. Petithomme, 2009; Danson and de Souza, 2012) emphasizes the role of both socio-cultural motivators (institutions, value structures, social intelligence, power relations, symbols) and economic factors (advantages in production, consumption, and geographical location) in re-modelling borders as part of an exercise to understand the difference between resilient and inert local economies, between territorial and institutional proximity.

Our second proposition connects spatial identity to its functionality or *raison d'être*. Attempting to distinguish economically successful habitats from less successful ones raises the question of how identitary roots turn into increased welfare benefits. A first answer is provided by a new generation of gravity models of trade (e.g. Frankel and Rose, 2000; Ghemawat, 2001; Thoenig et al, 2009), which has shown exponential increases in the gains from market integration when cultural determinants are also factored in besides usual variables like physical distance and economic size.

The ultimate test of functionality, then, consists in proving that an UEA is indeed the appropriate locus where the characteristics of *territoriality* and *commonality* are mutually supporting in areas of common policy management (such as wages and prices, internal competition, income redistribution, taxation) permitting positive adjustments to the peaks and troughs of economic activity, or as Pelkmans (2006) suggests, 'a general impetus for change' (p. 3). The next section discusses this hypothesis on the case of an EU member state, Romania.

## III. DISCUSSION ON ROMANIA AS A COUNTRY CASE

The following discussion is but a crude estimate of the answer to the analytical question of an economic frontier delineating a country's UEA. Similar endeavours have emphasized either the macro view or the homogeneity criterion over large integration areas such as Europe (Kohr, 1941; Heineken, 1992) or North America (Garreau, 1981; Dupeyron, 2008) or the micro view or the concentration of factor flows at small geographical scale (ESPON Programme 2010). Our approach, which relies on country data, lays somewhere in between: we produce a statistical shortcut of the geography of economic integration at the expense of delineating elaborate territorial partitioning that would "resemble a seam…through the elaborate maze of market networks" (Lösch, 1954, p. 199). Rough though our results may appear, they reveal a consistent pattern of spatial configurations forming a unitary socio-economic space within which Romania, our country case of choice, would benefit from advanced gains of market integration.

### A. Methodology

We look first at country groupings recognisable by similar institutional and economic trends, as well as by close visions about societal preferences (see Table 2). Minimizing the *structural distance* between countries along various variables, such as economic structure, preferences, income levels, etc., have been often a preferred exercise to show which European countries will be candidates of an optimal club (union) (Ahrens et al, 2005; Sugawara and Zalduendo, 2010). We adopt a similar approach and run a statistical test of agglomerations (cluster analysis) to identify country groupings according to the degree of homogeneity in relation to six variable categories consisting of 30 social, cultural, economic, and institutional indices for 46 economies. Data were processed data with the WAVERAGE cluster method of linkage within groups and standardized it by the standard deviation of the values (variable SD). Squared Euclidean distance (SEUCLID) is the clustering measure for distance or similarity.

**TABLE 2 - SETS OF VARIABLES AND COUNTRY SAMPLE**

| *Determinants* | *Indicators* | *Sources* |
|---|---|---|
| Human Development | 3 indices: Human development index, Urban population as percentage of the total population, Health expenditure per capita | Human Development Report 2005/2009 [http://hdr.undp.org/en/statistics/] |
| Economic Performance | 5 indices: GDP per capita (PPP value), High tech exports as percentage of total exports of manufactured goods, Exports per capita, Inward Foreign Direct Investments (FDI), Gross capital formation as percentage of GDP. | Human Development Report 2005/2009 [http://hdr.undp.org/en/statistics/]<br>The World Bank Database [http://data.worldbank.org/indicator]. |
| Competition | 6 indices: Intensity of local competition, The business costs of corruption, Government debt, Interest rate spread, Extent of marketing, and Growth Competitiveness Index (GCI) | The Global Competitiveness Report 2004/2005/2009-2010 [http://www.weforum.org/en/initiatives/gcp/Global Competitiveness Report/index.htm] |
| Institutions | 5 indices: Public trust of politicians, Wastefulness of government spending, Burden of government regulation, Judicial independence, Efficiency of legal framework; | The Global Competitiveness Report 2004/2005/2009-2010<br>[http://www.weforum.org/en/initiatives/gcp/Global Competitiveness Report/index.htm] |
| Research and Development | 5 indices: Utility patents, Company spending on R&D, University - industry collaboration, Capacity for innovation, Average for the last three indices; | The Global Competitiveness Report 2004/2005/2009-2010<br>[http://www.weforum.org/en/initiatives/gcp/Global Competitiveness Report/index.htm] |
| Socio-cultural Identity | 6 indices: The public expenditure on education, Internet users (per capita for 2005 and out of 100 for 2009), Education – upper level, Family importance in life (as a percentage to the total number of individuals participating in the survey), Employment Status (full time employed percentage of individuals participating in the survey); Autonomy index (independence/determination percentage of individuals participating in the survey), Leisure time importance in life (as percentage reported to the total number of individuals participating in the survey). | World Value Survey Database [http://www.worldvaluesurvey.org], [http://wvsevsdb.com/wvs/WVSAnalize.jsp]<br>The Global Competitiveness Report 2004/2005/2009-2010; [http://www.weforum.org/en/initiatives/gcp/Global Competitiveness Report/index.htm] |
| Country sample | Albania, Algeria, Austria, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Jordan, Latvia, Lebanon, Libyan Arab Jamahiriya, Lithuania, Luxembourg, Malta, Montenegro, Morocco, Netherlands, Norway, Occupied Palestinian Territories, Poland, Portugal, Romania, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Syrian Arab Republic, Tunisia, Turkey, United Kingdom | |

