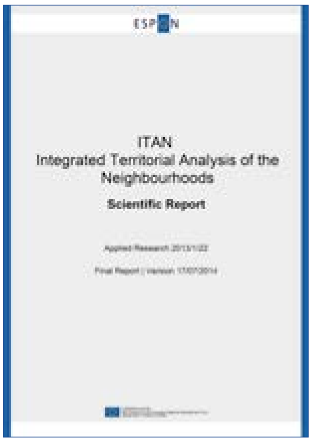
Integrated Territorial Analysis of the Neighbourhoods

ITAN major findings – The Neighbourhoods, a new driver for European growth

Europe influence around the world has declined over the years. As a result, European economic influence is more and more limited to its immediate neighbourhood. However, it does not mean that the Neighbourhoods are EU most important partners. Yet European Neighbour Countries (ENCs) represent 7.5% of the European countries trade and 11% of their potential market, yet they are shifting from a rent economy to an innovative economy, they hardly are a target for European investors. Neighbours could be a significant driver for European economy, their own development relies largely on Europe, nevertheless our region remains much less economically integrated than North America (including Mexico) or East Asia.

ESPON applied research 2013/1/22
Final Report, version 17/07/2014



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The (relative) importance of Neighbourhoods for Europe

The ITAN report assesses the economic growth potential for EU in the next decade (2010-2020) on the basis of a simple model: we extend the average growth rate of the years 2000-2010 to the next decade, both in current US $ and PPS. As a result, we have the share of each part of the world in the global economic growth (columns 1 and 3 of Table 1). Not surprisingly, the EU, northern America and China account for most of the growth. Despite the limited growth in the last decade for the EU and the US, their growth potential remains important at global level because of their weight in the global economy. The low cost of the Yuan results in much higher figures in PPS than in current US $ in the case of China.

In a second step, IGEAT team within ITAN consortium assesses what it means for the EU, considering the current geography of its trade; the basic idea is that EU will benefit more from growth in areas where Europe currently has more market shares. The result is given in columns 2 and 4: by far, EU is the major source of potential growth for itself in the next decade. Then, three major market growth potentials appear: the US, around 11% of EU growth potential, China (9% in current US $ and 19% in PPS), and the Neighbourhoods with shares similar to the US. However, more than half of this potential growth is toward the East (Russia, plus Belarus,

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Table 1. Share (%) of the world main economic powers in the growth market potential for 2010-2020

	Absolute growth potential 2010-2020 (current $)	Growth potential for the EU (current $)	Absolute growth potential 2010-2020 (PPS)	Growth potential for the EU (PPS)
EU27+ (1)	25.4	54.3	16.3	37.8
Eastern neighbours (2)	6.9	6.7	3.8	6.3
Western Balkans	0.4	0.6	0.3	0.6
Turkey	1.4	2.1	1.3	2.1
Near East (3)	0.9	0.8	1.3	1.3
Maghreb	0.4	0.9	0.5	1.2
Neighbourhoods	9.9	11.1	7.2	11.5
North America	18.0	11.5	16.3	11.1
India	2.7	1.7	7.4	5.2
Japan	4.3	0.8	4.1	1.9
China	15.7	8.9	23.9	19.3
rest of the world	23.7	11.3	24.8	13.2
TOTAL	100.0	100.0	100.0	100.0

Notes. (1) includes Switzerland, Norway, Iceland, Liechtenstein, Andorra. (2) Russia, Belarus, Ukraine, Moldavia. (3) Egype included.
PPS: Purchasing Power Standard. Source: IGEAT database / ITAN

Table 2. Share (%) of Neighbourhoods and other parts of the world in EU relations and flows

	Trade of goods: exports + imports (2011)	FDI in and out (2006-2008)	Cooperation (2010)	Air flows (2012)	(Im)igrations (2010)	Energy supply
EU27+ (1)	70.0	71.8	0.0	80.4	37.9	42.4
Eastern neighbours (2)	3.8	2.2	1.8	1.9	5.7	21.1
Western Balkans	0.5	0.2	3.5	0.7	6.1	0.3
Turkey	1.3	0.7	1.7	1.7	7.9	0.1
Near East (3)	0.4	0.0	3.3	0.8	1.2	0.7
Israel	0.4	0.0	0.0	0.4	0.1	0.0
Maghreb	1.1	0.2	4.6	1.5	8.7	10.3
Neighbourhoods	7.5	3.4	14.8	7.1	29.8	32.5
Middle-East	1.7	0.5	1.5	2.0	1.7	8.6
Sub-Saharan Africa	1.6	0.8	44.0	1.3	7.7	5.5
North America	6.2	17.8	1.0	4.2	1.9	2.5
Latin America	1.9	1.7	13.4	1.4	8.6	1.6
Southern Asia	1.2	0.4	14.8	0.7	5.6	0.6
Japan, Korea, Taiwab	2.2	1.1	0.0	0.5	0.6	0.8
China	5.1	0.8	3.7	0.7	1.9	0.1
rest of Asia & Oceania	2.8	1.9	6.8	1.1	3.8	3.4
rest of the world				0.4	0.3	1.8
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Notes and source: see Table 1

Ukraine, and Moldavia); Turkey also plays a significant role, while the other Neighbourhoods remain marginal for EU growth potential because of their marginal economic weight as well as their limited economic growth and the fragmentation of the national markets.

