Economy and competitiveness in the Mediterranean Arc*

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The Mediterranean Arc Euroregion (EURAM) articulated along the Barcelona-Valencia axis is based on clearly identifiable foundations defined by the predomination of small and medium-sized companies, the relevance of manufacturing and tourism, a clear export orientation and a high degree of commercial integration of its different regions. Together with chronic shortcomings in infrastructure and an appallingly negative fiscal balance related to Spain, it makes an economic model with its own rationale and different from others. From this perspective, EURAM appears as one of the big European areas with a specific production model and potentialities to counterbalance the powerful big area in Northern Europe. To ensure success of the model, distinctive policies need to be implemented in order to optimise competitive advantages and overcome limitations.

* The contents of this article is based on Casas, Joan B.; Crespo, Patrícia (2009). *L'EURAM: centre o perifèria? Una perspectiva econòmica*. Valencia: Editorial Tres i Quatre.

Two big events took place in recent years that affected the world economy substantially. One is globalisation, understood as a worldwide market integration process that could be summarised as follows:

- It is an all-encompassing process as it affects all countries on the planet, no matter the position they take in the world economy and the political order.

- As there is an irreversible process of integration of markets, there are countries better positioned than others, i.e. the economic nature of globalisation is exclusive as nations or areas unable to be competitive will be left aside from development.

- As the market is the main element to globalisation, the state as a political unit and space under the rule of a national government and sovereignty is relegated to a secondary role.

- Markets, capital, production, management, labour force, information, knowledge and technology are organised in flows going beyond national borders.

Two big events took place in recent years that affected the world economy substantially: globalisation and considerable loss of power by states.

- Competition and economic strategies at big, medium-sized and small companies tend to be defined and decided in a regional and global framework.

- Globalisation pushes companies as well as markets to be organised in tightly fastened networks at planetary level.

- Science, knowledge, information, culture, education, etc. tend to escape national borders or control and assume a transnational and global rationale like markets.

Besides globalisation effects, states have lost power considerably as large areas of economic integration have been created, like the European Union and the eurozone. Hence a real loss of power has taken place as tariffs, control over monetary policy, the setting of currency parity and a trend towards tax homogenisation have been taking place.

In this new framework (globalisation and integration) the key factors for competitiveness are much more linked to the territory.

They are the following:

- Infrastructures, both basic ones as those for transport and technology.

- Human capital, i.e. the level of education and commitment among the population.

- Research and innovation.

- Offer of advanced services for companies.

- Involvement of the public sector in the private.

- Marketing and brand concept.

- A favourable setting for the entrepreneurial spirit.

- Social cohesion.

All these factors become very important in increasing the degree of competitiveness at companies during the last century, once the mechanism of currency devaluation is often beyond the grasp of governments.

The result of this process (globalisation, loss of power of governments, decisive influence of competitiveness factors linked to the territory, etc.) leads us to what regional economics defines as economic regions, that is, large geographic areas featuring a degree of homogeneity and integration having an impact on economic activity done inside them. Following regional economics, we could say that it is about introducing the space variable into economic analysis.

Both regional economics and geography have made valuable contributions to this field. Very summarily and given the space limits of this paper, two sorts of region are to be pointed out: the homogeneous and the nodal one.

The homogeneous region is a territorial unit defined by a single differentiation factor, an either social, physical, climatic or political distinctive feature, making a difference compared to other regions and allowing to set out a specific area. The distinction or dispersion of elements inside it will be lower than between different defined regions.

From an economic point of view, a homogeneous region is conceived as a distinctive whole that develops uniformly. It is the concept used in regional macroeconomics by which growth problems, income level or short and long-term change are reduced in scale and constant values of these variables are adopted for the whole region.

The decisive influence of competitiveness factors linked to the territory leads us to introduce the space variable into economic analysis.

The nodal region refers to territorial units defined out of functional interdependence and density of flow between its elements without being able to set precise limits. Its distinctive feature is interaction between central cores and satellite areas. The system is organised around a central hub all its elements interact with more intensively than others located outside the node. In practice, this sort of region often refers to a city or its territorial area of influence, so this is the most influent market space for production generated in the region and also the supply area for raw material demand.

The nodal region is thus based on heterogeneity and cross-connections inside it, with specialisation of subregions. This exists as there are economic flows concentrating on nodal areas, like agricultural production supplying urban areas, vertically integrated production industries or specialised offer in advanced services.

This relation between centre and periphery is often enlarged at supraregional level as different regions defined within one country are organised hierarchically around the node that is usually the capital in developing countries.

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Thus the region is configured as the framework in which the previously defined competitiveness factors are developed so the whole business activity is more efficient and generates an own model taking its position in an economically globalised world, using its advantages. Without any other macroeconomic tools, the economic region as it has been defined is today coincident with business competitiveness.