*Source: Research results*

Tabel notes:

(1) No data were available for Lebanon and Occupied Palestinian Territories for 2009 for Competition, Institutions and Research and Development; Lebanon, Libya, Occupied Palestinian Territories, Syrian Arab Republic and Tunisia for 2009 Socio-cultural identity (except for Public Expenditure on Education and Internet users per 100)

(2) For Socio-cultural identity, the latest available data come from 2005 for the following countries: Albania, Algeria, Austria, Belgium, Bosnia and Herzegovina, Croatia, Czech Republic, Denmark, Estonia, Greece, Hungary, Iceland, Ireland, Israel, Latvia, Lithuania, Luxembourg, Malta, Montenegro, Slovakia; For Economic Performance, the most recent data are from 2007 for High-technology exports, Inward FDI and Gross Capital Formation.

Subsequently, a statistical examination of Romania's bilateral trade relations with all European countries helps visualise economic interconnectedness at micro level. We measure the concentration of flows within industries (intra-industry trade, IIT) and distinguish IIT as either vertically (VIIT) or horizontally (HIIT) according to trade structures based on exchanges of similar goods of different or identical quality, respectively. Our analysis is done for country pairs involving Romania and all EU and non-EU European countries[1]. We use the Eurostat database EasyComext for 1999 and 2010 at 3-digit level of aggregation, which yields 279 SITC (Standard International Trade Classification) product categories.

We measure and decompose IIT following Fontagné et al (2005) as follows: we calculated for each product group the degree of overlap between export and import values and assumed that the minority flow represent at least 10% of the majority flow. Then, we considered inter-industry trade type: if the minor flow is at least 10% of the inflow, it was considered intra-industry trade. If export and import unit values differ less than 25% then we have two-way trade in horizontally differentiated products, otherwise two-way trade in vertically differentiated products. If unit value is not available, then the two-way trade is not-allocated.

## B. Findings for the macro (regional) context

We present in Table 3 a synoptic image of the cluster analysis results for two years (2005 and 2009). We counted all country associations for each result set corresponding to the six sets of variables plus one additional for the whole set of variables. We form a *quasi-permanent cluster* with countries that belong to the same group for at least five times and include additional countries if they associate with the group membership for at least three times.

[1] Hungary, Bulgaria, Italy, Germany, Poland, UK, Greece, Netherlands, Austria, France, Croatia, Sweden, Ukraine, Turkey, Slovenia, Spain, Serbia, Czech R., Portugal, Slovakia, Denmark, Cyprus, Moldova, Estonia, Belgium, Lithuania, Finland, Latvia, Ireland, Montenegro, Bosnia and Herzegovina, Luxembourg, Albania, Malta

**TABLE 3 - PATTERNS OF CLUSTER MEMBERSHIP**

| *Quasi-permanent clusters* 2005* | *Quasi-permanent clusters* 2009* |
|---|---|
| Germany and Austria | Germany and Austria |
| Other country associations** Switzerland, Netherlands | Other country associations** Switzerland, Netherlands, France |
| Denmark, Norway | Denmark, Norway, and Sweden |
| Other country associations** | Other country associations** Finland |
| France, Belgium | United Kingdom and Ireland |
| Other country associations** Sweden, Finland | Other country associations** Belgium |
| Spain, Portugal | Italy and Spain |
| Other country associations** Greece, Malta | Other country associations** Greece |
| Egypt, Jordan | Egypt, Morocco |
| Other country associations** Tunisia, Morocco, Algeria | Other country associations** Tunisia, Jordan |
| Czech Republic, Slovakia, Estonia, Latvia | Czech Republic, Slovakia, Latvia, Lithuania |
| Other country associations** Lithuania, Hungary, Slovenia | Other country associations** Estonia |
| Romania, Bulgaria | Romania, Bulgaria, Turkey |
| Other country associations** Turkey, Algeria, Egypt | Other country associations** Poland, Algeria, Egypt |
| Estonia, Latvia, Lithuania | |
| Other country associations** | |
| Lithuania, Poland | |
| Other country associations** | |

*Source: Research results*

* Same cluster membership for at least 5 out of 7 sets of variables
** Same cluster membership for at least 3 out of 7 sets of variables

In general, our findings are much in line with the perceived division of the continent in highly homogeneous core country groups: Germany and Austria, associated with Switzerland and Netherlands; Denmark and Norway, as well as Sweden and Finland; Northern Mediterranean countries (Spain, Greece) and Southern Mediterranean countries (Egypt, Morocco, Tunisia, Jordan); Czech Republic and Slovakia, associated with Baltic countries (Estonia, Latvia, Lithuania), as well as the Baltic countries themselves as distinct group; and, finally, Romania and Bulgaria, associated with Turkey, Algeria, Egypt.

