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ABSTRACT

The EU launched the European Neighborhood Policy (ENP), a unified policy framework towards its neighboring countries, aiming at strengthen the prosperity, stability and security around its political borders. The present paper studies the trade component of the ENP, conducting 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). Providing clear-cut, empirically-based, responses to a number of critical research questions, the paper offers valuable insight to both economic integration theory and policy-making. Overall, the findings of the paper indicate that the EU-ENP trade relations have been evolved in a rather uneven, unbalanced and asymmetric way. 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).

KEY-WORDS: geography, trade, EU countries, ENP countries
JEL: F13, F14, F15

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1. **Introduction**

After the end of the 2nd World War, the countries of (Western) Europe, facing a plethora of socio-economic problems, felt that as individual entities would not be able to play a dominant role in the international politico-economic scene (Crafts, 2000). With an ultimate goal of political integration\(^1\) (Tsinisizelis, 1993), the European integration process\(^2\) was started to be implemented within the European Economic Community (EEC), the European Coal and Steel Community (ECSC), and the European Atomic Energy Community (EAEC). After a long way of clashes and compromises of national interests\(^3\), the European integration process reached its heyday\(^4\) within the European Union (EU). Operating in an increasingly wider functional structures, which overlap – without necessarily replacing – the older ones, (the EU) member-states “forgo the desire and ability to conduct foreign and key domestic policies independently of each other, seeking instead to make joint decisions or to delegate the decision-making process to new central organs” (Lindberg, 1963: 6).

The paradigm of the European communities indicates that the process of integration, although it does not stem solely from economic incentives, is realized, first and foremost, in the economic field, as economic integration\(^5\) (Shams, 2002). Economic integration denotes “a state of affairs or process which involves the amalgamation of separate economies into larger free trade regions” (El-Agraa, 2011: 1). Indeed, international trade\(^6\) is usually the first type of linkage between independent economic units (Cornett, 1996), and one of the most expedient (economic) factors in pushing economies into integration (Paas and Tafenau, 2008). Economic integration reduces the role of national borders as barriers to factor mobility, and is, further, reinforced (self-sustained process) by the reduction of trade costs. “Closed” borders distort market size (Niebuhr and Stiller, 2002), whereas the removal of economic barriers generates (releases) a number of spatial dynamics linked to better access to foreign markets and import competition (Brülhart et al., 2004). Therefore, even if there is, almost, unanimous consensus in the economic literature that the (market-based) process of economic integration is a positive-sum game, an on-going debate is currently taking place concerning the distribution of its overall welfare gains\(^7\).

Currently, the EU consists of 28 member-states, having managed – after the end of the Cold War and the fall of the Iron Curtain – to almost match its politico-economic with its geographical boundaries. The recent (i.e. years 2004, 2007, and 2013) EU enlargements, in particular, 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

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\(^1\) Political integration has no reference to an end point (Lindberg, 1963).

\(^2\) The concept of integration is summarized to “a process of increasing the interaction and the mingling [of national environments] so as to obscure the boundaries between the system of international organizations and the environment provided by their nation-state members” (Haas, 1964: 29) or, more simply, is described “as the combination of parts into a whole” (Pinder, 1969: 143-145).

\(^3\) For a critical description of the history of European integration, see Schwabe (1988); Milward (2000); Fischer et al. (2007); and Kahn (2011).

\(^4\) The European experience has advanced a corpus of laws and policies – the acquis communautaire – which differ substantially from those applicable under analogous efforts of integration. See Chalmers et al. (2010).

\(^5\) Of course, the process of economic integration requires not only an economic rationale but also a strong political will (Rodriguez-Pose, 2002).

\(^6\) Trade refers to the actual exchange of goods and services (Farole, 2013: 23).

\(^7\) See the discussion provided in Benko and Lipietz (1992), Guerrieri and Rossi (2002) and Petrakos et al. (2011).
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. 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. As the Commissioner for Enlargement and ENP, Štefan Füle, stated, “our Neighborhood Policy provides us with a coherent approach that ensures that the whole of the EU is committed to deeper relations with all our neighbors [...]” (Füle, 2013). 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; see Map 1). 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).

