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Is the EU the best trade partner for its neighbors?

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OBJECTIVE

The main goal of the paper is to examine bilateral trade relationships between the EU and its neighbouring countries (ENCs) over the last fifteen years in order to identify whether trade patterns have changed over time, mainly since the introduction of the European Neighbourhood Policy (ENP) in 2004. ENCs have been split into four different sub-regions in order to understand sub-regional performance. ENCs trade flows from and to emerging economies and the major world partners has been taken into account so as to determine whether Europe is losing its key role and whether its main competitors are gaining market share in the Europe's neighbouring countries. As stated in the goals of the task (2.1d) trade for different types of products (consumption, capital, primary and intermediate goods) has been taken into account in order to gain an insight into the quality of the trade relationship. Also the geographical and sectorial concentration in trade flows has been investigated so that to analyse to what extent ENCs' trade structure (which is a mirror of the production structure) is vulnerable to shocks.

MAIN RESULTS

The patterns of economic interaction between EU and its neighboring countries (ENCs) in terms of trade have changed during last fifteen years. Certainly, an essential role has been played by the European Neighborhood Policy (ENP), which has been introduced starting from 2004. Almost all fifteen ENCs have signed or are going to conclude an association agreement with the EU and are deepening their trade relationships 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. The main results found by this analysis are:

- Despite all these efforts the ENCs don't play a key role in European trade. In time, with respect to the EU15, the ENCs switched from a net importers role to a net exporters position; looking at EU12 market, the ENCs have always been importers. Data show that the BRICs are gaining strength over Europe and are expanding into those regions where EU27 had the primacy.
- The analysis by sub-region reveals that over the last fifteen years the ENCs have increased their intra-regional trade: it has grown steadily and for Eastern and Middle-East countries it has doubled. Eastern and, inter alia, Southern countries have experienced the highest exports and imports growth in both EU15 and EU12 market; looking at levels it is the Southern countries which export and import more than the other sub-regions in the old EU member states.
- BRICS, USA and the Rest of World group are gaining shares undermining European importance. The EU continues to be the main destination largely for primary products commodities and this is particularly true when looking at its east borders. Capital goods, i.e. products which are

more likely to embody knowledge, are still imported primarily from the Old European countries but ENC's are exporting them mainly to the emerging economies. When looking at semi-finished products, the geographical map appropriate for understanding the creation of value (i.e. products which need further processing or assembly) include Europe. Anyway, European countries tend to sell more than buy semi-finished goods.

- At the country level, little has changed over time in terms of best EU27 partner and most of countries continue to trade firstly with a EU member state. But the degree of trade concentration where energy is the main export product, is very high and normally EU neighbors show better export differentiation (which implies less vulnerability) in markets other than the EU.