The synoptic result above says simply that neither the EU nor the euro zone resemble a unitary group if we take into account several key characteristics of an economy; quite the contrary, we contemplate a highly fragmented space of integration with the EU membership split in at least three groups, in all iterations. However, we have left unanswered the question whether the distance between groups is large enough to make the heterogeneity degree a relevant factor. Also, we have not accounted for some obscure spots: there are countries like Italy, France, Ireland, Great Britain, Belgium, Malta, Hungary, or Poland for which no stable association could be found and countries like Luxembourg, Iceland, Portugal, Libyan Arab Jamahiriya, Syrian Arab Republic, Albania, Cyprus, or Jordan that pop up in the same country grouping for two times at most, all iterations considered.

According to our hypothesis, the clearly delineated groupings suggest the rough contours of an UEA and hence set the stage for further tests searching for evidence of viable, functionally connected economic linkages within their territorial limits. The realism of our results is better assessed in light of two further observations.

First, as evidence at both European and global scale show, the space is fragmented indeed in groups of countries for which similarity (of development, economic structures etc.) between their member states plays a greater role in arriving at converging and self-enforcing economic evolutions, for example, synchronic business cycles, than mere economic liberalism would suggest. In novel yet unsettled terminology varying from *convergence clubs* (Eickmeier and Breitung, 2006; Fidrmuc and Korhonen, 2006; Ramajo et al, 2008) to *homogeneous areas of growth* (Kose et al, 2008; Clark and Beckfield, 2009), economists record patterns of development that suggest a vision of market integration composed of several 'internal markets' or UEAs, in our terms, driven by comparable competitive potentialities. In other words, the conclusion of this line of research is not that the process of European integration would necessarily lead to UEA formation, but that the existence in the first place of these country groupings, highly homogeneous, will strengthen their own growth in particular, and that of the greater area of integration in general.

Second, it is during further, more thorough, investigations that the case for the existence of UEA strengthens or weakens. As it happens, our case of choice illuminates this supposition. Romania and Bulgaria form a stable grouping, an UEA, which usually includes also Turkey, Algeria, and Egypt. Illustrative for the strength of this grouping is the stability of its membership from 2005 to 2009 for the variable 'socio-cultural identity' which supposedly weighs heavily on the importance we attach to group homogeneity. At the same time, however, while the presence of Turkey could be implied by common historical legacy with both Romania and Bulgaria, we certainly wonder about the (practical) relevance of the association of the two countries with Algeria or Egypt for which neither history nor geography suggests a mutual bond. Indeed, it should come as no surprise that far distant countries could find mutual similarities although the case of their common belonging to an UEA is irrelevant. The observation holds true also for neighbouring countries (Romania vs. Hungary or Italy vs. Austria) for which geographical proximity is no substitute for the large differences as to their key economic variables. The context of a country's development relates necessarily to both geographical proximity and close structural factors vis-à-vis other club's members.

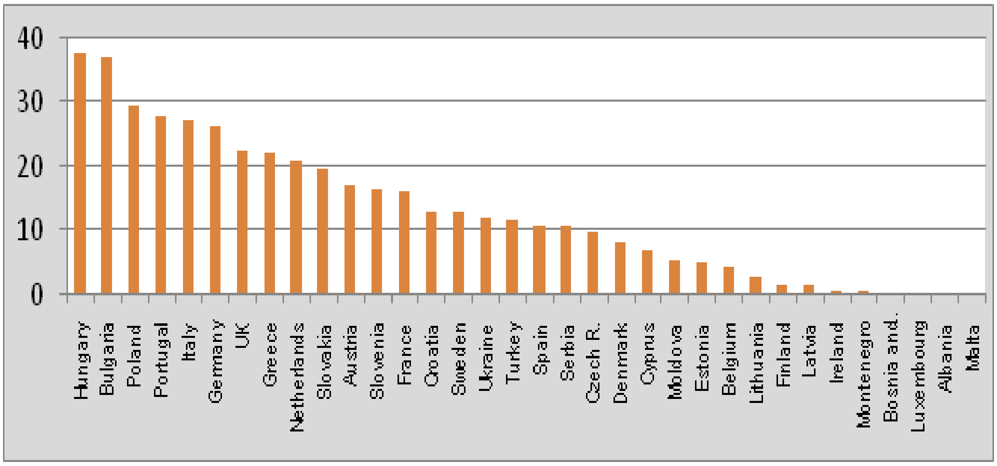
## C. Findings for the micro (business) context

A hierarchy of bilateral relations at world level ranked after the IIT share in total trade shows the top ten values ranging from 88.7 per cent (Germany-France) to 77.3 per cent (Taiwan-Singapore) (Fontagné et al, 2005). According to the same source, the range of HIIT shares varies from 30 per cent to 50 per cent, with superior values specific to bilateral trade relations between Asian countries (South Korea, Malaysia, Philippines, and Singapore).