The ENP is a distinct and separate process from the EU enlargement (Emerson, 2004; Browning and Joenniemi, 2008); however, the ENP countries operate under conditions of “neighborhood Europeanization” (Gawrich et al., 2010; Franke et al., 2010). This indicates an apparent mismatch – the so-called “capabilities-expectations” gap (Monastiriotis and Borrell, 2012) – between ENP requirements/demands, on the one hand, and ENP potential gains/rewards, on the other. To put it simply, on the one hand, the EU has designed the ENP, for its neighboring countries, aiming to expand relations and strengthen prosperity, stability and security in its external borders. On the other hand, the neighboring countries understand the ENP as a first step in a long road that will end-up with full membership. Such an expectation is, partly, justified on the historical record of the EU formation, which, in a series of enlargements, has managed to expand, first southwards and then eastwards, and integrate countries with different development levels and institutional endowments.

Even though the possibility of accession has been ruled out for (the majority of) the ENP countries, and the proper “membership anchor” is missing, the progressive compliance with the acquis communautaire is a necessary condition for the ENP countries in order to increase their “weight” on the EU market (Havlik et al. 2012a and 2012b). This is so, since according to the Treaty of Lisbon, forced in 2009, EU policies with a bearing on relations to third countries (such

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8 For an overview of the ENP, see, inter alia, Wesselink and Boschma (2012a).
9 The ENP framework is further enriched with the Eastern Partnership (launched in Prague, in 2009), the – formerly known as the Barcelona Process (launched in Barcelona, in 1995) – Euro-Mediterranean Partnership or Union for the Mediterranean (re-launched in Paris, in 2008), and the Black Sea Synergy (launched in Kiev, in 2008).
10 As the (then) Commission President, Romano Prodi, declared, “we have to be prepared to offer [to the ENP countries] more than partnership and less than membership, without precluding the latter” (Prodi, 2002).
as the ENP countries) should be guided by a common set of principles and objectives\textsuperscript{11} such as the consolidation and support of democracy and the preservation of peace. In plain words, this means that mandatory \textit{acquis communautaire} compliance is a pre-condition for trade negotiations (and agreements) between the EU and the ENP countries. Thus, the trade component of the ENP provides the backdrop against which the progress (success) of the overall ENP undertaking may be evaluated. As a consequence, the analysis of the process of economic integration (and, in particular, the analysis of trade relations) between the EU and the ENP countries is highly relevant not only to the understanding of the economic linkages and development prospects of both areas but also to the evolution of their political relations.\textsuperscript{12} Should they develop in a mutually beneficial and balanced way, trade relations between the EU and the ENP countries may have a strong growth impact, facilitate convergence with respect to development indicators and, perhaps, pave the ground for deeper integration.

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 corresponding gap.\textsuperscript{13} 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 (i.e. the size, the composition and the direction of exports and imports flows) of the EU-ENP trade relations\textsuperscript{14} 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? The analysis utilizes trade data derived from the United Nations (UN) COMTRADE database\textsuperscript{15}, 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 (see Table 1) according to the intensity of the production factors used\textsuperscript{16}. 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.

\textsuperscript{11} For details, see Koopmann and Wilhelm (2010).
\textsuperscript{12} Keeping step with the well-known dictum of Montesquieu (1748/1750: 326) that “the natural effect of trade is to bring about peace” since “two nations who traffic with each other become reciprocally dependent; for if one has an interest in buying, the other has an interest in selling; and thus their union is founded on mutual necessities”.
\textsuperscript{13} The literature looking at the ENP focuses, mainly, on political (i.e. diplomacy and security) issues; moreover, the literature that focuses on the economic aspects of the ENP seems to adopt a rather narrow focus / perspective without getting into specific empirical analyses (Monastiriotis and Borrell, 2012). Exceptions to this general rule are the studies of Sekarev (2011), Havlik et al. (2012a and 2012b) and Moga and Fotea (2012) as well as some research projects dealing with ENP issues (see Wesselink and Boschma, 2012b, for an overview).
\textsuperscript{14} Geography is an integral component of trade theory (Grant, 1994; Andersen, 2010). The paper adopts the notion (understanding) of geography of trade provided by Grotewold (1961: 309).
\textsuperscript{15} See http://comtrade.un.org/db/ for details.
\textsuperscript{16} See UNCTAD (1996).
The remainder of the paper proceeds as follows: Section 2 concisely surveys the literature on the interplay between geography, development and structure, under conditions of economic integration. Section 3 arrays some stylized facts for the EU and the ENP countries and provides an outline of the trade component of the ENP. Section 4 conducts the empirical analysis of the geography of the EU-ENP trade relations and reports the main findings. Section 5 offers the conclusions of the paper and provides some policy recommendations.

