

## REGIONAL PROBLEMS CAUSED BY THE INTEGRATION OF CEECs INTO THE EU

*EU integration of CEE countries provides new development opportunities for all regions along EU's external frontier based on cross-border economic and regional policies. In the preparatory phase, an offensive structural policy should be supplemented by negotiations on administrative measures designed to cushion any negative consequences.*

Eastern enlargement will not affect all regions in the same way. Depending on the geographic situation and economic structure, regional impacts will vary. Owing to their geographic proximity, Austria's eastern and southern regions are expected to be exposed to greater positive and negative effects than its western Länder. Within the Länder, the regions directly bordering on candidate countries will not be the only ones that have to reckon with changes in competitive conditions.

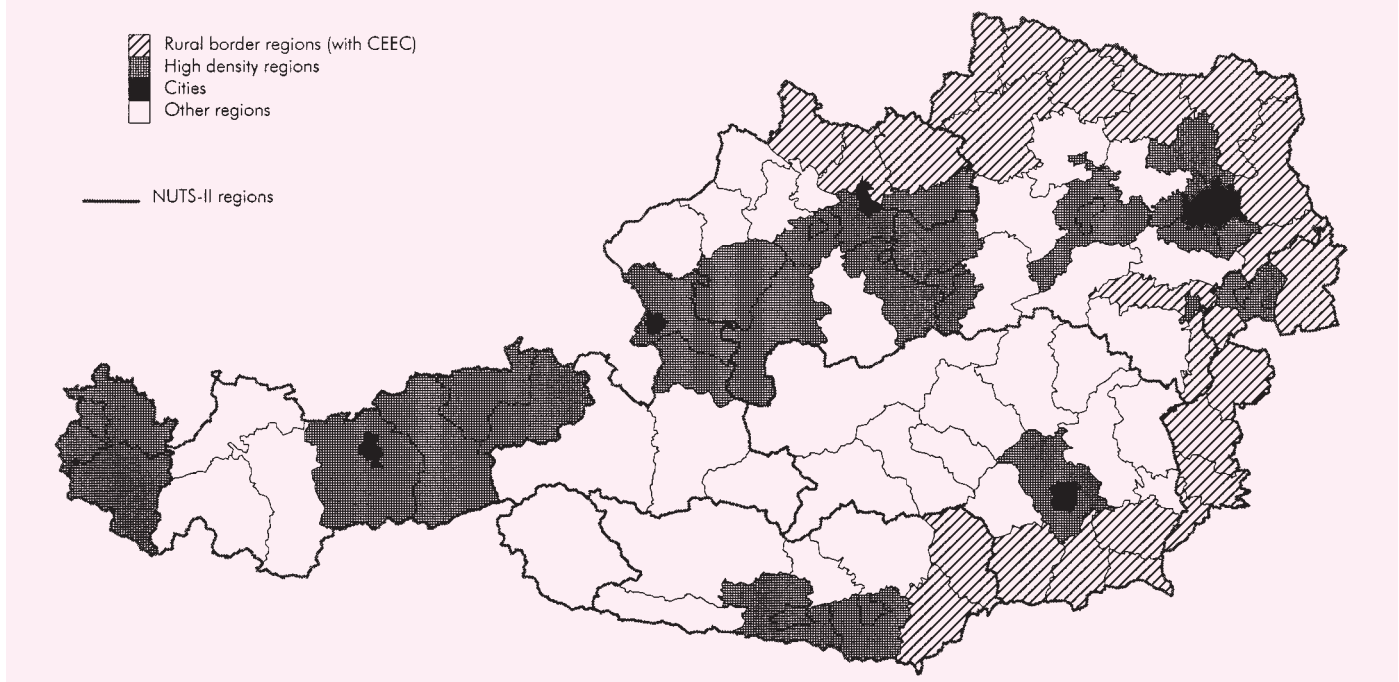
Due to the economic structure, the consequences of integration will differ in terms of intensity and development across time for "major cities", "high-density regions" and "rural border areas". The longer integration lasts, the lesser felt will be the negative consequences in the rural frontier areas and the positive impacts in the major cities.

Major cities such as Vienna, Linz or Graz are the ones that have benefited most from the opening up of eastern markets. The growth of exports to CEE states mainly involves industries that are of comparatively great importance in larger cities (technology sector of industry, transit trade), whereas sectors that have come under substantial import pressures do not figure so prominently in cities. These comparative advantages of major cities in international goods markets will tend to become weaker in the later phases of integration as CEE countries will increasingly penetrate higher-quality sectors in the course of their catch-up process.

After the CEECs' accession to the EU also the major cities will come under greater pressure caused by the liberalisation of services for regional markets since their sales potential and usually higher prices make them particularly attractive for providers of cross-border services. Moreover, major cities will be the focus of those labour market effects that result from the free movement of workers, i.e., increased migration

Summary of a more detailed analysis published in the 11/1998 issue of the WIFO-Monatsberichte.

Figure: Problemspecific regions of Austria



into cities. Labour displacement and wage pressures will be most pronounced in the major cities as they are the preferred destinations of both commuters and migrants.

Transitional periods could take away much of those pressures. However, full protection of major cities from the inflow of migrants could only be achieved through extremely long transitional periods that candidate countries would find politically impossible to accept. Still, too great a migration shock could be avoided for major cities if the labour markets were opened gradually and selectively in structural policy terms before granting freedom of movement. Skilled labour from CEE countries might contribute to the creation of international specialisation advantages.

Industries located outside the major cities in high-density zones are likely to gain most from the CEECs' accession to the EU. In the highly centralised areas of Austria's Länder and in the suburban areas around major cities we mostly find industrial enterprises that are able to use best the growing advantages a larger internal market offers to large companies. These advantages may get an additional boost from structural policies such as the rapid upgrading of the transport and communication infrastructure (direct TEN connection, upgrading of the north corridors, improvement of existing westbound and southbound connections, better connections for the Vienna-Schwechat airport, etc.), and the establishment of technology parks and competence centres. As regards the consequences of EU integration for Austria's services and labour markets, the

high-density regions occupy a position in between the major cities and the rural frontier areas.

Along with the eastern opening, rural areas have lost their location advantage of cheap labour for labour intensive industries. Especially the clothing industry saw quite a number of its plants close down and production move elsewhere. The removal of barriers on regional markets in the course of the CEECs' accession to the EU will cause problems for the services sector and the labour markets in rural border areas, especially in the first years of full membership. Suppliers from CEE countries can clearly underprice domestic businesses, and market access will be facilitated owing to the proximity to Austrian border areas. As regards the labour market, an inflow of commuters is expected to take place.

However, those negative effects will have a tendency to become weaker with the CEECs' further development owing to the limited absorptive capacity of these markets. This is why such administrative measures as the effective implementation of the Posting of Workers Directive (96/71/EC) or transitional periods for the labour markets of rural border areas will provide effective protection from adjustment shocks. More difficult will it be for very peripherally located frontier areas to reposition themselves in strategic terms. Here, the integration of CEE countries will open up new options within a structural policy challenge that has existed for years in the wake of enhanced internationalisation. In this context the Community initiative INTERREG offers a suitable, albeit institutionally improvable, subsidy framework.