Compared to these values, data for Romania show an upward trend with the highest shares of IIT in the range from 70.23 per cent (Romania-Portugal) in 1999 to 80.25 per cent (Romania-Germany) in 2010, and for HIIT from 26.7 per cent (Romania-Croatia, Romania-Sweden) in 1999 to 37.88 per cent (Romania-Hungary) in 2010. The ten year period brought about significant and positive changes. In 2010, with the exception of four European countries, at least 20 per cent of each bilateral relationship count as IIT and for 17 countries the same share is at least 50 per cent.

Data on exchanges of similar goods differentiated by quality (HIIT) (Figure 1) point to a nascent hub and spoke pattern of interconnected economic structures. Significantly higher indices are specific to countries which either were under communist regimes (Hungary, Bulgaria and Poland) or rank as both the most notable investors in Romania and main destination markets for Romanian exports (Germany, Italy, Greece, Great Britain, Netherlands). The change in the hierarchy since 1999 is, however, important: only Bulgaria, Hungary, and Germany numbered then also among the first ten, with Sweden and Croatia in top ten, each with a share of 26.7 per cent. Constant rearrangements of business networks, which naturally occurred before and after Romania's EU accession in 2007, may explain the difference. The number of products sold in HIIT increased at least two times between 1999 and 2010 in most relationships, which speaks for itself for the magnitude of the changes. There are nevertheless two characteristics of the present trade pattern that point to a stable trend ahead.

**FIGURE 1. SHARES OF HORIZONTAL INTRA-INDUSTRIAL TRADE IN TOTAL BILATERAL TRADE BETWEEN ROMANIA AND EUROPEAN COUNTRIES (IN PERCENTAGE) (2010)**




*Source: Author's calculation*

First, highly competitive relations with countries in geographical proximity (Hungary, Bulgaria, Serbia increasing from nil in 1999 to 10.6 per cent in 2010) indicate the formation of a regional market with similar supply and demand characteristics. If, for most partners, the number of HIIT products does not exceed 20 in 2010, for the first two countries, Bulgaria and Hungary, it is 61 and 52 (from 21 and 14 in 1999), respectively. Disentangling trade is essential for our topic because a significant amount of intra-product trade, reflected in superior IIT indices, associates with an advanced stage of specialization in which product differentiation and economies of scale provide gains additional to those based on comparative costs alone and revealed by inter-industry trade. As the empirical evidence suggests (Segnana and Gabrisch, 2007; EC, 2010, p. 77), a country's capability to reinforce its competitive position becomes a feasible option only in the presence of cross-border production networks leading to a significant amount of horizontal intra-product trade and vertical specialization (high shares of HIIT) due to increased pressure from competitors dealing with identical products (in both range and quality).

Reliance on country data does not allow us to figure out how a country's regions position themselves along the existing and emerging business chains. We may only hypothesize that Romanian regions would integrate differently in the adjoining UEAs to bear relevance for the type and sources of its companies' competitive advantage. Relevant empirical evidence is scarce, but from the few data available we note that this may be indeed the case. Iraq is Turkey's largest export market after Germany, but 70 per cent of that trade flow to Kurdistan Regional Government, a self-governed territory of the size of Switzerland, which is the closest, both geographically and ethnically, Iraqi region to Turkey [5].

Second, several relations with countries that are not in geographic proximity are equally important. The fact that these partners are Romania's most prominent trade and investment partners (in 2010) is consistent with a general trend towards increased participation in production networks across the entire European economy. While competitive pressures and convergent macroeconomic management help foster the pillars of growth in the economic *hinterland*, developing external relations along the *spokes* is a result of specialization within global commodity chains.

## IV. CONCLUSION

Weighing up the arguments in favour of the creation of a common currency, Mundell was sceptic that the economic arguments would appeal to the political class, as 'the question is purely academic since it hardly appears within the realm of political likelihood that national currencies would ever be abandoned in favor of any other arrangement.' (Mundell, 1961) Pelkmans took a similarly dim view of the political economy of integration when he observed, 'in a fantasy world without national governments or "nation-states", economic integration would boil down to pure market integration – presumably apolitical.' (2006, p. 3) Mundell's defeatism did not survive the creation of the Euro-zone in 1999 which proved that academic prescriptions may eventually prevail in spite of the least feasible political circumstances. According to this paper's argument, time is also ripe to improve on Pelkmans' resignation.

