

Growing in the Desert:

A Comparative Analysis of Firms Located in Border Regions of the 2004 Enlargement

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Abstract

Borders can act as barriers to regional development, limiting the market potential of firms located there. Drawing on location theory (Lösch, 1944), which likens border regions to deserts attracting only smaller firms, this paper investigates the impact of the borders on firms in regions affected by the 2004 EU enlargement. Using firm-level data, we analyze both internalized borders and the external borders of New Member States (NMS). Our findings suggest evidence of trade diversion affecting firms near external borders around the time of enlargement. Small firms in NMS near the EU15 borders exhibited higher profitability and growth, likely driven by increased dynamism and vertical linkages. Conversely, firms near the non-EU borders or borders between NMS faced significant challenges, especially in construction, production, and services sectors.

Keywords: economic geography; European integration; firm performance.

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