In Table 2, we focus on the importance of the Neighbourhoods in the EU relations to the world. In trade and FDI, this importance is limited. The reason is that most trade and FDI are internal in Europe. When these internal flows are excluded, Neighbourhoods appear as the main trade partner of the EU, though they remain very marginal in investment flows. Indeed, 7.5% of EU trade takes place with the Neighbourhoods, while the US only accounts for 6.2% and China for 2.2%. On the long run, in the last half-century, the importance of Neighbourhoods has been remarkably stable.

Human flows can be tackled in two different perspectives: (i) airflows, which mainly take into account short-term mobility for medium and long distances. This mobility is mainly intra-European, since 80% of all movements are within European countries. Flows with Neighbourhoods account for more than 7% of total flows, more than any other part of the world. It indicates a distance effect, related to touristic, migratory and other types of air flows; (ii) migrations toward Europe. Neighbourhoods account for 30% of the stocks of migrants in Europe, while European themselves only account for about 38%.

Finally, Neighbourhoods also play a major role for energy supply in Europe. Europe provides 42% of its energy while Neighbourhoods provide 32.5%, two thirds from Russia and the rest from Maghreb, mostly Algeria and Libya. Middle East oil and gas producers play a limited role in comparison, with 9% of energy supply of Europe. In sum, Neighbourhoods play an important role for EU in two domains: migrations and energy supply. In contrast, Neighbourhoods are not considered as strategic economic partners, as well as in many other domains such as scientific cooperation.

Prospects: the wider region could be a response to the booming of East Asia

Figure 1 displays several conception of "European region": EU27 + Iceland, Liechtenstein, Norway, Switzerland; + Western Balkans; + Eastern European Neighbour Countries (ENCs); + the Mediterranean ENCs; + sub-Saharan Africa, which can be regarded as an extension of the wider European region. In all cases, the contrast of its share of the world GDP is striking vis-à-vis the huge rise of the East Asian share. But indeed, the larger the European region, the higher its place in the world economy.

Figure 1. World markets: can we cope with the rise of the East Asian region?

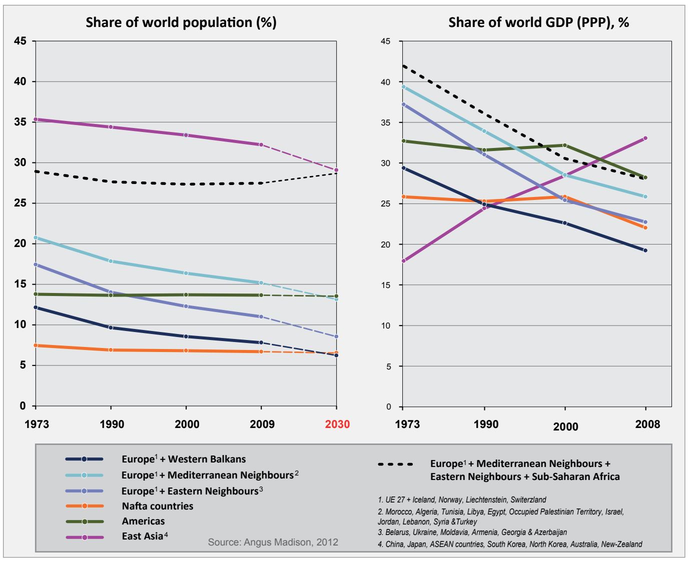


Figure 2 compares GDP growth since 1980 in the various neighbourhoods of Europe. It considers the ITAN Neighbourhoods, but also the Gulf plus Iraq and Iran, and EU new Member States (2004-2007), because prior to 2004 they were former Europe neighbours. The first lesson is that almost all of these neighbourhoods have an impressive economic growth, expressed in constant currency; neighbours are undeniably a major asset for Europe. Second, the economic hierarchy as dramatically changed during these last three decades: Eastern Neighbourhood was first and new Member States second, they are now in third and fourth position, whereas the Mediterranean and Middle-East neighbourhoods have become first and second; Western Balkans are now lagging behind.

This analysis has to be tempered by several facts: (i) the huge transition experienced by the former Socialist countries, with much better growth rates in the 2000s of course; (ii) the driving role of Israel and Turkey among the Mediterranean Neighbours, whose performance is much lower if one takes into account the sole Arab countries; (iii) the Arab countries performance is dampened by the on-going unrest and wars. Still, it has to be highlighted that European neighbouring areas are experiencing a long term shift from East to South, which is due to continue given demographic figures.