For most of its history, the European integration project capitalized on the participating states' willingness to remove barriers to the free movement of goods and factors and acquiesce to be part of a common regulatory framework. Although the scope for further liberalization of markets is by all means a premise of continued growth in the EU, the changed landscape of integration resets the whole project to new beginnings. An updated view of economic liberalism explains both *why* (due to a new conceptual framework) and *how* (by a new governance framework) that would be the case.

A new conceptual framework of integration is instrumental in adapting the ambitious desiderata of growth recovery and welfare improvement to the reality of a Union that has transformed itself along three directions at least. First, the new entrants have widened the range of preferences over common policies thereby diminishing the policy relevance of one-size-fits-all Community initiatives. Second, the economic incentives of taking advantage of production factors wherever they are available can now be pursued almost costlessly within the entire integration space. Third, it increased awareness about immovable resources, tangible and intangible, that mould local specificity into economic advantages.

The reality of a reconfigured space of integration brings to centre stage areas of convergent evolutions delineated by economic frontiers. Following the case of Romania, we have been able to prefigure, in rough contours admittedly, the case of a unitary economic area. Together with Bulgaria, and possibly Turkey and Serbia, Romania belongs to an *internal* market of self-sustaining development potential. Various variables, economic, institutional and socio-cultural, distinguish these countries along highly similar characteristics, preferences and performances. Their geographical area in fact outlines the greatest domestic market or jurisdiction that minimizes the costs of heterogeneity. At the same time, the benefits of market integration have become so more closely related to identifiable clusters of commonality rather than market liberalization. Corroborating the results of cluster analysis, IIT and HIIT indices, Romania and other UEA countries or regions benefit from homogeneous conditions of growth and largely identical strengths and vulnerabilities of competitive drivers.

The acknowledgment of economic frontiers would fit only in part the EU policy space. A spatial planning framework, gradually put in motion around four interrelated pillars [6] between 1999 and 2008, seems to have not been enough to prevent harsh verdicts, 'EU law is structurally ill adapted to organizing regionalism' (Evans, 2002), nor to lead to actual progress in designing a new governance framework as the '"territory matters" coalition' is still on the fringe of the EU policy-making (Waterhout, 2011). It is worth anticipating here at least two issues on this governance agenda.

First, identifying *economic frontiers* seems as much contentious a debate as fixing a country's *political* (national) boundaries loomed about four centuries ago, although the ammunition consists now of entrenched identity perceptions and administrative privileges rather than bellicose oratory and military engagements. However, the parallel reads on its positive side as well: in the same manner the nation-state represented a political solution for harnessing resources for economic and social progress at some historical time, so would now a territorial arrangement organized around areas of common specificities account better for further resources for growth. As Hein (2003) emphasized, present development processes are less a product of national societies, but 'of the relations between locations in an expanding world economy.'

Second, fast recognition of the change of rationale underlying economic liberalism would accelerate the dynamics of integration. One appropriate corollary is that policies should be motivated by a territorial vision adapted to achieve self-sustaining competitive fit, devising policies around similarities in interests, capabilities, stimuli, motives, attitudes, able to enhance autonomous sources of growth. Of all shared assets of the Union, the territory seems to encapsulate at best the platform of future growth in the same way the (Single) *Market* stands for the past stages of European integration. Exploiting the benefits of agglomerations and networks, the typical ways of spatial economic organization, implies a strong territorial focus of business strategies in virtually unbound perimeters. However, invisible confines we call *economic frontiers* circumscribe, at various geographical scale, territories wherein lay the foundations of economic success or failure. Positive feedbacks, in the way people adopt cultural attitudes in spurring entrepreneurship and regulating businesses, firms react to profit opportunities, and institutions launch similar policy responses to deflate or absorb economic shocks, depend on highly homogeneous identitary regional profiles.

We conclude by suggesting that the inclusion of economic frontiers on the integration agenda will result in effective policy initiatives directed to augmenting resources for growth within the Union. From this viewpoint, phenomena *across* territories and populations and not between or within countries supposedly hold the key to understand modern market integration. Consequently, neither disintegration, nor superstatism, but remapping integration around variable boundaries of unitary economic areas, this paper contends, would revitalize growth on the continent.

## Endnotes

[1] Estimates show that the proposed "transatlantic trade and investment partnership" TTIP will boost the EU's GDP by around 0.4% by getting rid of remaining tariffs and by 3% by removing half of the non-tariff barriers. ("Free trade across the Atlantic", *The Economist*, February 16th, 2013, 11-12)

[2] Linder acknowledges that his argument holds true mainly for manufactures while the Heckscher-Ohlin's theory of factor proportions continues to describe comparative advantage for trade in agricultural products.

