The geography of trade relations between the EU and the ENP countries: Emerging patterns and policy recommendations

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OBJECTIVE OF RESEARCH IN RESPECT TO POLICY

The recent (i.e. years 2004, 2007, and 2013) EU enlargements brought the borders of the EU to a set of countries in the East with historically less intensive economic relations. These countries have been part of the (former) Soviet Union and are characterized by lower development levels and significant institutional and structural differences. At the same time, in the Southern and the Eastern rim of the Mediterranean Sea, the EU is faced with countries that are linked to individual EU countries through their colonial past. Both bordering areas, in the EU East and the EU South, have been gaining significance as they include emerging economies, energy suppliers, or, simply, a large neighboring market, which is crucial for the EU economy. Thus, the EU launched, in 2004, the European Neighborhood Policy (ENP), a unified policy framework towards its neighboring countries, aiming at strengthening 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 (hereinafter: the ENP countries). Currently, the ENP consists of two sub-groups; the ENP East (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) and the ENP South (Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria and Tunisia).

Following the suspension of the Doha Development Round of the World Trade Organization (WTO), the European Commission 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. From the EU perspective, the DCFTAs represent the EU’s support for the process of democratic and economic reform. Therefore, even though the ENP is a distinct and separate process from the EU enlargement, the ENP countries (i.e. the EU neighboring countries operate within the ENP framework) 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. Given this fundamental political mismatch – and the generalized skepticism about the ENP capacity to transfer EU values and rules to the neighboring countries – deep(er) economic (in particular, trade) integration between the EU and the ENP countries is considered as a crucial condition (catalyst) for the progress (success) of the entire ENP undertaking.

The present paper is the first comprehensive paper studying the trade component of the ENP. Since there is almost no empirical trade literature focusing on the EU-ENP economic space, the paper aspires to fill in (part of) the gap in the corresponding literature. Doing so, the paper aims at providing valuable insight to both economic integration theory and policy-making. To this end, the paper conducts an in-depth empirical analysis of the geography of the EU-ENP trade relations (i.e. the size, the composition and the direction of exports and imports flows) and provides clear-cut, empirically-based, responses to a number of critical research questions: Which is the impact of the gradual dismantling of economic borders between the EU and the ENP countries on the level of EU-ENP trade activity? Are there any geographical limits or barriers to the expansion of the EU market area? How trade affects the production structure in the EU and the ENP countries? Do EU-ENP trade patterns lead to a sustainable relationship that will be the ground justifying further integration in the future? Are there any other competing poles of attraction for neighboring countries?

SCIENTIFIC / RESEARCH METHODS

The paper provides a descriptive analysis of the geography of the EU-ENP trade relations. The analysis utilizes trade data derived from the United Nations (UN) COMTRADE database, and refer to the national-sectoral (2-digit SITC classification) level. The sectors included in the analysis grossly belong to the primary and the secondary sector of production and may form groups of activities according to the intensity of the production factors used. 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.

POLICY VALUE-ADDED

The findings derived from the empirical study of the geography of the EU-ENP trade relations generate concerns about the progress of the DCFTAs and the, overall, success of the ENP undertaking, even though the EU-ENP trade activity has been expanded significantly over the period 2000-2010. There are a number of observations that “legitimize” such concerns. The first observation is that the EU-ENP trade relation is declining, in relative terms, mainly in favor of the BRIC countries. The second observation is that the EU-ENP trade relation is uneven. This means that whilst the EU is the most significant trade partner for the vast majority of the ENP countries, the latter are not so important trade partners for the EU. This is so especially for the ENP countries that do not exhibit revealed comparative advantage, against the EU, in the sector of fuel primary commodities. The third observation is that the EU-ENP trade relation is an unbalanced one. This means that the ENP countries that do not exhibit revealed comparative advantage, against the EU, in the sector of fuel primary commodities, have a negative trade balance with the EU. Such a negative trade balance may be “converted” into fiscal deficit, given the experience of the peripheral EU countries. The fourth observation is that the EU-
ENP trade relation is an asymmetric one. The ENP countries experience an inter-industry type of integration with their more advanced EU counterparts. Lastly, the fifth observation is that the EU-ENP trade flows are not spatially dispersed. In contrast, they present strong trends of spatial concentration since adjacency exerts a strong influence in the formation of trade areas, whereas distance has a negative effect on trade activity.

The empirical findings of the paper suggest the need for the reinvigoration of the ENP undertaking. If the EU is only interested for partnership (not membership) with its trade partners in the East and the South, why ENP imposes conditionalities related to regulatory issues (such as investment protection, public procurement and competition policy)? Also, why it still maintains serious tariff (and non-tariff) barriers to imports from their neighboring countries? The political instability in the ENP South and the slow reforms in the ENP East indicate that the “carrot and stick” tactic has not (at least, not so far) “produced” the anticipated results. Thus, the EU should examine the possibility that mandatory *acquis communautaire* compliance related to political requirements should not be a precondition for trade negotiations (and agreements) but for further financial and technical support. This means that a possible ENP review should consider a further (even unilateral) liberalization of trade and a stronger financial support mechanism as a reward for reforms. Considering that the ENP area is sensitive in economic (i.e. low welfare level) and in demographic (i.e. high presence of rural population) terms, the current perspective of the ENP faces the danger for the ENP countries to “export” people instead of (agricultural) products to the EU market. Eventually, this crypto-protectionist approach on behalf of the EU may push the (non-fuel producing) ENP countries to gravitate towards different trade poles (i.e. BRIC countries) that offer less uneven, less unbalanced and less asymmetric trade relations.