Beyond the European region case, the general trend throughout the world is that of a slowing down of economic integration within the major regions over the 2000s, due to the booming importance of a new global player: China, which has become a major trade partner for countries whatever the region they belong to. Should we conclude that the regional integration era is over? Certainly not, because the long run stays in favour of the regionalisation thesis. In the 1960s, European countries would only make a third of their trade between them and trading links would still be lower between the USA, Canada and

Figure 2. The Neighbourhoods, a new driver of economic growth for Europe

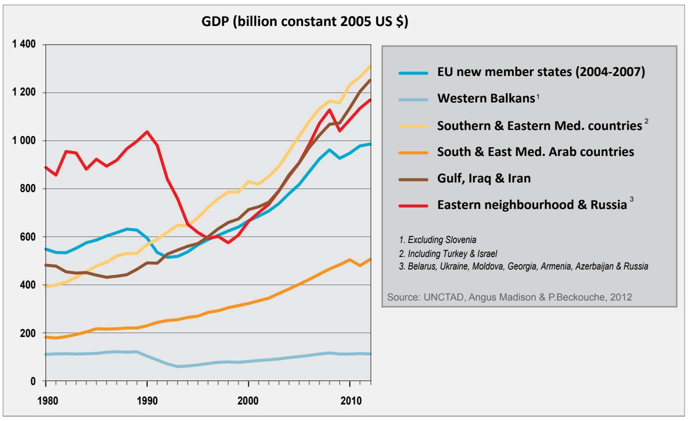
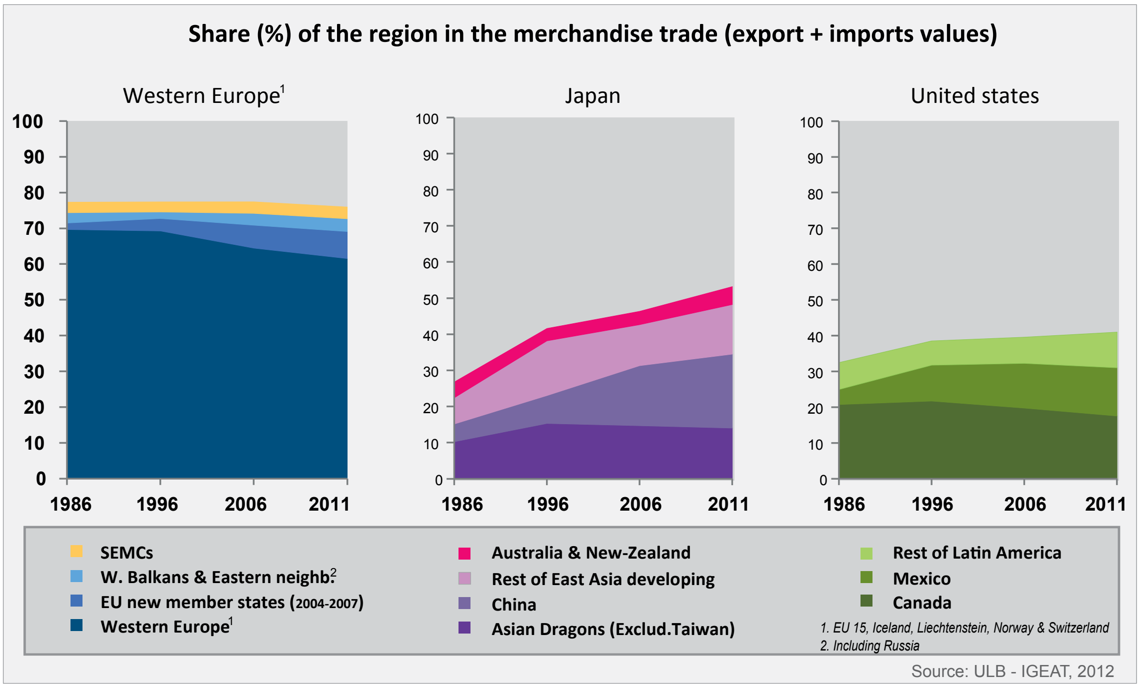


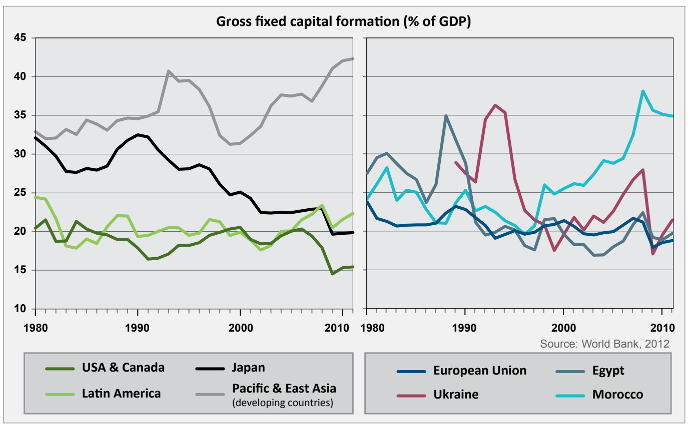
Figure 3. The share of developing neighbours is high in East Asian and American regions



