



New economic geography and economic integration: A review

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Abstract

This review explores the main contributions to New Economic Geography (NEG) with a particular focus on the effects of economic integration on spatial development. Firstly, the theoretical framework is explored by presenting the fundamental building blocks of NEG and successively looking at the principal models of NEG. Then, empirical research within a NEG framework is summarised. Mostly, relevant empirical studies are surveyed to give a sense about the main paths that research has covered so far and, more particularly, the debate about the economic integration effect of the EU enlargement to Central Eastern European Countries (CEECs) is explored.

Keywords: new economic geography, economic integration, agglomeration, EU Enlargement

Introduction

As at least two nations coordinate one noteworthy concern emerges as for the impacts that financial joining may have on the appropriation of pay between nations just as on the welfare levels of locales inside these nations. In conventional exchange hypothesis, when financial advancement happens between two nations then two advantage of the additions of relative focal points (despite the fact that these advantages may not be similarly appropriated). This in a general sense brings about higher utilization levels in every nation because of exchange when contrasted with a circumstance of autarchy. Notwithstanding, while the thought of financial mix for the most part brings out exchange related issues it additionally involves a wide number of important components for monetary geology and spatial improvement. In spite of the fact that it is just lately that these components have been investigated all the more profoundly, it isn't new story that the idea of financial combination, alongside universal exchange hypothesis general, is personally and unfailingly associated with area issues (Ohlin, 1933; Predöhl, 1950; Balassa, 1967). What is the effect of exchange advancement on the geological circulation of businesses? How does monetary reconciliation shape spatial differences? Why firms agglomerate in specific places as reconciliation extends? These and different inquiries vitally support the development of what is currently outstanding as New Economic Geography (hereinafter NEG), that is, a collection of research at first coming from universal exchange hypothesis which in a general sense endeavors "to clarify the arrangement of an enormous assortment of monetary agglomeration (or focus) in land space" (Fujita and Krugman, 2004, p. 140). A large portion of the ideas and devices utilized by NEG just as the uncertain effect of monetary combination on improvement were well - known before NEG appearance. For example, the significant job of expanding comes back to scale for agglomeration to happen is foreseen by Myrdal (1957's) idea of 'cumulative causation', the significance of externalities for localisation is right off the bat examined by Marshall (1890) and the way

that financial mix may uncover adverse impacts for the monetary presentation of less created areas to the benefit of those at first created is foreseen by Kaldor (1970). However, the creative commitment of NEG comprises of the thorough formalization of such ideas which essentially permits representing the elements of spatial grouping (and scattering) of financial movement when exchange hindrances are logically expelled, which is not really reasonable with customary hypothesis.

The structure squares of New Economic Geography Mechanics of NEG depends on various essential components that give a conceivable hypothesis of why self-strengthening centripetal powers that maneuver monetary movement into an area happen and persevere after some time. All the more especially, expanding comes back to scale, monopolistic challenge, exchange costs and the event of outer economies by and large support the general working of NEG models and in this way shape firms' and laborers' area conduct. Subsequently, the mix of such hypothetical devices and the event of explicit parameters esteems in the economies displayed by NEG make it conceivable to clarify the geological unevenness of the financial scene as a circumstance of balance.

Market get to and the rise of a center outskirts design

Krugman and Venables (1990) give one of the principal pertinent formal commitments about the working of NEG models in foreseeing agglomeration in a system of financial reconciliation. Their wellspring of motivation is the European 1992 Single Market and the past Southern development which made them examining the impacts of the connection between market access and mix on the intensity of the assembling area in the new access nations. Essentially, Krugman and Venables (1990) model a two-area and two-nation economy where the presence of expanding returns in the incompletely aggressive assembling segment urges firms to move creation in a couple of spots. The two nations display diverse market access with the 'bigger' nation profiting of a focal position with preferred market access over the 'littler' nation

involving just a fringe area with a lower access to request. The degree of exchange costs enters the model in a vital manner since its variety at last impacts the area choices of firms. Agglomeration powers win for middle of the road levels of obstructions to exchange, when vicinity to the bigger market draws in firms to situate in the center nation.

The centripetal draw of work versatility

One of the fundamental inadequacies of Krugman and Venables (1990) is that they don't clarify the procedure of rise of contrasts in the creation and market structure of the two nations considered. To be sure, the center or fringe status is ascribed exogenously since nations are blessed with a huge or little market as they enter the model. As such, the creators don't address the inquiry "why nations that are from the earlier fundamentally the same as can grow altogether different generation structures" (Ottaviano and Puga, 1998, p.712) ^[2]. This has all the earmarks of being an applicable issue when considering the impacts of monetary reconciliation on the area selections of firms since differentials in market access as in Krugman and Venables (1990) are simply part of the narrative of why firms agglomerate.

Vertical linkages as drivers of firms' co-area

The center outskirts designs that rise up out of the collaboration of expanding returns and exchange costs the past hypothetical models is mostly founded on market size contemplations (Krugman and Venables, 1990) and work portability both crosswise over districts and areas (Krugman, 1991a; Puga, 1996). In any case, the extent that the EU is concerned, the versatility of laborers does not so much seem to assume the job of a change procedure to wage differential between nations, as movement in Europe is fairly feeble (Siebert, 1997; Obstfeld *et al.*, 1998; Puga, 1996, 2002;). Thus, NEG models, for example, those considered above can just to a limited extent clarify agglomeration forms in Europe since the distinctions in wages that begin oneself fortifying grouping of creation through work portability don't appear to trigger similar elements in the European situation.

Conclusion

By and large, as clarified by Ottaviano (2002) one noteworthy approach ramifications of NEG is the understanding that all kind of arrangements and intercessions doubtlessly have territorial reactions impacting agglomeration and scattering powers. In that capacity, a cautious assessment of such measures ought to likewise incorporate an investigation of the potential impacts which may strengthen or lighten centripetal and radiating powers. At the end of the day, it seems essential to see every one of the elements and elements that can assume a job during the time spent reconciliation, extending from institutional settings to introductory conditions and nearby financial topography (Bradley *et al.*, 2005), so as to characterize strategies that can handle the negative impacts of the agglomeration procedure through "spatially focused on motivating forces in explicitly assigned zones.

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