2. The interplay between geography, development and structure, under conditions of economic integration: A concise review of the theoretical literature

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 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. Indeed, deeper association with the EU brings a number of political and economic benefits at the domestic national level, strengthening domestic policies and, thus, facilitating political reforms that consolidate the process of political transition, democratization and, in some cases, conflict resolution and normalization of external relations (Monastiriotis et al., 2010: 11). 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.

Therefore, the debate concerning the distribution of the overall welfare gains stemming from the process of economic integration finds fertile ground since the size, the composition and the direction of trade flows determine, to a large extent, the prospects (and the limitations) for economic development. In other words, in the economic space emerging in the EU (and its neighborhood), the space of flows (i.e. integration) affects, to a great extent, the space of places (i.e. development) (Petrakos, 2012). On the one hand, there is the view that economic integration is a long-term process that eventually leads to a reduction of inequalities through the expansion of trade relations, greater mobility of production factors and diffusion of technology. This view is based on neoclassical-type assumptions about the operation of the spatial economy and claims that the market forces released in the process of economic integration are, overall, beneficial for the least developed economies, leading, thus, to greater cohesion. On the other hand of this imaginable theoretical spectrum, there is the claim that the costs and the benefits of economic integration are unlikely to be uniformly spread in space. In contrast, more advanced economies are expected to

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17 See, for example, the cases of the new EU member-states, which provide a quasi-laboratory environment for the assessment of the (heterogeneous) impact of economic integration on structural change and spatial disparities. See Kallioras and Petrakos (2010) for a thorough discussion on the issue.

18 As Marshall (1890/1982: 225) indicates, “the mysteries of the trade become no mysteries; but are as it were in the air”.

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benefit more, while lagging (and, possibly, less favored) economies are more likely to benefit less, or, even, fall further behind. The resulting increase in inequalities is primarily based on internal and external economies of scale, technological progress and structural change.

Moreover, and besides the previously described debate, economic integration involves, according to the critics of the traditional trade theory, significant welfare losses for the less developed economies due to unequal exchange mechanisms. As integration improves market access and raises incomes, the patterns of consumption and production change and imports increase disproportionately to exports. This has the tendency to produce structural trade deficits, which threaten the stability of the local currencies and contribute to fiscal imbalances\(^{19}\) (Monastiriotis et al., 2010: 14).

Thus, there is (still) widespread skepticism in the less-advanced and peripheral economies regarding their ability to adjust to the requirements of an integrated economic space. Imperfect competition is deemed to result in an uneven distribution of the benefits of economic integration (Martin and Ottaviano, 2001; Ciccone, 2002) due to the inability of markets (and policy responses) to create conditions of optimum economic space. Such skepticism questions the neoclassical understanding for the operation of the spatial economy (Melachroinos, 2002; Petrakos, 2008). Indeed, in the realm of the real world, the EU experience does not seem to (fully) support the neoclassical claim (Petrakos, 2008 and 2012). In fact, core EU economies are, mostly, the ones generate advantages leading to differential growth performance, through the entrenchment of internal and external economies of scale, and operate as hubs for economic activities associated with increasing returns to scale (IRS). Conversely, peripheral EU economies, facing high(er) transaction costs, despite the on-going improvement of transportation and communication technology, host, mainly, economic activities associated with constant returns to scale (CRS).

Engaged in an integration process with distant and more advanced partners, peripheral and less-advanced economies tend to develop (locked-in) an inter-industry type of trade relations (Kallioras and Petrakos, 2010; Petrakos et al., 2012). This type of trade relations, which imposes a specific economic structure with specialization typically in labor-intensive or resource-intensive economic activities, is the outcome of the inability of peripheral and less-advanced economies to compete (successfully) with their more advanced counterparts in the markets for capital-intensive and knowledge-intensive economic activities\(^{20}\) (Brühlhart and Elliott, 1998). Even though it provides an alternative (and perhaps the only feasible) route for the exploitation of the locally available skills, it is doubtful whether such a structural differentiation can produce long-term income convergence (Petrakos et al., 2012). Peripheral and less-advanced economies having weaker productive bases with a high share of sensitive, labor-intensive sectors and unfavorable geographic coordinates are struggling in the process of integration to effectively redeploy their resources in order to gain from the opening-up of markets (Camagni, 1992; Puga, 2002).

