

New Geographical Configuration of Europe: Implications for Supply Chain Planners

Ferrara Graziella*

Human Science Department, Suor Orsola Benincasa University of Naples, Napoli, Italy

Abstract

The several round of enlargement of European Union with the admission of Central and Eastern States into the Union has changed the economic geography of Europe. Policy-makers have realized that in order to achieve sustainable economic growth of all EU States and firms operating in them it is crucial to encourage creation of logistic clusters. At this aim, it is likely to implement policies aimed to increase interaction among firms and local institutions. Despite the relevance of this topic few articles evidence geographical and strategic aspects. This paper aims to fill this literature gap. This paper gives an overview of new geographical configuration of Europe and its implications for supply chain planners.

Keywords

Geography, Economy, Europe

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1. Introduction

Clusters are local concentrations of linked firms specialized in related lines of business. They are co-location of producers, services providers, educational and research institutions, financial institutions and other private and government institutions related through linkages of different types.

Some clusters are networks of small and medium firms (SMEs), others are organized around key actors such as universities. Clusters such Silicon Valley are archetypical example of big success. Also European regions have developed clusters focused on financial (London), petrochemicals (Antwerp), flowers (Holland), and biotechnology clusters (Danish - Swedish).

However, the more markets globalize, the more likely it is that resources will flow through regions, reinforcing the role of logistic clusters and driving regional specialization in Europe. Thus, new clusters in logistic and transport are called

for letting European regions to face current challenges of regional disparities and needs of connections.

This paper proposes as new economic hub for a logistic cluster in Europe able to connect Eastern with Western economies. It can capitalize on its geographical position, serving as a link between East and West Europe.

The establishment of the relevant trade corridors is already well underway in some cases; in other cases initial investments in infrastructure are just beginning. As a result of these developments, new trade corridors between East and West Europe will re-chart global supply chains. Trade volumes will shift towards emerging markets and least developed countries will take their first steps into the global marketplace. In the first section we focused on cluster emerging in central europe. In the last section, special attention is paid to implications for supply chain planners.

* Corresponding author

E-mail address: graziella.ferrara@libero.it

2. Cluster Emerging in Central Europe

The several round of enlargement of European Union with the admission of Central and Eastern States into the Union has changed the economic geography of Europe. In the last 20 years International Monetary Fund and the World Bank have required to these countries to realize structural adjustment aimed to support privatization. Some of them have only seen very minimal activities and others are well along the privatization journey. After the first wave of privatization (1985-1998) the government of several Eastern European Countries has established a number of new goals for privatization, including the provision of a legal and structural environment for free enterprise to operate and the transfer of privatization revenues to major infrastructure projects. East European markets are also evolving towards more transparency, so there will still be a strong need for governments to regulate and provide process assurance (Ascani, et al 2015; Banini and Pollice, 2015; Banini, and Palagianio, 1997; Caiazza et al., 2015). Thus, over the last 20 years, a number of Eastern European countries have increased their shares of global capital significantly, which has made them major players in regional and global business. At the same time, some former competitive advantages, such as low labor costs, are decreasing.

In order to stay competitive and satisfy the domestic market, Eastern countries have begun to source in neighboring countries. As they expand to new markets and strengthen the transport links between their domestic markets and the rest of Europe, they will provide the infrastructure for radically changing trading networks. Among these countries, Hungary has successfully mastered economic transition benefiting from its geographic location and attracting the lion's share of foreign direct investment in central and Eastern Europe. Over the last years, Hungary has seen the emergence of clusters in several of its industries, ranging from the automotive sector, logistics, construction and tourism (Bookbinder and Tan, 2003; Bufon 2006; Button and Stough 1999; Caiazza Ferrara 2014).

The investment-based, export orientated machinery and automotive industry has been the frontrunner in this development. In 2000 some consortia of firms have been officially recognized as clusters receiving state support. A first analysis reveals however that only a third of all recognized clusters can be backed up by statistical evidence. Large multinational firms play a very significant role in the Hungarian economy, accounting for the overwhelming proportion of the nation's GDP, exports and research and development activity (Capello, et al., 2015; Crescenzi, et al., 2015; Pollice and Rinaldi 2011; Zäpfel and Wasner, 2002).

However, growth has been concentrated in the western parts of the country and there is a widening east west economic divides. Cluster building has been largely foreign investment driven, with homegrown clusters slowly emerging. Moreover, the recent economic slowdown has exposed Hungary's over-dependence on cross-border acquisitions, further emphasizing the need for alternative strategies of economic and regional development (Groothedde, et al., 2005; Jenkins, and Tallman, 2015; Caiazza and Ferrara 2013).

The capital of Hungary, Budapest is now located approximately in the geographical center of the new Europe, in an area that can offer many opportunities for future growth. The centrality in Europe poses it in a crucial position to intercept traffic flows of goods, products and manufactured goods between East and West and between North and South, allowing it to assume the role of a natural crossroad between East and West and of an ideal logistic platform for the interchange between the Central and Eastern Europe and the far East, the two areas that are growing at higher rates in the world.

