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

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OBJECTIVE

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?

MAIN RESULTS

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. 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 products to the EU market.