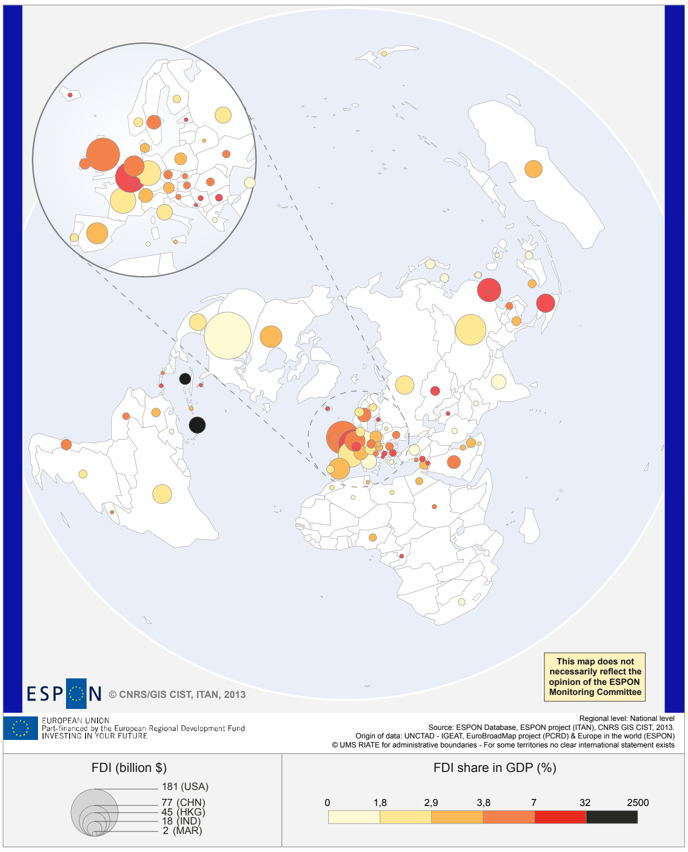
Mexico. The respective regions are much more integrated today. Figure 3 shows that, even at a slower pace, the trade regionalisation is on-going for the US as well as for Japan. The big difference with Europe is that the latter trades very much within UE and very little with developing and emerging countries of its neighbourhood.

Another feature of the previous section has to be further analysed: the declining role of Europe in its Neighbours trade. Over the last three decades, European new Member States have drastically reoriented their trade with western Europe instead of the former Soviet bloc. But this is the reverse way for neighbourhoods, which means that EU membership is a driver to trade regional integration whereas a Neighbourhood status comes down to declining integration with Europe. All neighbourhoods of Europe, in a wide meaning including Sub-Saharan Africa and Gulf States, send to Europe a declining part of their exports and import a declining part of European products. This can be considered good news if it means a wider insertion of these countries in global economy. This can also be regarded as bad news for Europe influence which remains high upon its neighbourhoods, but is undoubtedly declining.