The idea to create an intermodal hub in Hungary is based on a proposal adopted in 2011 by European Commission to define a new Transport European Network (TEN-T). The new TEN-T network consists of a Global Network and some Central Network. The Global Network provides full connection of EU States to all the other global regions. It consists of a network of roads, railways, airlines, maritime transport and intermodal platforms extended to all EU Member States aimed to facilitate their respective strengths and maximizing the added value of the Central network. The Central Network consists Corridors aimed to modernize infrastructure and streamline cross-border operations of passenger and freight transport throughout the EU.

The Global Network provides full connection of EU States to all the other global regions. It consists of a network of roads, railways, airlines, maritime transport and intermodal platforms extended to all EU Member States aimed to facilitate their respective strengths and maximizing the added value of the Central network. The Core Network shall comprise nodes with connections within and between different modes of transport, high-performance links between nodes and linkages to transport systems of third countries and the rest of the world. Regarding the design of the future Core Network, the European Union is concentrating, amongst others, on the principles of multimodality, interconnectivity and interoperability, sustainability as well as quality and security of transport infrastructure (McCann and Varga, 2015; Meliciani, and Savona, 2014; Pollice and Paolilli 2011; Salone 2012).

Hungary has 3 Core Network Corridors crossing its country. The Mediterranean Corridor links the Iberian ports of Algeciras, Cartagena, Valencia, Tarragona and Barcelona through Southern France, with link to Marseille, and Lyon to Northern Italy, Slovenia and a branch via Croatia to Hungary and the Ukrainian border. It covers rail and road, airports, ports, RRT's and, in Northern Italy, also the Po river inland waterway. The key projects are UIC standard gauge railway lines in Spain, the Lyon – Turin railway tunnel and the Karst crossing Trieste/Koper – Ljubljana.

The Orient/East-Med Corridor connects the German ports Bremen, Hamburg and Rostock via Czech Republic and Slovakia, with a branch through Austria, further via Hungary to the Romanian port of Constanta, the Bulgarian port of Burgas, with a link to Turkey, to Greek ports Thessaloniki and Piraeus and a Motorway of the Sea link to Cyprus. It comprises rail, road, airports, ports, RRT's and the Elbe river inland waterway. The main bottleneck is the railway section Timisoara – Sofia.

The Rhine-Danube Corridor connects Strasbourg and Mannheim via two parallel axes in southern Germany, one along Main and Danube, the other one via Stuttgart and Munich, and with a branch to Prague and Zilina to the Slovak-Ukrainian border, through Austria, Slovakia and Hungary to the Romanian ports of Constanta and Galati. It covers rail, road, airports, ports, RRT's and the inland waterway system of Main, Main-Danube Canal, the entire Danube downstream of Kelheim and the Sava river. The key projects are removing the bottlenecks along the inland waterways and the railway sections Stuttgart – Ulm and München – Freilassing.

These corridors are changing European's Geography affecting firms' strategies. The construction of an intermodal hub with a free trade zone on Budapest can open a new geographical route for economic exchange. This hub could intercept important goods' traffic flows, including the ones non-originating or destined to Hungary, with possibility to create added value through both handling services and appropriate processes on some goods chains. As Hungary becomes the center of a new route, there will be a host of opportunities for logistics service providers of all European countries (Haralambides, et al., 2011; Hesse and Rodrigue, 2004; Pollice and Rinaldi 2010; Zhang, 2003).

3. Implications for Supply Chain Planners

Companies and countries able to capitalize the advantages of new trade corridors in Europe will benefit most from the evolution of global trade. Many logistics companies are

looking to respond to the development of new transport corridors, however the sheer geographic size of emerging markets and the multitude of cultures, attitudes and languages require a significant investment. Moreover, logistics service providers in European spread ranges from one-man businesses to large companies with several thousand employees. Logistics companies from emerging and developed countries will increasingly work in collaborative partnerships (Hong, 2007; Ishfaq and Sox, 2011; Ishfaq and Sox, 2012).

The larger logistics companies will growth by looking for suitable mergers and acquisitions and joint ventures. In such cases both parties might also extend their activities into the both domestic and emerging markets taking advantage from the new trade corridors. They might also merge a whole range of good practices that are commonly used in Eastern and Western markets (Lasserre, 2004; Lee, and Yang, 2003; Pollice, 2006 Trappey, et al., 2008). These include strategies for managing people, such as diversity management, managerial accounting systems including the use of KPIs, sharing lessons learned during past liberalization processes and developing robust corporate social responsibility practices and reporting (O'Kelly, 1998; O'Kelly and Miller, 1994; Pollice and Paolilli 2011; Tsai and Su, 2002). They might also adapt their service portfolio to government regulation in each market, customs procedures, free trade zones, and incentives for foreign direct investment. At this aim they might take an active part in the design process of new transport corridors, developing adequate structures and building logistics clusters.

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Biography



Ferrara Graziella is Professor of Geography at Suor Orsola Benincasa of Naples. She was visiting researcher at Salem State College (USA). Her research interests concern geography, internationalization and innovation. She published many articles on geography, internationalization and innovation.