



## **POLICY NOTE OF THE WORKING PAPER 2/01**

### **EU trade policies towards neighboring countries**

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#### **OBJECTIVE OF RESEARCH**

This paper addresses the complex EU trade policies towards the neighbouring countries. The European Union's trade policy instruments consist of both bilateral cooperation e.g. The European Neighbourhood Policy (ENP), Association Agreements (AA), Partnership and Cooperation Agreements (PCAs) and multilateral e.g. Eastern Partnership, the Union for the Mediterranean and the Black Sea Synergy. The ENP's trade policy impact is characterized by both achievements and failures. The positive aspects of ENP are due to its differentiated character. In contrast to the rigid Copenhagen Criteria that characterized enlargement policy, the ENP involves tailor-made agreements and conditions. Furthermore, the ENP is a structural foreign policy that forces European neighbors to adopt EU norms and institutions.

#### **SCIENTIFIC METHODS**

A geographical approach when assessing EU trade policies towards neighboring countries is not very helpful. On the contrary, an approach based on income and comparative advantages offers more insights. Based on this approach, we distinguish among four different types of EU neighbors: (a) Developed countries: (b) Emerging upper middle income countries (c) Hydrocarbon countries and (d) Lower middle income countries.

The degree of trade integration between the EU and her trading partners varies considerably. Four types of arrangements appear to have crystallized between the EU and its partners over the last decades:

1. Participation in the Single Market including labour mobility, but exclusion from the Common Agricultural Policy (CAP);
2. Customs union excluding Agriculture and Movement of Labour;
3. "Shallow" bilateral free trade agreements (FTAs);
4. No formalised bilateral agreements.

Euromed is one example of shallow trade integration between the EU and the neighbouring countries. Many studies have tried to make an assessment of this trade strategy. Most of them are critical, but there are also studies which focus on the positive (long-term) trade effects.

The main trade policy component of the ENP is the Deep and Comprehensive Free Trade Agreement (DCFTA). The idea of Deep and Comprehensive Free Trade Agreement goes beyond traditional concept of trade liberalization. Besides the full elimination of tariffs in trade of goods, it also includes reduction/removal of non-tariff barriers, liberalization of investment regime, liberalization of trade in services, and far-going harmonization/ mutual recognition of various trade and investment related regulations and institutions. The main goal is to promote mutual trade and investments and achieve welfare and employment effects.

## POLICY VALUE-ADDED

The paper leads us to some conclusions and policy recommendation as regards EU trade policies towards its neighbours:

1. Both EU and the neighboring countries should eliminate tariffs. Countries wishing to export must agree to import first to source cheaper inputs and to test their competitiveness on global markets;
2. A close interface between Single Market policies for services on the one hand and agreement on specific conditions to be met on a case-by-case basis on the other, is a necessary condition for extending services trade liberalization (including regulatory aspects). Foreign direct investment in manufacturing and in key services sectors must be liberalised; Rules of origin (ROOs) of the free trade zone must be liberal and user- friendly so that the production chains operate smoothly and more actors are allowed to be involved. In order to facilitate the development of regional industrial supply chains, the EU's current ROO system would need to be rethought. It is too restrictive on imports of goods to the EU and among its neighbours.
3. Non-tariff barriers to imports such as overly trade-restrictive accreditation procedures for technical standards should be kept to a minimum.
4. The complicated EU bureaucracy is another aspect which does not facilitate the relations between the neighbouring countries and the EU. Europe's cacophony in external policy suggests it has abdicated any pretence of having a long term vision for the region. It has developed a habit of articulating a discourse, issuing documents, allocating money, creating bureaucracies that seem to lead a life of their own, beneath or above which the real issues of immediate concern are discussed: migration controls, restrictions on free trade and counter terrorism and coordinated responses (military, intelligence, information sharing, police cooperation). What is

articulated in EU documents and discourse does not necessarily reflect the challenges the region confronts.

5. Political problems often create barriers to any effort. The key issue is to learn to cooperate ignoring the political controversies. Instead of isolating a country, it is preferable that the country concerned receives funds, regardless of the political scenario (example of Tunisia), so you can revert to the population and influence economic development. While the EU was previously prompted to give support to dictatorial regimes in various governments in the Mediterranean Sea, the EU should now establish clear conditions and a multilateral basis.
6. To be effective on democracy issues, especially in the case of Arab countries, EU must adopt unified and coordinated policies not only on trade, but also on related issues and especially on aid programmes. The way to do it is through positive conditionality which could gradually be introduced to make incremental progress in the right direction. Issues such as the environment and labour standards should form part of trade packages if trade is to be used effectively in this way.
7. According to Emerson (2010), the concept of 'Deep and Comprehensive Free Trade' should be reconsidered and adapted to the circumstances of the Eastern partners, bearing in mind also that the Mediterranean partners were granted free trade without this Deep and Comprehensive addition. Emerson suggests as an optional template a Basic Free Trade Agreement (BFTA) for the time being, starting soon. The degree of mandatory EU acquis compliance would be limited to that strictly required for trade; to go further would be an option that would receive EU encouragement and assistance, but not an obligation or pre-condition. Otherwise no policy movement will mean no free trade deliverables.