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The geography of trade relations between the EU and the ENP countries: Empirical analysis and implications for theory and policy-making

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OBJECTIVE

The objective of the paper is to study the geography (i.e. the size, the composition and the direction) of trade relations (i.e. imports and exports flows) between the EU and the ENP countries, conducting an in-depth empirical analysis and providing 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? Lastly, is it possible to acquire new knowledge and critical insight on the issues of EU integration? Providing a clear picture regarding the geography of trade between the EU and the ENP

countries (hereinafter: the EU-ENP trade), the paper aspires to offer valuable insight to both (economic integration) theory and policy-making.

MAIN RESULTS

The findings of the paper provide clear-cut empirical responses to the research questions that have been set and offer valuable insight to both (economic integration) theory and policy-making. The gradual “abolition” of economic borders between the EU and the ENP countries allows for the emergence (detection) of some, rather, contrasting pictures. Firstly, and perhaps most importantly, for the vast majority of the ENP countries, the EU, even though it is the most important trade partner, loses its shares diachronically, in both exports and imports terms. This means that the EU is becoming a less significant partner for the ENP countries. Noteworthy is the fact that, especially for the ENP imports flows, the shares of the BRIC countries are getting increased in the vast majority of the ENP countries. Concerning the EU countries, it is evident that, for their majority, the ENP countries are not considered to be significant trade partners. Secondly, for the ENP countries imports flows from the EU countries are, by and large, more significant comparing to the corresponding exports flows. In particular, for the vast majority of the ENP countries, imports account for higher, and diachronically increasing, GDP shares. Concerning the EU countries, both the exports and the imports GDP shares to and from, respectively, the ENP countries are, on average, extremely low, diachronically. Thirdly, it can be observed that, on average, the ENP South and the EU15 countries are the ones that exhibit, diachronically, the highest exports and imports shares in relation to the corresponding total ENP and EU figures. However, the ENP East and the new EU countries are the ones that, by and large, exhibit the highest increase in their shares, changing, thus, the overall picture of the EU-ENP trade activity.

Fourthly, the vast majority of the ENP countries has a negative trade balance with the EU, exhibiting deterioration, diachronically. In contrast, the situation is more balanced for the EU countries since their trade balance figures with the ENP countries are, in absolute terms, significantly smaller than the corresponding figures for the ENP countries. The majority of the EU countries exhibits positive, and diachronically increasing, trade balance figures.

The more detailed examination of the EU-ENP trade allows for the detection of a clear and strong geographical orientation. Concerning the exports flows from the ENP countries to the EU countries, it can be observed that the main EU trade partner for each ENP country is a EU15 country. Moreover, in many cases, the shares of the main EU partner are quite high. The shares of the new EU countries are extremely low. Exceptions are provided from the ENP East countries that retain strong trade relations with the new EU countries. Analogous, even though some exceptions do exist, is the picture for the imports flows from the EU countries to the ENP countries. The aforementioned patterns indicate that factors such as proximity, history and language seem to have an impact. Of course, such an impact needs to be detected and evaluated. Analogous is the situation for the exports and the imports flows of the EU countries to and from the ENP countries, respectively.

The more detailed examination of the EU-ENP trade allows, also, for the detection of a clear and strong sectoral orientation. In particular, many ENP countries export, to the EU countries, mainly (or even, in many cases, almost exclusively) fuel primary commodities and labor-intensive and resource-based commodities. In contrast, the vast majority of the ENP countries imports, from the EU countries, mainly medium-skill capital-intensive commodities. The reversed picture, of course, holds for the EU countries, concerning their exports and imports flows to and from the ENP countries, respectively. This contrast accentuates the fact that the EU-ENP trade relation is rather asymmetric. Indeed, the majority of the ENP countries exhibits revealed

comparative advantage in fuel primary commodities and in labor-intensive and resource-based commodities, whereas the majority of the EU countries exhibits revealed comparative advantage in medium-skill capital-intensive commodities. Furthermore, the picture of asymmetry that characterizes the EU-ENP trade relation is verified from the fact that the EU countries are the ones that penetrate more to the ENP countries (and not the ENP countries that penetrate more to the EU countries). However, the ENP countries tend, also, to penetrate more to the EU countries.

Diachronically, the sectoral composition of EU-ENP trade remains rather unchanged (exceptions concern mainly the exports flows from the EU countries to the ENP countries). Especially, the rather low changes in the sectoral composition of the ENP exports to the EU countries provide a strong indication that the ENP countries have not (successfully) implemented export-led strategies towards the diversification (expansion) of their export bases. Indeed, the majority of the ENP and the EU countries retain a rather asymmetric trade pattern. This means that the composition of their exports (i.e. the sectoral shares of their exports) is rather irrelevant to the composition of their imports (i.e. the sectoral shares of their imports). Moreover, the ENP and the EU countries experience an inter-industry type of integration. This type of integration advocates for a “developmental gap” between the EU and the ENP countries. Indeed, it is revealed that for the vast majority of EU-ENP country pairs either there is a neutral relation or the EU countries dominate over the ENP countries.

Overall, the findings of the paper provide valuable insight to both (economic integration) theory and policy-making. The well-established “core-periphery” EU spatial pattern seems to be “reproduced” in the wider EU area, questioning (contrasting), thus, the theoretical positions of the neoclassical school of thought for the operation of the spatial economy. 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 scepticism regarding the asymmetry of the EU-ENP trade, questions are raised about the ENP policy (as well as about some EU sectoral policies) 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 at all.