[3] Coincidentally, the concept has been used to describe the formation of an integration agreement between Belarus, Kazakhstan, Russia and Ukraine, which basically expounds the characteristics of a common market; see "A joint statement on a unitary economic space", *gazeta.kz*, 24.02.2003, http://engnews.gazeta.kz/art.asp?aid=295422 [retrieved 05.04.2013]

[4] "Autonomy arrangements in the world - conference and compendium" organised by European Center for Minority Issues, Flensburg, Germany, Political Science Department of Babes-Bolyai University, Cluj-Napoca, Romania, Institute for Research on National Minorities, Cluj-Napoca, Romania. Information published in the March issue 2012 of Social Science News, GESIS-Leibniz Institute for the Social Sciences.

[5] The Economist (2013), "Northern Iraq. Peace, harmony and oil", April 20th, 2013, p. 31

[6] The four pillars come under the labels of European Territorial Co-operation (1999), European Spatial Planning Observation Network ESPON (2002), the Territorial Agenda (2007), and Territorial Cohesion (2008) (see Waterhout, 2011).

## V. REFERENCES

**Ahrens, J., H. W. Hoen, and R. Ohr. "**Deepening Integration in an Enlarged EU: A Club-Theoretical Perspective." *European Integration* 27, No. 4 (2005): 417 – 439.

**Bayoumi, T., and B. Eichengreen. "**Ever Closer to Heaven? An Optimum-Currency-Area Index for European Countries." *European Economic Review* 41 (1997): 761-770.

**Brixiova, Z., M. Morgan, and A. Wörgötter.** "Estonia and Euro Adoption: Small Country Challenges of Joining EMU." OECD Economics Department Working Papers, No. 728, 2009.

**Braudel, Fernand.** *Civilization and capitalism 15th–18th century*. Vol. 3, *The perspective of the world*. New York: Harper & Row, 1984 (1979).

**Braudel, Fernand.** *The Mediterranean and the Mediterranean world in the age of Philip II*. Berkeley: University of California Press, 1995 (1949).

**Buchanan, J. M.** "An Economic Theory of Clubs." *Economica* 32 (1965): 1-14.

**Casella, A.** "On Markets and Clubs: Economic and Political Integration of Regions with Unequal Productivity." *The American Economic Review* 82, No. 2 (1992): 115-121.

**Cerqueira, P. A., and R. Martins. "**Is There a Political Dimension on Business Cycle Synchronization?." *KYKLOS* 64, No. 3 (2011): 329–341.

**Clark, R., and J. Beckfield. "**A New Trichotomous Measure of World-System Position Using the International Trade Network." *International Journal of Comparative Sociology* 50, No. 1 (2009): 5-38.

**Danson, M., and P. de Souza.** "Periphery and Marginality: Definitions, Theories, Methods, and Practice'. In *Regional Development in Northern Europe*, edited by Danson, M., and P. de Souza, 1-15. London: Routledge, 2012.

**Dupeyron, B.** "Cascadia Revisited from European Case Studies: The Socio-Political Space of Cross-Border Networks." *Canadian Political Science Review* 2, No. 2 (2008): 84-103.

**Dyson, K., and M. Marcussen. "**Transverse Integration in European Economic Governance: Between Unitary and Differentiated Integration." *Journal of European Integration* 32, No. 1 (2010): 17-39.

**Eickmeier, S., and J. Breitung. "**How Synchronized are New EU Member States with the Euro Area? Evidence from a Structural Factor Model." *Journal of Comparative Economics* 34 (2006): 538–563.

**ESPON Programme** (2010) 'Metroborder Cross-border Polycentric Metropolitan Regions'. Final Report, ESPON and University of Luxembourg, 31.12.2010.

**Etzioni, A.** "The Community Deficit." *JCMS* 45, No. 1 (2007): 23–42.

**European Commission (EC)** (2010) 'European Competitiveness Report 2010'. Commission staff working document *SEC(2010) 1276*, (Luxembourg: Publications Office of the European Union).

**European Commission (EC)** (2012) 'European Competitiveness Report 2012'. Commission staff working document *SEC(2012) 299 final*, (Brussels: Directorate-General for Enterprise and Industry).

**Evans, A.** "Regionalism in the EU: Legal Organisation of a Challenging Social Phenomenon." *Journal of European Integration* 24, No. 3 (2002): 219-243.

**Fatas, A.** "EMU: Countries or Regions? Lessons from the EMS Experience." *European Economic Review* 41 (1997): 743-751.

**Feldman, M., and R. Martin.** "Jurisdictional Advantage." NBER Working paper 10802, September, 2004.

**Fidrmuc, J., and I. Korhonen. "**Meta-Analysis of the Business Cycle Correlation between the Euro Area and the CEECs." *Journal of Comparative Economics* 34 (2006): 518–537.

**Florida, R., T. Gulden, and C., Mellander. "**The Rise of the Mega-Regions." *Cambridge Journal of Regions, Economy and Society* 1 (2008): 459–476.

**Fontagné, L., M. Freudenberg, and G., Gaulier. "**Disentangling Horizontal and Vertical Intra-Industry Trade." CEPII Working Paper No 2005-10, July, 2005.

