



PRESS RELEASE 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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OBJECTIVE

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.

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.

MAIN RESULTS

Deliverable 2.1 consists of 5 Working Papers which synthesize the work done on patterns of economic interaction between the EU and the ENP countries. Together, these Working Papers inform both the empirical direction and the theoretical underpinnings of the 2nd Work-package of SEARCH Project. In particular, each Working Paper provides a theoretical discussion and an empirical analysis of economic interaction patterns between the EU and the ENP countries.

WP2/01 reviews the complex EU trade policies towards the ENP countries and offers a critical discussion of their effectiveness. In contrast to the rigid Copenhagen criteria that characterized the EU enlargement policy, the ENP has a differentiated character, involving tailor-made agreements and conditions. The recent emphasis on behalf of the EU towards bilateral agreements rather than multilateral brings both positive and negative elements. In particular, bilateral agreements seem easier to conclude, can cover more areas, take note of any (geo)political considerations and offer a strong leverage for domestic reform. In contrast, bilateral agreements create discrimination, are not able to solve systemic issues and may complicate the

trade environment. Thus, the paper stresses out the need for a possible reinvigoration of the ENP.

WP2/02 examines the bilateral trade relationships between the EU and the ENP countries, during the period 1995-2010 and finds that the patterns of interaction between the EU and the ENP countries have changed. Under the framework of the ENP, the ENP countries are deepening their trade relations with the EU in order to open up extra agricultural trade, to liberalize trade in services and investment, to negotiate agreements on accreditation and acceptance of industrial products, to create deep and comprehensive free trade areas. However, and despite all the efforts, it seems that the ENP countries do not play a key role in European trade. Moreover, despite the increasing trends recorded in the trade activity between the EU and the ENP countries, it seems that the EU has to face important competitors in the world arena. BRIC countries, the USA and the Rest of the World group are gaining shares in the ENP trade, undermining the EU importance.

WP2/03 studies the size, the composition and the direction of trade flows between the EU and the ENP countries. The dismantling of economic borders between the EU and the ENP countries allows for the “reproduction” of the well-established “core-periphery” EU spatial pattern in the wider EU area. It seems that the inter-industry type of trade integration between the EU and the ENP countries, an outcome of the inability of the ENP countries to compete, successfully, in markets for capital-intensive and/or knowledge-intensive activities, even though it provides an alternative (and perhaps the only feasible) route for the exploitation of the locally available skills, is not in a position to guarantee (generate) prospects for long-term income convergence. Together with the overall skepticism regarding the asymmetry of the EU-ENP trade, questions are raised about the ENP policy since the EU is becoming a less significant trade partner for the ENP countries and since the ENP countries are not significant trade partners for the EU countries.

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 results of the paper show that in both EU and ENP countries the evolution of the export mix is strongly path-dependent: countries tend to keep a comparative advantage in products that are strongly related to their current productive structure, and they also diversify in nearby products. However, this effect is much stronger for the ENP countries, signaling their lower capabilities to diversify in products that are not very near to their productive structure. Moreover, the results of the paper show that the future exports structure of countries is affected by imports: both EU and ENP countries keep a comparative advantage in products that are strongly related to their imports, but only EU countries show, also, evidence of learning to diversify in new products from related import sectors.

WP2/05 aims to identify determinants of location choices of FDI in transition economies. The literature review of location choices of multinational companies in transition economies shows that a firm decides to internationalize if this will enforce the growth and development of the competitive advantage of the latter in the long run. A range of traditional economic factors impact the firm's decision on a specific location for its investment, such as availability of resources, market demand, strategic assets, possibility to efficiently optimize the division of labor. Which factors do impact the location choice decision depends on the motivation of internationalisation, namely market seeking, resource seeking, efficiency seeking or strategic asset seeking. Moreover, it is highly acknowledged that agglomeration economies and proximity definitely impact the decision of a firm locate within a specific environment, so that to get easily embedded into the latter. Except for the traditional economic factors impacting the firm's decision to go abroad targeting a certain location, institutional quality and the

local business culture play a very important role, especially in the transition economies.

The policy implications of each Working Paper are further explored into the Policy Notes texts. The Policy Brief text incorporates the policy implications derived from the research findings of each Working Paper, highlighting the added value of Deliverable 2.1 in reference to policy.