Figure 4. Investments in the peripheries of the Triad, slowdown in the centres



Map 1. FDI inflows and share in GDP in the 2000s

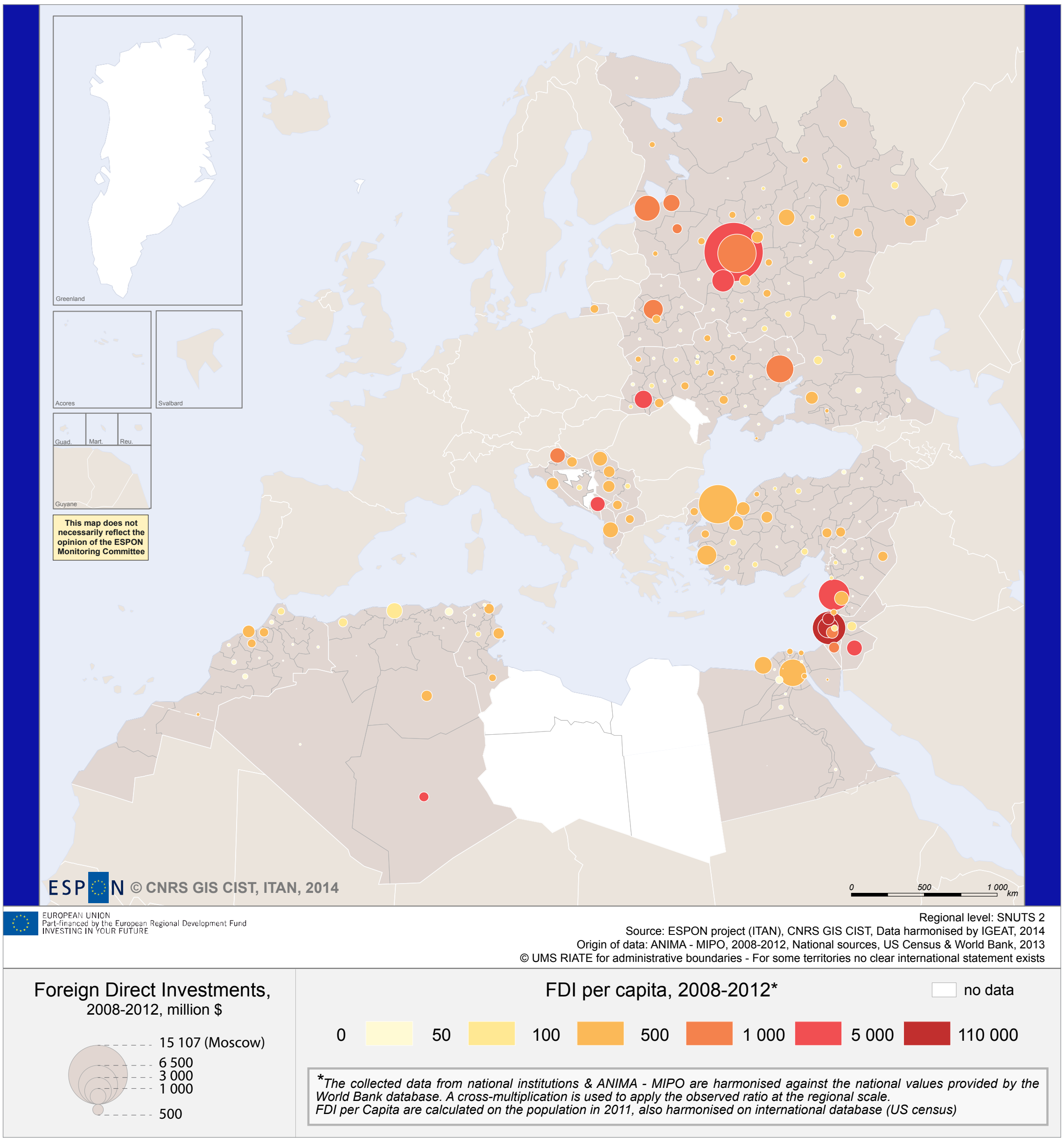


Europe invests very little in its Neighbourhoods…

East Asian region boom is based on the complementarity between its national economies: highly developed (Japan), developed (Dragons), and developing (China…). Developed countries have found drivers for growth in their developing neighbourhood. The complementarities are less obvious between the US and Latin America but they exist too (Figure 4). In the European wider region, this is the case when it comes to Morocco for instance, but not for Egypt, whereas Ukraine shows a chaotic path. Since the Arab spring, investment in the Mediterranean Neighbourhood as diminished.

Mediterranean Neighbours remain marginal players in the world FDI flows (Map 1). North Africa attracts less than 1% of the world FDI inflows, the Arab Near-East (that is Near-East except Israel and Turkey) less than 0.5%. Turkey is rising but attracts less than 0.8%. Eastern Neighbourhood shows more attractive: altogether Western Balkans and Eastern Neighbourhood attracted 1.1% of the world FDI inflows in the 1990s and 4.3% in the 2000s. But these figures stay far away from Asian records. Under the impetus of Japanese companies, emerging and developing East Asia attracted 7% of the world FDI inflows in the 1970s, 9% in the 1990s and 15.5% (Chinese boom) in the 2000s. The post-crisis period confirms this mega trend: in 2007 China has attracted US$85bn, in 2011 the figure reached 125; the other emerging and developing East Asian countries respectively 150 and 210. As a whole, emerging and developing East Asian countries have attracted in 2011 22% of the world FDI inflows –much ahead of Latin America (10%), not to speak of the European Neighbour Countries.

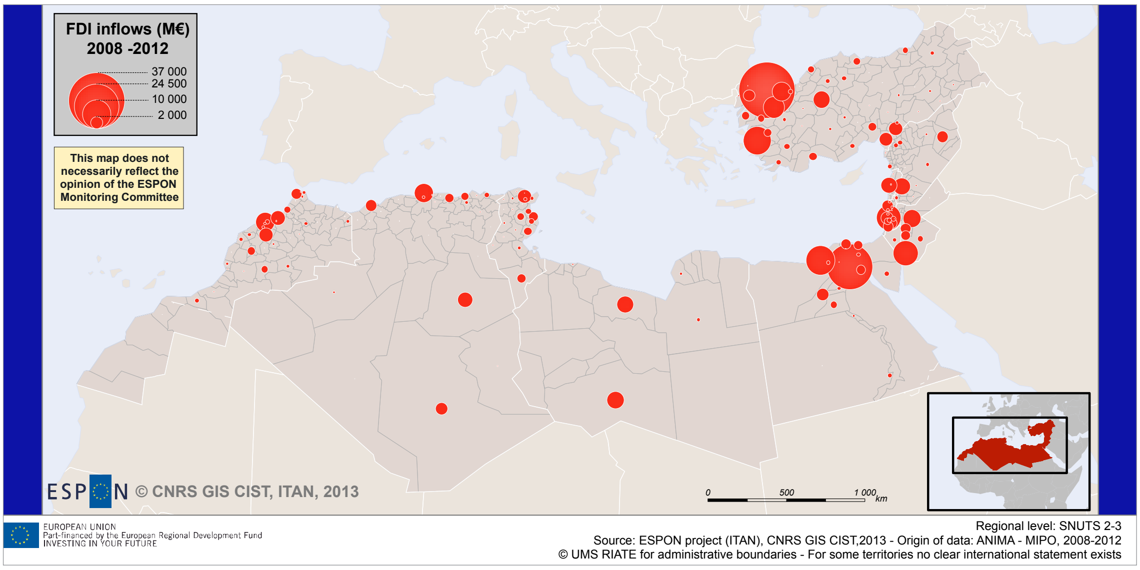
Map 2. FDI inflows in the Neighbourhoods, SNUTS 2