\(^{19}\) The recent experience of many peripheral (Southern) EU economies confirms the truth of the aforementioned criticism. See Gligorov et al. (2012) for details.

\(^{20}\) The question that arises here is whether research and development (R&D) investment in lagging economies is worthwhile. See Rodriguez-Pose (2001) for a thorough survey on the issue.
3. The EU-ENP economic space and the trade component of the ENP

The policies related to the internal market are 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 (Woolcock, 2010). Following the suspension of the Doha Development Round of the World Trade Organization (WTO)\(^2\), 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\(^2\). For the EU, FTAs represent a subway to implement Deep and Comprehensive Free Trade Agreements (DCFTAs) with its neighboring countries (Liargovas, 2013). DCFTAs go beyond tariff reductions to cover, more extensively, regulatory issues such as investment protection, public procurement and competition policy. As the EU Trade Commissioner, Karel de Gucht described, “the DCFTAs represent the EU’s support for the process of democratic and economic reform” (de Gucht, 2011).

The main reason for the EU to follow the road of bilateralism is its objective to deepen the substance of trade agreements, enhancing more comprehensive trade relations with its neighbors, and, thus, bringing its neighbors gradually closer to the Single Market\(^2\). Thus, the DCFTAs between the EU and the ENP countries involve tailor-made agreements and conditions (in contrast to the rigid Copenhagen criteria that characterize the EU eastwards enlargement). In other words DCFTAs are, basically, FTAs with serious one-way conditionalities related to progress required on political and institutional issues on behalf of the ENP countries. Such conditionalities represent a “carrot and stick” tactic that considers mandatory *acquis communautaire* compliance as a precondition for trade negotiations (and agreements).

The political upheaval in the ENP South and the slow reforms in the ENP East (Blockmans and van Vooren, 2013), provide a strong proof that the goals of the ENP undertaking (i.e. prosperity, stability and security at the EU external borders) have, still, a long way ahead. This mirrors to the slow progress of the DCFTAs, given that the trade component of the ENP provides a backdrop for the assessment of the progress of the ENP undertaking (since mandatory *acquis communautaire* compliance is a precondition for the progress of the DCFTAs). Without getting into a discussion about the existing non-tariff barriers to trade (such as the rules of origin), the level of tariff barriers – probably, the most important condition for the success of a FTA – is enough to provide a strong indication about the slow progress of the DCFTAs between the EU and the ENP countries. Yet (year 2010), the EU imposes relatively high

\(^2\) See Ferguson (2008).
\(^2\) See Liargovas (2011) for a critical discussion.
\(^2\) Of course, the (recent) emphasis on behalf of the EU towards bilateral agreements, rather than multilateral ones, brings both positive and negative elements (Liargovas, 2013). In particular, bilateral agreements seem easier to conclude, can cover more areas, take note of any (geo)political considerations and offer a strong leverage for domestic reform. In contrast, bilateral agreements create discrimination, are not able to solve systemic issues and may complicate the trade environment.
\(^2\) See, also, Dreyer (2012).
(simple) average tariffs to trade with the ENP countries, especially on agricultural goods (see Table 2), making it difficult to achieve conditions of trade creation\textsuperscript{25}.

The reluctance on behalf of the EU to remove its (agricultural) tariff (and, also, non-tariff) barriers to trade activity with the ENP countries leads to deadlock. This is so as the EU attempts to create “neighborhood Europeanization” conditions with countries that, on aggregate, have (relatively) high population figures (and, most importantly, high agricultural population figures) and enjoy low levels of economic performance. Indeed, even a rough examination of some basic, economic and demographic, stylized facts, highlights the differences that exist between the EU and the ENP countries. By and large, the EU-ENP economic space\textsuperscript{26} exhibits a high degree of heterogeneity (see Table 3). In terms of economic performance, there is a clear gap. The per capita Gross Domestic Product (GDP) level in the EU amounts (year 2010) to $32,364 per inhabitant, whereas the corresponding level in the ENP countries amounts to (only) $4,263 per inhabitant.\textsuperscript{27, 28} The aforementioned gap becomes of paramount importance taking into consideration the fact that while (year 2010) the population of the ENP countries is equivalent to 55.7% of the EU population (279.749 and 501.826 million inhabitants, respectively), the GDP level of the ENP countries is equivalent to (only) 7.3% of the EU GDP ($1,192,653 and $16,241,135 million, respectively).\textsuperscript{29} Moreover, rural population in the ENP area represents (year 2010) the 39.6% of the total (ENP) population (share that corresponds approximately to 110.8 million inhabitants). Thus, considering that the ENP area is sensitive in both economic (i.e. low level of economic performance) and demographic (i.e. high presence of rural population) terms, the slow progress of the DCFTAs may have a self-sustained negative impact on the overall ENP undertaking.

