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Border regions benefit from international trade

When the Iron Curtain fell in 1990, eastern Austria was suddenly exposed to cross-border trade. It was «a natural experiment» that a team of Swiss researchers analysed to measure the benefits of open economies.

PRESS RELEASE

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The opening of economies to international trade proved to be one of the main issues in recent electoral campaigns in France and the United States. But what is the impact of open borders on border regions? By examining trade in Austria before and after the fall of the Iron Curtain, researchers in the Swiss universities of Geneva (UNIGE) and Lausanne (UNIL) showed that employment and wages in villages and towns close to country borders grew more rapidly after an episode of liberalization of international trade than in similar communities further from the border. The study can be read in the latest Policy Brief published by the Laboratoire Interdisciplinaire d'Evaluation des Politiques Publiques (LIEPP) of Sciences Po Paris.

As the authors are keen to point out, while opening up international trade can lead to job losses in some sectors, «trade is not a zero-sum game». The study shows that through economic growth in border regions, which are often less developed than interior regions, the liberalization of cross-border trade helps reduce regional disparities.

«We examined the «natural experiment» that was created by the sudden shock of the Iron Curtain's demise on the job market in Austria, and in particular its effect in towns and villages on the country's eastern borders with Hungary and Czechoslovakia», explains Céline Carrère, professor at the Geneva School of Economics and Management (GSEM) and at the Global Studies Institute (GSI) of UNIGE. It was a particularly good case to analyse because the change took place suddenly and was not anticipated by economic, business and political stakeholders. The consequences observed could therefore be directly related to the opening of the border to international trade.

Stronger growth in wages and employment

«To measure the growth effects of trade, two groups of towns were studied: one group comprised municipalities close to the eastern borders, while the other one was a control group of municipalities further away,» says Frédéric Robert-Nicoud, professor at HEC Lausanne, UNIL. The conclusions were clear: over the 1990-2002 period, an average community situated within 35 kilometres of the border saw its wage growth outperform that of a similar community located further away from the border by 4 percentage points. And the difference was even stronger in terms of employment. Communities close to the border registered a cumulative employment growth 14 percentage points above that of the control group during the 12 years period under review.

According to Marius Brülhart, professor at HEC Lausanne, UNIL, «The results seem to be representative of what trade does to other countries too; they can be useful outside the context of Austria and the fall of the Iron Curtain.» A second study, in which he is participating, seems to back this up. This is an analysis of border regions in 138 countries which uses satellite images of night lights to measure the evolution in economic activity at a very fine geographic resolution. This approach compensates for the weak statistical data existing in most developing countries. The average brightness of night lights is then taken as a proxy measure for the intensity of economic activity at a particular location. This ongoing research confirms that the liberalization of cross-border trade boosts economic activity more strongly in border regions than in regions further away from the border.

In a nutshell, the regions that are more exposed to cross-border trade are also those that are found to benefit the most.

Read the Policy Brief accessible on the LIEPP website.

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