



ABSTRACT OF THE DELIVERABLE 2.1

Interim working paper on patterns of economic interaction between the European Union and its neighboring countries

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ABSTRACT

Deliverable 2.1 is an interim working paper on patterns of economic interaction between the EU and the ENP countries, submitted for review to the European Commission in line with the structure of Annex I to the Grant Agreement. In particular, Deliverable 2.1 includes the following Working Papers: a) WP2/01: EU trade policies towards neighboring countries (author: Panagiotis Liargovas); b) WP2/02: Is the EU the best trade partner for its neighbors? (author: Anna Maria Pinna); c) WP2/03: The geography of trade relations between the EU and the ENP countries: Empirical analysis and implications for theory and policy-making (authors: Panagiotis Artelaris, Dimitris Kallioras, George Petrakos and Maria Tsiapa); d) WP2/04: Relatedness and diversification in EU and ENP countries (authors: Ron Boschma and Gianluca Capone); e) WP2/05: Location choices of multinational companies in transition economies: A literature review (authors: Daria Zvirgzde, Daniel Schiller and Javier Revilla Diez). Together the aforementioned Working Papers synthesize the work done on patterns of economic interaction between the EU

and the ENP countries, providing the backdrop against which further research can be conducted.

WP2/01 reviews the complex EU trade policies towards the ENP countries, including restrictions arising from EU sectoral policies (like the Common Agricultural Policy and environmental or quality requirements and standards). The ENP offers EU neighbors a privileged relationship which promotes common EU values such as democracy and human rights, rule of law, good governance, market economy principles and sustainable development. The ENP extends existing relationships to offer political association and deeper economic integration, increased mobility and more people-to-people contacts. The EU designed the ENP as a form on conditionality, a policy tool utilized by the EU in both its foreign and trade policy. In particular, the EU trade policies towards the ENP countries are covered under the general framework of the EU Regional Trade Agreements as well as the EU Free Trade Agreements. The EU has applied a varying degree of trade integration and trade strategies to its neighbors, ranging from shallow to deep integration and from bilateral to multilateral strategy. The paper offers a critical discussion of the effectiveness of such EU trade policies.

WP2/02 examines the bilateral trade relationships between the EU and the ENP countries, during the period 1995-2010, in order to identify whether trade patterns have changed over time, mainly since the introduction of the ENP. The paper explores the trade flows between the EU and the ENP countries by acting in different ways. Firstly, the paper splits the ENP countries into four different sub-regions in order to understand regional performance. Secondly, the paper takes into account the ENP countries' trade flows from and to emerging economies and the major world partners so as to determine whether EU is losing its key role and whether its main competitors are gaining market share in the ENP countries. Thirdly, the paper considers trade flows for different types of products so as to gain an insight into the quality of the trade

relationship. Lastly, the paper examines geographical and sectorial concentration in trade flows in order to analyse to what extent the ENP countries' trade structure are vulnerable to shocks. The paper utilizes data derived from BACI database.

WP2/03 studies the size, the composition and the direction of trade flows between the EU and the ENP countries, during the period 2000-2010. The paper conducts an empirical analysis and provides empirically-based responses to a series of research questions. What is the size, the composition and the direction of trade activity between the EU and the ENP countries? What changes, if any, can be recorded, diachronically? What is the impact on the trade balances of the EU and the ENP countries? What is the pattern of integration between the EU and the ENP countries? Which theoretical school tends to be confirmed? Is there evidence of "developmental gap"? What are the implications for the prospects of income convergence, in the long-term? Is it possible to detect (trade) relations of dominance among the EU and the ENP countries? Is there a corresponding distinct spatial footprint? The clear-cut answers to the aforementioned questions provide a clear picture regarding the geography of trade between the EU and the ENP countries. The paper utilizes data derived from COMTRADE database.

WP2/04 analyzes the degree of relatedness between export products, based on co-occurrence analysis, and investigates the process of diversification of the EU and the ENP countries. The paper proposes a couple of contributions to the relatedness and diversification literature. First, it claims that the path-dependent process of product diversification is driven not only by each country past productive structure, but also by its relationships with other countries (since countries are not isolated monads, but are embedded in several networks through different channels, such as political relations and international trade). Second, it claims that the constraints of path-dependence are not equally binding for all countries. Capabilities may refer to very

different domains, and, moreover, while some capabilities are important only for specific (groups of) products, there are, also, general-purpose capabilities that are relevant for all products, and are, also, country-specific. The paper utilizes data derived from BACI database.

WP2/05 aims to identify determinants of location choices of FDI in transition economies, introducing an analysis at the regional level, which has not yet gained sufficient attention in existing research. Special attention is being paid to FDI flows to transition economies, since they owe their economic and social transformation to a large extent to foreign firms, which introduce knowledge, technology and new opportunities into these emerging markets. The paper contributes to the provision of a thorough theoretical framework on location choices of multinational companies by integrating the institutional and proximity components within the empirical results on traditional economic factors that attract FDI to certain localities within transition economies. The paper provides an analytical framework for the further empirical analysis of the enterprise survey of 153 foreign firms in three regions of Ukraine on location choice of multinational companies towards the location-specific determinants of foreign investment decisions and embeddedness within the regional economy.

Each working paper has a Policy Notes addendum i.e. a 2-3 pages text consisting of 3 parts: a) objectives of research in reference to policy; b) scientific/research methods; c) policy value-added. Each Policy Notes text has contributed to the preparation of the Policy Brief text, which refers to the entire Deliverable 2.1. The Policy Brief text incorporates the policy implications of the research findings, easing, thus, the (effective) communication with the policy-makers.