4. **An empirical analysis of the geography of the EU-ENP trade relations**

*Ceteris paribus,* neighboring countries provide the easiest market access for the majority of tradable goods as trade costs are lower over small distances (Leamer and Levinsohn, 1995; Evenett and Keller, 2002). Indeed (see Figure 1), the EU-ENP trade relations have expanded significantly over the period 2000-2010. This is a clear sign of the increased interaction – if not integration – of the ENP countries with the EU. In particular (see Figures 2 and 3), the ENP South

\textsuperscript{25} For the study of the notion of trade creation see the seminal work of Viner (1950).

\textsuperscript{26} Croatia is not included in the analysis.

\textsuperscript{27} The GDP per capita level in the ENP countries is significantly lower even comparing to the figure ($11,891 per inhabitant) that corresponds to the new EU member-states (coming from the former Eastern bloc).

\textsuperscript{28} Of course, it has to be noted that, among the ENP countries, Israel is a significant outlier as it enjoys a level of economic performance ($28,506 per inhabitant) significantly higher than the corresponding level of many EU countries.

\textsuperscript{29} Moreover, the population in the ENP countries has been increasing (period 2000-2010) at a rate of 11.3%, while the corresponding growth rate in the EU countries is 3.8%. In contrast, the level of per capita GDP in the ENP countries has been recording (period 2000-2010) a real growth rate of 24.9%, while the corresponding real growth rate in the EU countries is 48.7%.
and the EU15 countries have a dominant position in terms of exports and imports shares in relation to the respective (total) ENP and EU shares. However, the ENP East and the EU12 countries have been exhibiting the highest, corresponding, increases, altering, to some extent, the overall picture of the EU-ENP trade activity. Yet, despite the fact that the EU-ENP trade activity is growing over time, the EU-ENP trade relations have been evolved in a rather uneven, unbalanced and asymmetric way. Studying thoroughly the EU-ENP trade figures, allows for a series of important remarks to be made.

As the EU expands its trade activity to countries situated further and further from the EU core, trade relations are not characterized by the same strength as the force of attraction diminishes with distance. Over time (see Figures 4 and 5), the increasing shares of trade activity conducted among the ENP East and the EU12 countries, in relation to the total EU-ENP trade, indicate that adjacency exerts a strong influence in the formation of trade areas, favoring a more regionalized pattern. This finding challenges the ability of the EU to expand its trade in geographically more distant areas.

Nevertheless, the EU is the most important trade partner for the majority of the ENP countries. However, it loses its shares over time (see Figure 6). In contrast, the shares of the rest of the world (RoW) countries are getting increased over time, mainly due to the dynamism that the BRIC countries (i.e. Brazil, Russia, India and China) exhibit. Such a surprising (?) trend is alarming for the EU since the BRIC countries may increase their political influence (besides the economic one) in the ENP area. Noteworthy is, also, the fact that the intra-ENP shares are rather small. This indicates that the ENP economic space is still fragmented, with weak demand-supply chain links. Thus, the EU-ENP economic space reminds of a “hub-and-spoke” system (analogous to the one formed in the European economic space, and characterizes the economic relations among the core and the peripheral EU countries). On the other side, the ENP countries are not important trade partners for the vast majority of the EU countries (see Figure 7). EU trade activity is

30 Due to lack of space, the actual results of the analysis are not provided in the paper. However, they are available upon request.
31 See Pinna (2013).
mostly intra-EU and this, definitely, generates concerns about the progress of the DCFTAs and the overall ENP undertaking.

The diminishing EU shares to the ENP trade activity as well as the low ENP shares to the EU trade activity may be attributed to the asymmetric nature of the overall EU-ENP trade activity. Such an asymmetry reminds of the trade relations that, mostly, occur, between the core and the peripheral EU countries. Indeed, all EU countries exhibit a revealed comparative advantage against the ENP countries, in medium-skill capital-intensive commodities and/or in high-skill capital-intensive commodities (see Table 4). In contrast, all ENP countries exhibit a revealed comparative advantage, against the EU countries, in non-fuel primary commodities and/or in fuel primary commodities (see Table 5). The sector of fuel primary commodities, in particular, is a key-sector for the study of the EU-ENP trade relations, given that the EU is a major energy importer.

