Border effect and market potential: the case of the European Union

Abstract:
The globalization of population and trade flows yielded an increase of interactions within the international framework. Accessibility indicators are especially suited to represent spatial interaction since they capture two basic factors that determine the amount of flows between a set of places: the opportunities available and the infrastructure used to move those flows. While globalization trends contributed to the weakening of borders, several studies confirm that borders still matter in international trade, and play a significant role in the form of home bias, i.e. a marked preference for domestic products. Still, most studies of international accessibility ignore this fact, thus failing to show realistic results. This paper makes use of gravity equations to calibrate the distance decay parameter as well as a new coefficient to control for the border effect in the market potential indicator. We used official trade data at the country level in the European Union and evaluated different distance metrics in order to obtain a realistic measure of the border effect within the EU. Our results suggest that the border effect in Europe was previously underestimated due to an excessive simplification when measuring distances. While our preliminary results were similar to previous research, once we apply realistic measures of transports cost (either travel time or generalized transport costs) and removed those countries that are highly affected by the Rotterdam effect, we found that European countries trade 15 times more within themselves than with any other European country. Consequently, integrating the effects of borders in accessibility analysis of international scope evidences that the gap between central and peripheral countries is even larger than expected.

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