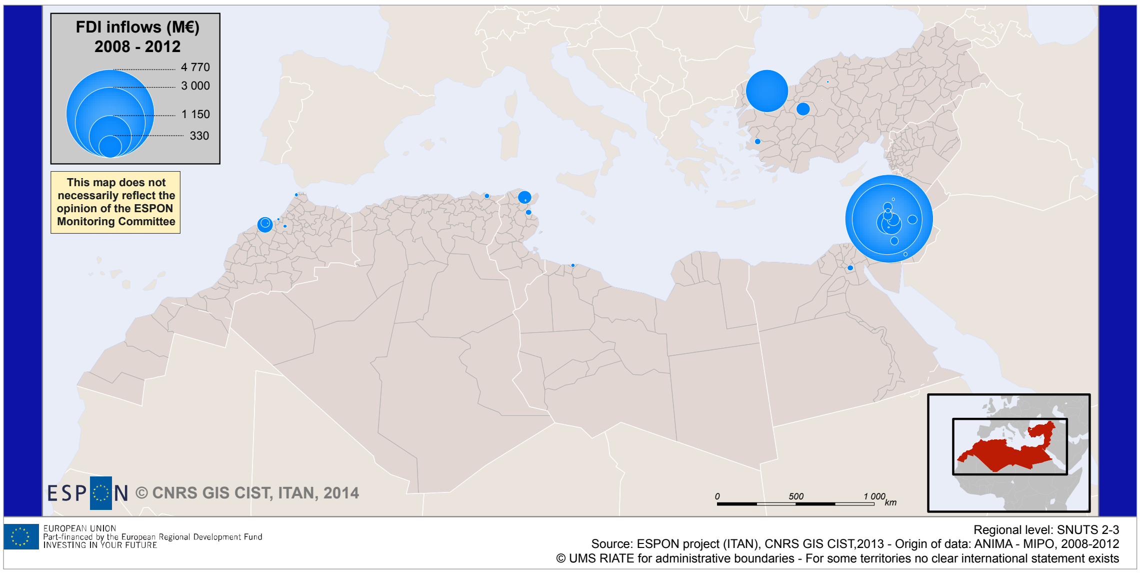


Maps 3. Local FDI inflows in Mediterranean ENCs. Not only large urban areas, not only low tech

Notes. Red: FDI in all sectors; Blue: FDI in Aeronautics & transport equipment, biotech, business services and software.

Source: FDI 2008-2012 Anima – MIPO / cartography by CIST.





… even in their dynamic territories

Map 2 displays the FDI inflows in the entire Neighbourhood at local scale. Russia, Israel and Turkey are the main target, even though the latter shows a per capita record minor than expected. Maghreb is less targeted than the Near-East, which highlights the potential in Maghreb countries. Maps 3 show that in the case of Mediterranean Neighbourhood, FDI, unlike what is often stated, are quite territorially inclusive because they are not limited to capital cities in these countries. Nevertheless, when one only considers foreign investments in high tech and advanced corporate services, FDI are polarised on a few major cities (Casa-Rabat in Morocco, Tunis, Istanbul, and Tel Aviv of course); the same for Map 4 on clusters: they are mostly concentrated on territories with a high Human Development Index. This is not surprising, and not good news for the rest of Neighbours territories; but it shows that these economies are shifting toward an innovative productive economy. Should not European investors take a greater advantage of this?

Figure 5 crosses FDI inflows at local scale with the local index of Territorial Dynamics based on local GDP and population growth. Minsk or Kiev, quite dynamic territories of the Eastern Neighbourhood, attract FDI; similarly for numerous territories of the Mediterranean Neighbourhood including Syrian (Damascus, Tartous, Homs, Lattakia, Aleppo… data are an average of the 2008-2012 period, things have deeply changed since then). But many local territories, mostly of the Mediterranean Neighbourhood and namely in Egypt, show dynamics which means a need for further equipment and services with –at least potentially– rising purchasing power, but show little or not at all attractive for FDI.

Developing countries rely very much on investment from their developed neighbours

Seen from developing countries standpoint, the geography of FDI flows is different, because they highly rely on investments originated from their developed neighbours. For example Morocco, Tunisia or even Turkey FDI inflows highly come from Europe: 85% for Morocco, 57% for Tunisia and 77% for Turkey at the end of the 2000s. What is the evolution? Again, the role of Europe as FDI provider for the whole Mediterranean ENCs is declining: more than 50% at the beginning of the 2000s, 30% in 2010 (the figure is 20% for the Gulf as origin of FDI invested in Mediterranean ENCs). In other regions, figures are alike: half FDI flows in Mexico come from the US; the bulk of FDI flows in China or Thailand comes from Japan and the Dragons (along with Caribbean tax havens, Maps 5).