Asymmetry in trade relations means that trade relations are, mostly, of inter-industry type (i.e. more trade occurs between sectors rather than within sectors). Indeed, even though a significant number among the ENP countries tend, over time, to exhibit a trade relation, with the EU, which is more similar to the intra-industry pattern, the EU-ENP trade relation remains, by and large, an inter-industry one (see Figure 8). Such type of integration is doubtful whether it can produce long-term income convergence, closing the welfare gap between the EU and the ENP countries.

The persistency of the inter-industry type of trade relations between the EU and the ENP countries has its explanation on the diachronic evolution of the sectoral shares of the corresponding trade activity. Indeed, over time (see Figure 9), the sectoral composition of exports flows from the ENP countries to the EU remains, more or less, unchanged (i.e. high levels of positive correlation). The rather low changes in the sectoral composition of the ENP exports to the EU

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\[32\] Revealed comparative advantage against a partner country (or the world) refers to the proportion of the country under consideration exports’ in a specific sector divided by the proportion of a partner country (or world) exports’ in the same specific sector. For details, see Balassa (1965).

\[33\] See Ratner et al. (2013).

\[34\] Only Israel, the most advanced ENP country, exhibits intra-industry trade relations with the EU.
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provide strong indication that the ENP countries, in their great majority, have not (successfully) implemented export-led growth strategies towards the diversification (expansion) of their exports bases.  

Especially for the ENP countries that do not exhibit comparative advantage in the sector of fuel primary commodities, the asymmetric, inter-industry, type of trade relations with the EU provides strong implications that the lack of competitiveness (i.e. their inability to compete with their EU counterparts in the markets for capital-intensive products) and the, consequent, trade deficits may be, quickly, “converted” into fiscal deficits. Indeed, the trade balance figures of the ENP countries (see Figure 10) reveal that only the ENP countries that exhibit revealed comparative advantage, against the EU countries, in the sector of fuel primary commodities (i.e. Algeria, Azerbaijan, Belarus, Egypt, Georgia, Libya, and Syria) have a positive trade balance (i.e. surplus). In contrast, the other ENP countries record a negative trade balance (i.e. deficit) over time in respect to their trade relations with their EU counterparts.

5. Conclusions and policy recommendations

Summing up, 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

35 See, also, Havlik et al. (2012a and 2012b) and Boschma and Capone (2013).
spatial concentration since adjacency exerts a strong influence in the formation of trade areas, whereas distance has a negative effect on trade activity.

The diminishing importance of the EU in the ENP trade shares, as well as the low importance of the ENP in the EU trade shares, is mirrored to the slow progress of the DCFTAs. Given that the trade component of the ENP provides a backdrop for the assessment of the success of the ENP undertaking – since mandatory \textit{acquis communautaire} compliance is a precondition for the progress of the DCFTAs – the DCFTAs do not provide a solid stimulus in the process of “neighborhood Europeanization”. The slow progress of the DCFTAs verifies the fact the “capabilities-expectations” gap remains, indicates that the level of tariff barriers to trade is, still, quite high, making it difficult to achieve conditions of trade creation, and points out to the restrictions that may arise from some EU sectoral policies, and the Common Agricultural Policy (CAP), in particular, related with the ENP. Definitely, there is room for the expansion of the EU-ENP trade relations...

Of course, the (further) expansion of the EU-ENP trade is not the only issue. The nature of the EU-ENP trade is another, equally important, issue. This is because the nature of the EU-ENP trade relations may not be leading to a sustainable type of integration, and, thus, to a reduction of the existing development gap between the ENP and the EU countries. The clear-cut empirical findings of the paper indicate that the EU-ENP trade relation is uneven, unbalanced and asymmetric. This is so as the ENP countries, which are not so important trade partners for the majority of the EU countries, are locked-in an inter-industry type of trade integration with their more advanced EU counterparts. This type of trade relations is, mostly, the outcome of the inability of the ENP countries to diversify and expand their export bases, implementing export-led growth strategies. Especially for the ENP countries that do not exhibit comparative advantage in the sector of fuel primary commodities, this type of trade relations provides strong implications that trade deficits may be, quickly, “converted” into fiscal deficits. It seems that the position of the neoclassical school of thought is difficult to verify (given, of course, that its assumptions are not fully satisfied). On the contrary, the well-establish “core-periphery” EU spatial pattern of development seems to be “reproduced” in the EU neighborhood.