**Frankel, J. A., and A. K. Rose. "**An Estimate of the Effects of Currency Unions on Trade and Growth." Draft of June 10, 2000 retrieved from http://www.ksg.harvard.edu/fs/jfrankel/effectsofcurrencyunionsontrade.pdf [17.7.2010].

**Garreau, J.** *The Nine Nations of North America*. Boston: Houghton Mifflin, 1981.

**Ghemawat, P.** "Distance Still Matters: The Hard Reality of Global Expansion." *Harvard Business Review* 79, No. 8 (2001): 137-147.

**Groot, S. P. T. and others.** "The Crisis Sensitivity of European Countries and Regions: Stylized Facts and Spatial Heterogeneity." *Cambridge Journal of Regions, Economy and Society* 4 (2011): 437–456.

**Haselsberger, B., and P. Benneworth. "**Cross-Border Communities or Cross-Border Proximity?." In *Territorial Development, Cohesion and Spatial Planning* edited by Adams, N., G. Cotella, and R. Nunes, 229-254. London: Routledge, 2011.

**Hein, W.** "Economic Space, Political Space and Development; Development theory: Who is Who? Part 40 - Andreas Predöhl (1893-1974)." *Magazine for Development and Cooperation* 4, (2003). Retrieved from http://www3.giz.de/E+Z/content/archive-eng/04-2003/tribune_art1.html [8.3.2012].

**Heineken, A.H.** *The United States of Europe (a Eurotopia?)*. Amsterdam: De Amsterdamse Stichting voor de Historische Wetenschap, 1992.

**James, A., R.L. Martin, and P. Sunley.** "The Rise of Cultural Economic Geography." In *Critical Concepts in Economic Geography: Volume IV, The Cultural Economy* edited by Martin, R. and P. Sunley, 3–18. London: Routledge, 2007.

**Johansson, B., and J.M. Quigley.** "Agglomeration and Networks in Spatial Economies." *Papers Reg. Sci.* 83 (2004): 165–176.

**Johnson, J. L., and M. T. Berrett.** "Cultural Topography: A New Research Tool for Intelligence Analysis." *Studies in Intelligence* 55, No. 2 (Extracts) (2011): 1-22.

**Kose, M. A., C. Otrok, and E. S. Prasad.** "Global Business Cycles: Convergence or Decoupling?." WP/08/143, IMF Working Paper, June, 2008.

**Krapohl, S., and S. Fink.** "Different Paths of Regional Integration: Trade Networks and Regional Institution-Building in Europe, Southeast Asia and Southern Africa." *JCMS* 51, No. 3 (2013): 472–488.

**Lianos, I., and J. Le Blanc.** "Trust, Distrust and Economic Integration: Setting the Stage." In *Regulating Trade in Services in the EU and the WTO*, edited by Lianos, I., and O. Odudu, 17-56. Cambridge: Cambridge University Press, 2012.

**Lianos, I., and D. M. B. Gerard.** "Shifting Narratives in European Economic Integration: Trade in Services, Pluralism and Trust." In *Regulating Trade in Services in the EU and the WTO*, edited by Lianos, I., and O. Odudu, 173-261. Cambridge: Cambridge University Press, 2012.

**Linder, S. B.** *An Essay on Trade and Transformation*. New York: John Wiley & Sons, 1961.

**Lösch, A.** *The Economics of Location*. New Haven: Yale University Press, 1954 (1940).

**Mäki, U., and C. Marchionni.** "Is Geographical Economics Imperializing Economic Geography?." *Journal of Economic Geography* 11, No. 4 (2011): 645-665.

**Manzini, P., and M. Mariotti.** "A Tragedy of the Clubs: Excess Entry in Exclusive Coalitions." FEEM Working paper 58.99, July, 1999. Retrieved from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=200629 [3.12.2012].

**Michaels, R.** "Global Legal Pluralism." Duke Law School Public Law & Legal Theory Research Paper No. 259, June 29, 2009.

**Mols, F., S. J. Jetten, and A. Haslam.** "EU Identification and Endorsement in Context: The Importance of Regional Identity Salience." *JCMS* 47, No. 3 (2009): 601–623.

**Monti, M.** "A new strategy for the single market. At the service of Europe's economy and society." Report to the President of the European Commission José Manuel Barroso, 9 May, 2010.

**Mukerji, C.** "Jurisdiction, Inscription, and State Formation: Administrative Modernism and Knowledge Regimes." *Theor Soc* 40 (2011): 223–245.

**Ohmae, K.** *The End of the Nation-State: The Rise of Regional Economies*. New York: Simon and Schuster, 1995.

**Olson, M.** *The logic of collective action*. Cambridge: Harvard University Press, 1965.

**Oosterlynck, S.** "Regulating Regional Uneven Development and the Politics of Reconfiguring Belgian State Space." *Antipode* 42, No. 5 (2010): 1151–1179.

