

Compensation effects in Cross-Border Regions

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Abstract

The international trade literature has identified border effects mostly by assessing the decrease in trade flows between areas sharing an international border, thereby pointing at a demand-side mechanism. More recently, an additional mechanism has been identified, suggesting that a supply-side channel could also be at play.

We enter this debate and explain border effects by assuming that firms located in border areas face higher production costs; as a consequence, compensation effects may possibly arise. Empirical estimates based on the universe of 1,398 European NUTS3 regions suggest that regions can compensate for their low growth asset endowment, or insufficient efficiency in exploiting internal assets, by efficiently exploiting other regions' assets.

Keywords: Cross-border regions, border obstacles, regional growth.

JEL Classification codes: R11, R12, R58.

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