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 all these 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 \textit{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.

References

36 Probably, similar to PHARE (Poland and Hungary: Assistance for Restructuring their Economies) or to CARDS (Community Assistance for Reconstruction, Development and Stabilization).


Deliverable 2.2. Complete report on patterns of economic interaction between the European Union and its neighboring countries
SEARCH Working Paper, 2/07


Appendix

Map 1: The ENP countries

Source: Authors’ elaboration

Table 1: Groups of sectors under consideration (according to Harmonized System (HS) sector activity)

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<td>Fuel primary commodities</td>
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<td>Labor-intensive and resource-based commodities</td>
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<td>4</td>
<td>Low skill-, low technology-, low capital- and low scale-intensive commodities</td>
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<tr>
<td>5</td>
<td>Medium skill-, medium technology-, medium capital- and medium scale-intensive commodities</td>
</tr>
<tr>
<td>6</td>
<td>High skill-, high technology-, high capital- and high scale-intensive commodities</td>
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Source: UNCTAD (1996)
Table 2: Simple average tariffs imposed, by the EU, on agricultural and non-agricultural goods, year 2010

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Table 3: Some economic and demographic stylized facts for the EU and the ENP countries, years 2000 and 2010

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n/a: not available

<sup>a</sup> The “old” EU member states
<sup>b</sup> The “new” EU member states excl. Cyprus and Malta
<sup>c</sup> Excl. Israel

Sources: [http://data.worldbank.org](http://data.worldbank.org) / Authors’ elaboration
Deliverable 2.2. Complete report on patterns of economic interaction between the European Union and its neighboring countries
SEARCH Working Paper, 2/07

Figure 1: The volume of the EU-ENP trade, period 2000-2010

![Graph showing the volume of EU-ENP trade (2000-2010)](image)

Sources: [http://comtrade.un.org/db/](http://comtrade.un.org/db/) / Authors’ elaboration

Figure 2: Share of ENP trade (%) with the EU economy, period 2000-2010

![Bar chart showing the share of ENP trade with the EU economy (2000-2010)](image)

Sources: [http://comtrade.un.org/db/](http://comtrade.un.org/db/) / Authors’ elaboration

Figure 3: Share of EU trade (%) with the ENP economy, period 2000-2010

![Bar chart showing the share of EU trade with the ENP economy (2000-2010)](image)

Sources: [http://comtrade.un.org/db/](http://comtrade.un.org/db/) / Authors’ elaboration
Deliverable 2.2. Complete report on patterns of economic interaction between the European Union and its neighboring countries
SEARCH Working Paper, 2/07

Sources: http://comtrade.un.org/db/ / Authors’ elaboration

Figure 4: The spatial allocation (%) of the ENP trade flows to and from the EU economy, years 2000 and 2010

Sources: http://comtrade.un.org/db/ / Authors’ elaboration

Figure 5: The spatial allocation (%) of the EU trade flows to and from the ENP economy, years 2000 and 2010

Sources: http://comtrade.un.org/db/ / Authors’ elaboration

Figure 6: The spatial allocation (%) of the ENP trade flows to and from the world economy, years 2000 and 2010
Deliverable 2.2. Complete report on patterns of economic interaction between the European Union and its neighboring countries
SEARCH Working Paper, 2/07

Figure 7: The spatial allocation (%) of the EU trade flows to and from the world economy, years 2000 and 2010

Table 4: Revealed comparative advantage against the ENP countries, years 2000 and 2010

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Deliverable 2.2. Complete report on patterns of economic interaction between the European Union and its neighboring countries
SEARCH Working Paper, 2/07

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Sources: http://comtrade.un.org/db/ / UNCTAD (1996) / Balassa (1965) / Authors’ elaboration
Table 5: Revealed comparative advantage against the EU countries, years 2000 and 2010

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Deliverable 2.2. Complete report on patterns of economic interaction between the European Union and its neighboring countries
SEARCH Working Paper, 2/07

Figure 8: Intra-industry trade between the ENP countries and the EU, years 2000 and 2010

Figure 9: Sectoral shares' correlation of the ENP exports to the EU, period 2000-2010

Figure 10: Trade balance (% GDP) of the ENP countries in respect to their trade activity with the EU countries, years 2000 and 2010