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Trade activity between the EU and the ENP countries: A “reproduction” of the “core-periphery” pattern?

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OBJECTIVE OF RESEARCH IN RESPECT TO POLICY

The European Neighborhood Policy (ENP), launched in 2004, is a unified European Union (EU) policy framework towards the EU neighboring countries. The objective of the ENP is to strengthen the prosperity, stability and security of the EU, creating a “ring of friends” around the EU political borders. The ENP framework applies - in alphabetical order - to Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Occupied Palestinian Territory (hereinafter: Palestine), Syria, Tunisia and Ukraine (the ENP countries). The ENP is a bilateral, between the EU and each ENP country, policy; a distinct and separate process from the EU enlargement. Nevertheless, the ENP countries operate under conditions of “neighborhood Europeanization”. This indicates an apparent mismatch (i.e. the so-called “capabilities-expectations” gap) between ENP requirements/demands (i.e. demands that do not differ much from those of “accession Europeanization”), on the one hand, and ENP potential gains/rewards (i.e. the possibility of EU membership has been ruled out for the majority of the ENP countries), on the other. This means that despite the fact that the proper “membership anchor” is missing, the progressive compliance with the *acquis communautaire* (i.e. the corpus of EU laws and policies) is a necessary condition for the ENP countries to increase their “weight” on the EU market. This is so, since according to the Treaty of Lisbon, forced in 2009, EU policies with a bearing on relations to third countries (such as the ENP countries) should be guided by a common set of principles and objectives such as the consolidation and support of democracy and the preservation of peace.

The policies related to the internal market are, thus, the reference for the common trade policy of the EU member-states towards third countries (and the ENP countries, in particular). Indeed, the common external trade EU policy towards the ENP countries (i.e. the trade component of the ENP) has a strong impact on the EU’s external economic links since its reach not only covers cross-border trade flows but also includes regulatory issues such as investment protection, public procurement and competition policy. In contrast to the rigid Copenhagen criteria that characterized the EU (eastwards) enlargement policy, the EU started to pursue Free Trade Agreements (FTAs) (i.e. reduction of tariffs on trade and reduction of restrictions on investment), with targeted economies, in order to protect its markets and to enhance its competitiveness. For the EU, FTAs represent a subway to implement Deep and Comprehensive Free Trade Agreements (DCFTAs) with its neighboring countries. DCFTAs go beyond tariff reductions to cover, more extensively, regulatory issues such as investment protection, public procurement and competition policy. In other words, DCFTAs are a “carrot and stick” tactic that considers mandatory *acquis communautaire* compliance related to political requirements as a precondition for trade negotiations (and agreements).

Within this framework, the paper supports that the trade component of the ENP, and, in particular, the DCFTAs, the main trade policy thrust of the ENP, contributes to the “reproduction” of the well-established “core-periphery” EU spatial pattern of development in the wider EU area (i.e. the EU and its neighborhood).

SCIENTIFIC / RESEARCH METHODS

The paper analyzes empirically the EU-ENP trade flows (i.e. exports and imports flows), trying to detect (uncover) relations of dominance through the estimation of the DK Index. The analysis utilizes trade data, derived from the United Nations (UN) COMTRADE database, that grossly belong to the primary and the secondary sector of production. The analysis covers the period 2000-2010 so as to gauge the latest shifts operated in trade structures as a result of the recent economic and political reforms (evolutions) implemented (took place) in the EU economy (i.e. the euro currency, the eastwards enlargement, and the on-going financial and economic crisis) and the ENP countries (i.e. the “color” revolutions, and the Arab “spring”), besides the ENP in itself.

The DK Index, drawing its name from the English word “domination” and the synonymous Greek word “kyriarhia”, provides a new perspective to the empirical international trade literature. The DK index is estimated separately for exports and imports flows, taking into account the exports (imports) flows of a country under consideration to (from) a partner country and the world as well as the imports (exports) flows of the partner country from (to) the country under consideration and the world, respectively. Depending on the conditions exist, it is possible for a country under consideration to dominate over a partner country, to be dominated by a partner country or to retain a neutral relation with a partner country (i.e. neither to dominate over nor to be dominated by a partner country), in an international trade relation.

Concerning exports flows, in particular, a country under consideration dominates over a partner country when: (a) the percentage share of its exports to the partner country in relation to its total exports is lower than a specified threshold, and (b) the percentage share of the corresponding partner country imports’ to its total imports is greater than a specified threshold. In contrast, a country under consideration is dominated by a partner country when: (a) the percentage share of its exports to the partner country in relation to its total exports is greater than a specified threshold, and (b) the percentage share of the corresponding partner country imports’ to its total imports is lower than a specified threshold. The relation between a country under consideration and a partner country is neutral in any other case.

Concerning imports flows, in particular, a country under consideration dominates over a partner country when: (a) the percentage share of its imports from the partner country in relation to its total imports is lower than a specified threshold, and (b) the percentage share of the corresponding partner country exports’ to its total exports is greater than a specified threshold. In contrast, a country under consideration is dominated by a partner country when: (a) the percentage share of its imports from the partner country in relation to its total imports is greater than a specified threshold, and (b) the percentage share of the corresponding partner country exports’ to its total exports is lower than a specified threshold. The relation between a country under consideration and a partner country is neutral in any other case.

POLICY VALUE-ADDED

It is widely accepted that the European perspective acts as a very strong stimulus for, and facilitator of, economic, political and institutional development by providing not only the incentives and but also the (financial) resources to promote economic restructuring and institutional capacity-building. It is, thus, no surprise that especially for countries that are in dire need for economic restructuring, sociopolitical transformation and development, the process of European integration, in all of its facets (i.e. economic integration, political approximation and policy harmonization), has largely gone unquestioned. However, together with the aforementioned benefits, which are, indeed, too strong to be overlooked, the process of European (economic) integration is giving rise to additional processes whose nature and overall impacts remain more ambiguous.

The findings of the paper indicate that such a debate may find a fertile ground in the case of ENP. In particular, the estimation of the DK Index indicates that for the vast majority of the EU-ENP country pairs either there is a neutral relation or the EU countries dominate over the ENP countries. These findings provide strong support to the argument of the paper that the trade component of the ENP, and, in particular, the DCFTAs, contributes to the “reproduction” of the well-established “core-periphery” EU spatial pattern of development in the wider EU area. The EU-ENP trading area, clearly, reminds of a “hub-and-spoke” system, indicating that the EU “core-periphery” pattern of development is expanding towards the EU neighborhood. Such type of integration, even though it may provide the only feasible route for the ENP countries to exploit the locally available skills, is not in a position to guarantee (generate) prospects for long-term income convergence (and, consequently,

to verify the proponents of the neoclassical school of thought for the operation of the spatial economy). Definitely, the inability of the ENP countries to implement export-led growth strategies, competing in markets for capital- and knowledge-intensive products, is not a reassuring fact. To the extent that these trends continue in the foreseeable future, they may lead to (serious) pressure for a reinvigoration of the ENP policy.