ABSTRACT WORKING PAPER 2.11

Integrating the Neighbors: A dynamic panel analysis of EU-ENP trade relations

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This paper investigates the impact of the trade relations among the EU and the European Neighborhood Policy (ENP) countries on the economic growth performance of the latter. The analysis uses panel data for 14 ENP countries over the period 2000-2011 and recently developed panel cointegration techniques to test and estimate the long-run equilibrium relationship between real GDP and trade openness indicators. The results of the analysis indicate that deeper trade integration with the advanced EU countries may have a negative impact on ENP countries GDP growth. At the same time, deeper trade integration with the middle and lower income EU member states appears to have a positive and statistically significant impact on real GDP of the ENP countries. The results also indicate that, under existing production capabilities, economic growth in ENP countries favours weaker trade integration with the advanced EU12 countries and deeper trade integration with the middle and especially the lower income EU countries. These findings have important implications for theory and policy.