Map 4. Clusters in Maghreb: shifting from a rent to an innovative economy

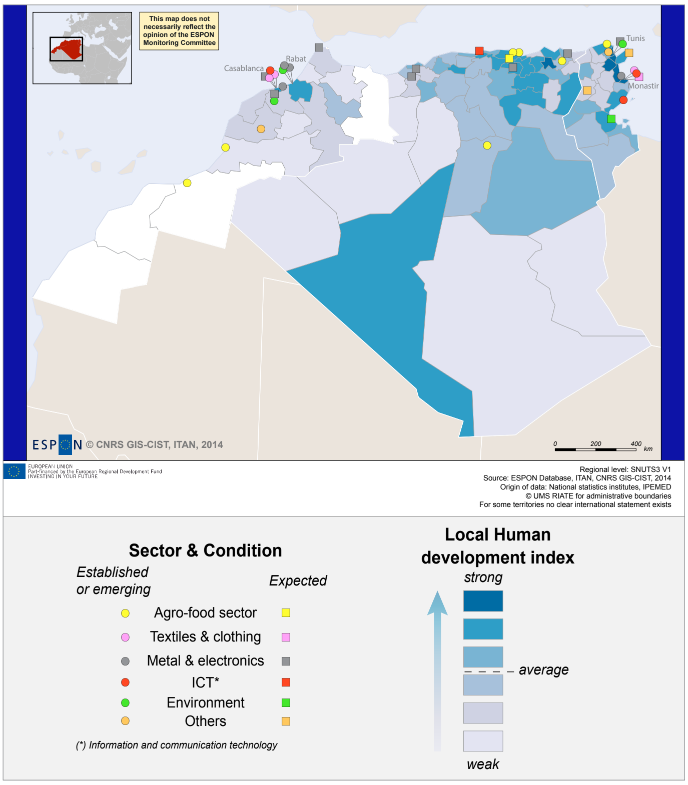
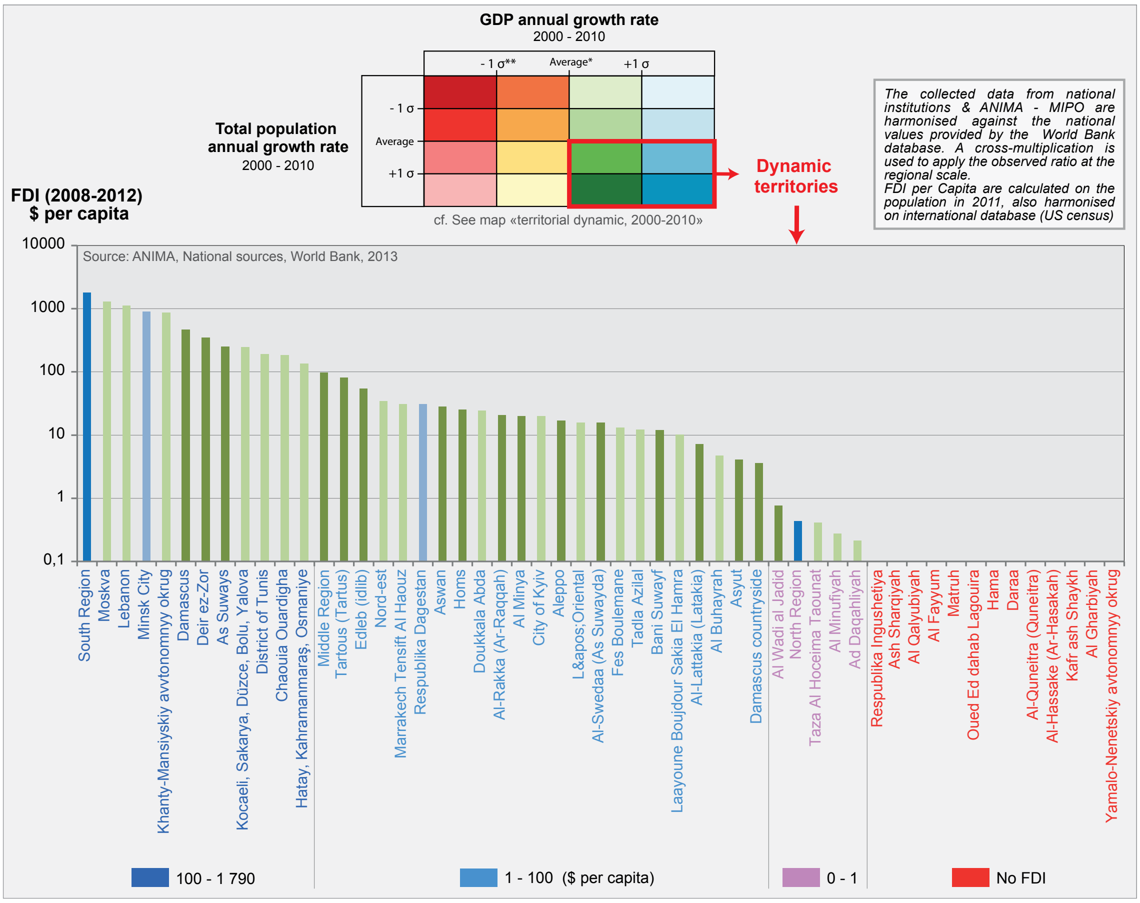
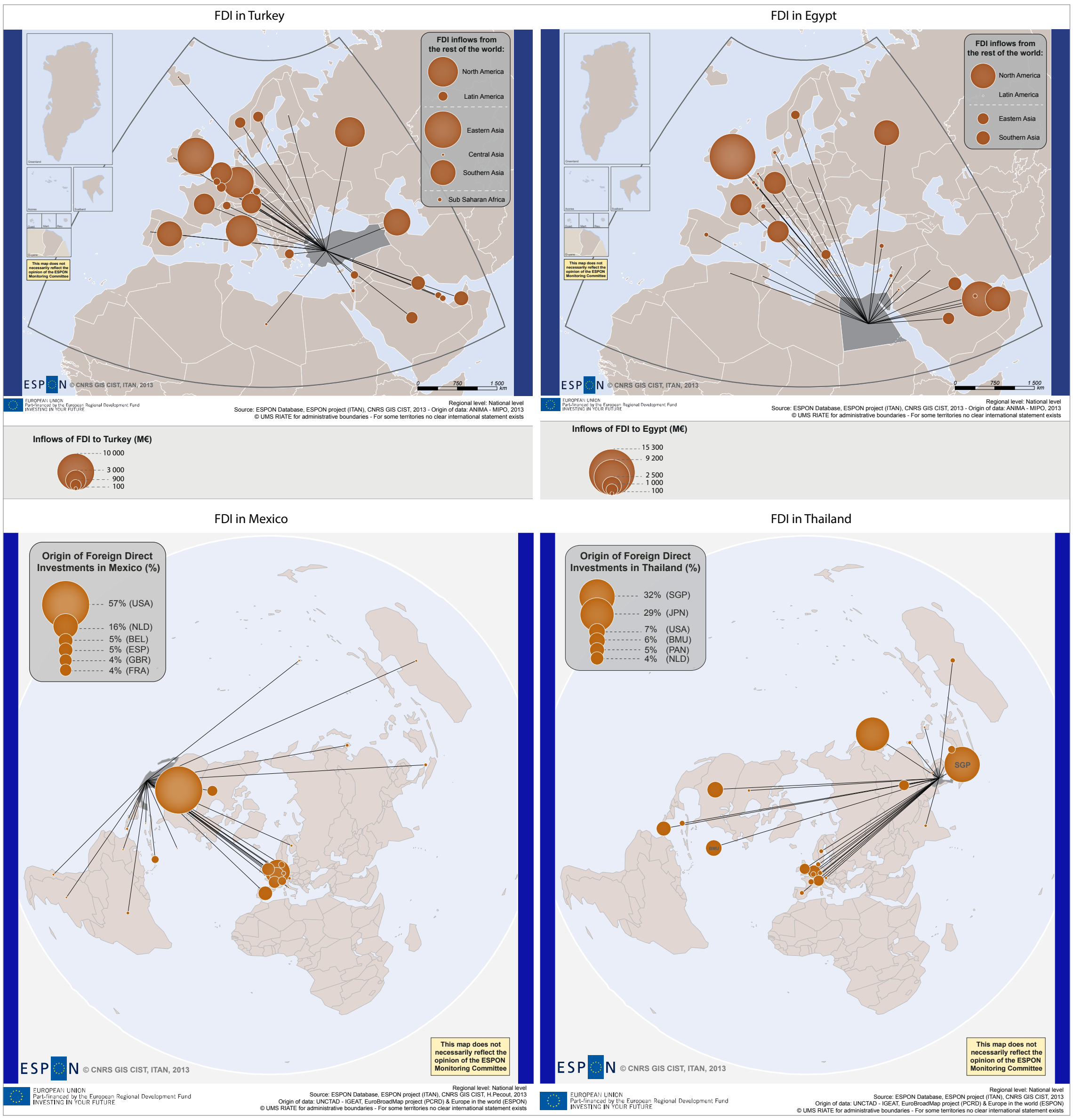


