Chapter 9

Company Co-operations between Eastern and Western Europe
A Key Role in the Development of Eastern Europe

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Abstract: In this paper the effects of co-operations of small and medium-sized firms between the economies in transformation and the developed regions in Europe will be examined. A discussion in the framework of the new theory of economic growth offers a relevant starting point for analysing macroeconomic effects. In this course, economic development essentially stems from process innovations. Starting from a description of the model, expected effects of co-operations between SME in transforming and developed region are first analysed and then accompanying measures are proposed. In the analytical setting used, the opening of the economy and especially SME co-operations of Eastern and Western European companies within identical market segments clearly lead to positive growth effects.

1. REASONS FOR A MACROECONOMIC ANALYSIS

This chapter examines the economic effects of co-operations among small- and medium-sized firms. While the small- and medium-sized enterprises (SME) are usually analysed on a business or microeconomic level, the economic importance of SME as a group justifies a macroeconomic analysis. The fact that SME have a significant macroeconomic importance can be seen in the following illustration.

*figure 1: added value and employment by firm in EU and EFTA*

We find that 62.46 % of value added and 66.51 % of employment can be attributed to SME. The situation is similar in Central and Eastern Europe (CEE), as the following figures indicate. As data are not comparable across CEE, we have used Hungarian data to provide an example.


*figure 2: added value and employment by firm size in Hungary*

In terms of employment, the Hungarian data match nicely with other CEE countries and developed economies in Europe. In terms of value added, however, SME in CEE lack far behind, contributing only half of GDP.