

A Perspective on Enlargement of the European Union: A View from New Economic Geography

Yen-Huang Chen

Abstract

New economic geography models, pioneered by Krugman (1991b) and Krugman & Venables (1995), show how trade liberalization affects the formation of core and periphery. This article utilizes the framework of new economic geography to investigate impacts of increases in market size upon the emergence of peripheral industry. The emergence of peripheral industry does not necessarily happen in response to increases in market size; it depends not only on the scale of market enlargement, but on a few key parameters. With lower trade barriers between core and periphery, higher linkage effects, or stronger economies of scale, a larger scale of market enlargement is required for the emergence of peripheral industry. According to this analysis, this paper offers perspectives on the enlargement of the European Union.

Key Words: Agglomeration, Trade Liberalization, Economies of Scale, Linkage Effect