Figure 5. Highly dynamic territories and FDI inflows: a crosscut methodology



Maps 5. Where do FDI inflows come from? Geographical proximity matters (average 2006-2008)



ITAN project

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ITAN project funding

ITAN project is financed by the ESPON 2013 Programme (European Observation Network for Territorial Development and Cohesion).
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ITAN consortium

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– IGEAT, Université Libre de Bruxelles, Belgium – igeat.ulb.ac.be
– MCRIT, Barcelona, Spain – www.mcrit.com
– NORDREGIO, Stockholm, Sweden – www.nordregio.se
+ close cooperation with a network of scientists of all the Neighbour countries

ITAN objectives

– Providing territorial evidence for a better knowledge of the Neighbourhood territories (from Morocco to Russia and the Arctic territories), their dynamics, flows between these regions and the ESPON territory

– Building a sustainable database: diverse data types (statistical, network, spatial, grid data) at local level in each country of the European Neighbourhoods, and mapping analyses

– Giving recommendations on territorial cooperation to be picked-up in the territorial agenda of the EU Member States, Iceland, Liechtenstein, Norway and Switzerland and the Neighbour countries, and to be included within the European Neighbourhood Policy

This dossier can be consulted online, with extendable images, on
www.gis-cist.fr/portfolio/itan_dossier6