In this economic process leading to gradually overcoming administrative borders, and based on macroeconomic and sectorial aspects related with competition, it remains to be seen how the Catalan economy and its companies are positioned in this unstoppable process. It is obviously a phenomenon that affects not only the Catalan economy. There are economies everywhere developing efficiently a framework that is not coincident with their political borders. This issue has been studied and published by many authors recently.

In our opinion, given this new context and the economic focus, the Barcelona-Valencia axis and its immediate area of influence (especially the Balearic Islands and the Roussillon) feature conditions allowing to think of a big economy-based region whose role is not at all peripheral nor secondary, both within Europe and in the global context.

The Barcelona-Valencia axis and its immediate area of influence feature conditions allowing to think of a big economy-based region with a neither peripheral nor secondary role.

The region's features leading us to this assertion are summarised in chart 1.

This area around the Barcelona-Valencia axis (Mediterranean Arc Euroregion – EURAM) is thus a nodal economic region, that is, with considerable cross-connections and integration of business activities done inside it, but it also has features of a homogeneous economic region as it bundles a set of common factors throughout its territory.

From this perspective, EURAM and its area of influence become one of the big European economy-based areas with an own production model and possibilities of counterbalancing the big area in Northern Europe. Thus the delimitation and specificity of this region is given by the concurrence of a set of factors we have defined as external and internal, each of which would not allow to clearly talk of a geographic area with a need of articulating specific policies despite their importance and the fact of being used individually for regional analysis. Hence it is the combination and convergence of all described factors what articulates the region. To show its capacity and relevance, the data shown on charts 2 and 3 are illustrative.

The high degree of economic integration between Catalonia and the Valencia Region is perfectly reflected by the data shown on chart 4.

In a first approach, the internal relations in the EURAM territory allow to state the following:

- A considerable dependence of the Balearic Islands on the rest of EURAM, partly due to their insularity and being a much more service-

***Chart 2.* Foreign trade of EURAM. 2007.**
Data in percent

TERRITORY	Exports (outside Spain) (%)	Imports (outside Spain) (%)
Catalonia	27.5	28.2
Valencia Region	10.2	8.1
Balearic Islands	0.8	0.8
EURAM	38.5	37.1
Spain	100.-	100.-

Source: ICE

Chart 1. Factors characterising the Barcelona-Valencia axis

External factors	Internal factors
– Open, export-minded and diversified economy – Low public capital stock, very far from the European average and that of other Spanish regions – Common problems: road transport, tourism, water, goods at ports, infrastructure, energy, human capital – High fiscal deficit with Spain – Clear homogeneity in its social and economic structure	– Intensive interrelation between different areas in the Euroregion, creating an economically strongly integrated area – Production model based on very diversified clusters – Business structure made of small and medium-sized enterprises

Source: own

Chart 3. Degree of openness of the EURAM territory. 2007

million euros

	Exports (X)	Imports (I)	X + I	X + I/PIB each region (%)
Catalonia	49,951.20	79,123.30	129,074.50	65.67
Valencia Region	18,554.90	22,647.80	41,192.70	40.26
Balearic Islands	1,521.10	2,335.40	3,856.50	14.80
EURAM	70,017.20	104,106.70	174,123.70	53.59

Source: own, based on ICE and INE data

based economy, with a much higher stake of this sector than in the remaining territories.

- Considerable commercial relations between the main EURAM players, the Valencia Region and Catalonia. It can be stated that for the latter, the main customer and supplier is the Valencia Region (followed closely by Aragon as to sales in recent years). The situation repeats in the Valencia Region, where Catalonia is by far the largest customer and supplier. In this case, the intensity of commercial relations is so high that regarding interregional trade within Spain, imports from Catalonia to the Valencia Region almost triplicate those from Madrid, while exports are double. In fact, the second market of the Valencia Region is Andalusia and the third the Murcia Region.

Competing in the 21st century requires to be aware of these features and thus define policies designed for this reality if one wants to be in the world market.

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Any project within this context needs to be based on a wide vision arising from the economic foundations of the territory and internally organised with synergies and without hierarchies.

Chart 4. Internal relations in EURAM. 2005

		Catalonia	Valencia Region	Balearic Islands	EURAM
Catalonia	Exports to	–	15.80%	5.09%	20.89%
	Imports from	–	17.39%	1.12%	18.51%
Valencia Region	Exports to	20.17%	–	5.28%	25.45%
	Imports from	27.80%	–	0.38%	28.18%
Balearic Islands	Exports to	36.44%	11.63%	–	48.07%
	Imports from	45.23%	24.50%	–	69.73%

Source: own, based on the Interreg database

Although this becomes apparent in practically all cases, this is especially true for infrastructure and the industrial model. To keep the competitiveness level achieved so far, the actions explained in the following related to both the industrial model and infrastructures are thus indispensable.