**Pelkmans, J.** European Integration. Methods and Economic Analysis. 3rd edn. Essex: Prentice Hall, 2006.

**Petithomme, M.** "Quelle Politique de Voisinage pour l'Union Européenne? Entre Injonctions Sécuritaires et Conditionnalité Démocratique, la Puissance Normative Européenne en Question." *Politique européenne* 2, No. 28 (2009): 163-172.

**Predöhl, A.** "The Theory of Location in Its Relation to General Economics." *Journal of Political Economy* 36, No. 3 (1928): 371-390.

**Porter, M.** "Location, Competition, and Economic Development: Local Clusters in a Global Economy." *Economic Development Quarterly* 14, No. 1 (2000): 15-34.

**Ramajo, J. and others.** "Spatial Heterogeneity and Interregional Spillovers in the European Union: Do Cohesion Policies Encourage Convergence Across Regions?." *European Economic Review* Vol. 52 (2008): 551–567.

**Ricart, J. E. and others.** "New Frontiers in International Strategy." *Journal of International Business Studies* 35, No. 3 (2004): 175-200.

**Rothenberg, J.** "Local Decentralization and the Theory of Optimal Government." In *The Analysis of Public Output* edited by Margolis J., 31–68. UMI, 1970. (retrieved from http://www.nber.org/chapters/c3350).

**Sen, A.** "Global Justice. Beyond International Equity." In *Global Public Goods. International Cooperation in the 21st Century*, edited by Inge Kaul and others, 116-125. New York, Oxford: Oxford University Press, 1999.

**Scott, A. D.** "A Note on Grants in Federal Countries." *Economica* (New Series)17, No. 68 (1950): 416-422.

**Schild, J.** "National v. European identities? French and Germans in the European Multi-Level System." *JCMS* Vol. 39, No. 2 (2001): 331-51.

**Segnana, M. L. and H. Gabrisch.** "Vertical and Horizontal Patterns of Intra-Industry Trade between EU and Candidate Countries." In *Dynamic Capabilities between Firm Organisation and Local Systems of Production*, edited by Leoncini R. and R. Montresor, 324-346. London: Routledge, 2007.

**Simmie, J. and R. Martin.** "The Economic Resilience of Regions: Towards an Evolutionary Approach." *Cambridge Journal of Regions, Economy and Society* Vol. 3 (2010): 27–43.

**Sugawara, N. and J. Zalduendo.** "How Much Economic Integration Is There In The Extended EU Family?" *ecanomics* 10/1, Office of the Chief Economist, ECA Region, World Bank, October, 2010.

**Thoenig, M., N. Maystre, and T. Verdier.** "Product-Based Cultural Change: Is The Village Global?" Discussion Paper No. 7438, Centre for Economic Policy Research, August, 2009.

**Viner, J.** *The Customs Union Issue*. New York: Carnegie Endowment for International Peace, 1950.

**Waterhout, B.** "European Spatial Planning: Current State and Future Challenges." In *Territorial Development, Cohesion and Spatial Planning*, edited by Adams, N., G. Cotella, and R. Nunes, 84-102. London: Routledge, 2011.

**Watson, A. M. S.** "Economic and Monetary Union: Of Currencies and Clubs." *Journal of European Integration* 26, No. 1 (2004): 25-39.

**Woolcock, M., S. Szreter, and V. Rao. "**How and Why Does History Matter for Development Policy?" *Journal of Development Studies* 47, No. 1 (2011): 70-96.

**Yeung, W. H., and G. C. S. Lin.** "Theorizing Economic Geographies of Asia." *Economic Geography* 79, No. 2 (2003): 107–128.

## O EKONOMSKIM GRANICAMA: ISTRAŽUJUĆI OBRAZLOŽENJE ZA MODERNU TRŽIŠNU INTEGRACIJU

### SAŽETAK

Rad tvrdi da dobrobiti projekta integracije tržišta dostižu asimptotsku granicu u okruženju usko povezanih zajednica kada je prisvajanje istih vrijednosti ključno za postizanje unutarnje reforme tržišta a ne obrnuto. Koristeći primjer projekta europske integracije, raspravlja se o konceptu ekonomske granice kao vježbi za preoblikovanje granica oko uzoraka razvoja, sastavljenoj od više „unutarnjih tržišta" koje pokreću usporedivi konkurentni potencijali. U optimalnom kontekstu razvoja, članice su voljne, s jedne strane, dijeliti resurse s drugim članicama kako bi se poželа dobrobit iz popratnih pojava i ekonomija razmjera, dok su, s druge strane, sposobne usmjeriti se na političke inicijative koje u geografskim razmjerima izravno odražavaju regionalnu istovjetnost. Teorijski okvir je prikazan putem rasprave o Rumunjskoj kao zemlji slučaju pozivajući se na klaster analizu i podatke o trgovinskoj integraciji.

Ključne riječi: područje, optimalna nadležnost, tržišno područje, konkurentnost, Rumunjska