Industrial model

The EURAM industrial model has to foster branches and clusters with a growth potential vis-à-vis the mature industries in its economy, the most representative of which is building.

This does of course not mean a replacement of the current industrial model but to complete it with decided action allowing its adaptation. To summarise, it is necessary to widen the sectorial basis (knowledge society), reduce the relevance of branches subject to considerable cyclical oscillations (basically building and tourism) and strengthen the traditional industries and clusters having made a big technology effort, thus keeping a good position. The ensuing proposals go along these lines and intend to point out according trends. They are examples of specific actions embracing, among others, public authorities, business and professional sectors, universities, hospitals, science parks and research centres, though with differing intensity.

- Fostering EURAM as a bioregion and specifically developing biotechnology and biomedicine as emerging industries (stem cells, gene therapy, molecular diagnostics, etc.).

- Focusing the health sector from its business perspective and use its potentialities (research, education, service expansion, etc.).

- Fostering the chemical and pharmaceutical branch and its research potential.

- Creating advanced technology centres (the synchrotron is a good example).

- Taking advantage of logistic possibilities of EURAM.

- Optimising the outstanding university network in EURAM to strengthen the ties between business and university as well as business initiatives arising from universities, especially in technology (spin-offs).

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- Giving support to traditional economic sectors in EURAM that are technologically prepared and export, within the process leading towards tackling its big challenge: presence in and penetration of the big international markets of emerging countries having the highest demand. It has to be considered that exports are right now mainly concentrated on economically solid countries like the EU member states, yet with very moderate growth rates.

- Analysing clusters with adaptation problems as well as actual survival possibilities.

- Establishing tax, financial, technology and cooperation policies in the different production, marketing, etc. stages allowing competitive adaptation.

Companies in EURAM are at a historical crossroads. So far, they have had relevant strengths (financial solidity, profitability, geographic location, etc.) but also deep weaknesses (laxity in innovation, poor training, lack of market orientation, insufficient investment in intangibles such as brands or design, lack of internationalisation, fiscal deficit, poor infrastructures, paperwork, etc.). Globalisation, relocations and increasing dynamism in some Eastern European countries, China, India and other developing countries suggest that the immediate future will be very different. The welfare state that has been so hard to achieve makes a business strategy based on low costs unsustainable. EURAM, like the old Europe, risks missing the train.

Potentially growing areas and clusters with the highest added value need to be fostered, like biomedicine, pharmacy, biotechnology and health.

It is time to change the mindset and adopt a pattern of permanent innovation, effort culture, the relevance of design and other intangible assets, orientation to international markets, increased productivity, cooperation between business and public authorities to update infrastructures, etc.

Otherwise, large economic sectors in EURAM, especially its industry, may become testimonial within few years and create difficult situations of unemployment, poverty and unrest. This is why these potentially growing areas and clusters with the highest added value need to be fostered, like biomedicine, pharmacy, biotechnology and health, together with others mentioned.

Infrastructure

Transport and logistics are strategic for the competitiveness of any region and one of the key items in their economic and social development regarding both direct wealth generation and their indispensable supporting function for the rest of productive, commercial and consumption activities. Economic globalisation and relocation of productive activity strengthens even more the need of being competitive in the international logistics market.

Thanks to its geographic location and its industrial and commercial tradition, EURAM is very well positioned to compete in this business sector. However, it requires competitive infrastructure and services to cover the needs of logistics and commercial flows. The infrastructure system will specifically need to absorb increasing goods transport, diversification of transport modes and intermodality.

Some general actions to alleviate this shortcoming include:

- Ensuring the railway connection to Europe with international gauge for goods transport.
- Ensuring access by road and rail to ports.
- Giving priority to urban development of activities with synergies with ports and airports.
- Increasing the capacity of the road network for long-distance traffic.

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- Provide the main transport corridors with space for intermodal logistics.
- Implement railway liberalisation, accelerating access for new operators.
- Changing the management model of key infrastructures to allow them to become more competitive.
- Introducing mobility management measures to improve the capacity of the logistics system.
- Minimising the environmental impact of transport and logistics regarding both territorial integration of infrastructures and greenhouse and polluting gas emissions.
- Improving competitiveness of services related with management and use of logistics infrastructures.

Other more specific actions include:

- Reducing dependence on roads. Alleviating the AP7 motorway (building more lanes).
- Building a high-speed railway line along EURAM (there is currently no connection between Castelló and Tarragona) and to the Basque Country.
- Connecting airports and ports to the goods transport networks to Europe.
- Fostering cooperation between the ports of Barcelona and Valencia.
- Creating an efficient commuter train network to facilitate mobility.

The railway connection to Europe with international gauge for goods transport and railway access to ports need to be ensured.

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