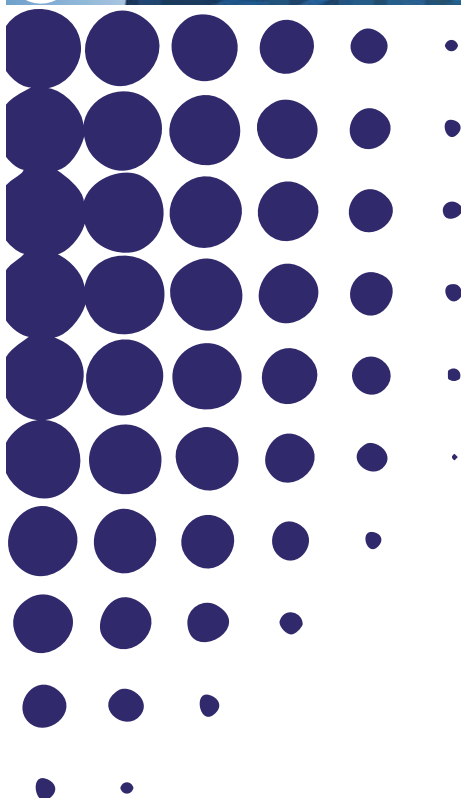


# Taking Stock of Research Projects on the European Neighbourhood Policy

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## Abstract

This paper offers an overview of the key research projects that have examined the various impacts of the European Neighbourhood Policy (ENP). The paper focuses on the impact of the ENP on trade, migration, innovation and institutional and cultural diversity, and social capital. The majority of empirical literature concerning the ENP has focused on trade. Migration has received attention to a lesser extent. There are a few studies on innovation in the ENP countries, and no studies explicitly examine the role of the ENP on the institutional environment, cultural diversity and social capital on innovation. In all these research projects, three key gaps can be identified which are most relevant for the SEARCH project. Firstly, most projects do not examine the effect of specific policy measures, but only give an overall analysis of the impact of all policies that have been implemented in a time period. Secondly, almost all studies focus on a national level in their analysis. Rarely is the sub-national level considered. Thirdly, most of the reforms carried out due to the ENP are very recent, and most studies do not have data that is recent enough to evaluate the impact of these reforms. The specific gaps as identified in this paper can inform further empirical studies of the SEARCH project.

**Keywords** European Neighbourhood Policy, Literature Review, Trade, Migration, Innovation, Institutional Environment

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## 1. Introduction

After the fifth enlargement round of the European Union in 2004 its external borders shifted drastically. Suddenly a range of poorer, economically and politically less stable and less democratic countries bordered the EU. In response to these changing circumstances the need was felt to create a unified policy to deal with neighbouring countries. This unified policy, the European Neighbourhood Policy, subsumed the patchwork of existing policy instruments. Its goal is to create a ring of countries around the EU with which the EU has close, peaceful and co-operative relations (COM 373 final, 2004). The Search project will analyze the impact of this new policy on the integration of neighbouring countries and the EU in the areas of trade flows, mobility and human capital, technological activities and innovation diffusion, and the institutional environment

This working paper will consist of five sections, which take stock of European research projects that have studied the impact of the ENP on different policy themes. The first section gives an overview of the main institutes that do empirical research on the ENP. The other sections focus on different policy themes. The themes in which this overview is divided follow the themes of the different SEARCH work packages. The first theme considers the impact of the ENP on trade, FDI, and localization choices. The second theme considers labour migration, remittances, and their influence on the EU and the ENP countries. The third theme is concerned with innovation diffusion, research activities and networks, and technological activities. The fourth and final theme is concerned with the impact of political, cultural and social institutions. This stock-taking will provide a sketch of the frontier in empirical research on the ENP from the perspective of different academic disciplines, and inform the empirical research of the SEARCH project.

Since the ENP is relatively new, the amount of research done on its impact is limited. In the themes where there is little or no research that relates specifically to the ENP, the report will also provide an overview of projects that examine the enlarged European Union. These projects could offer a framework for similar studies of the impact of the ENP. The projects that are surveyed in this report mostly result in reports with a strong empirical focus. Academically published articles that are not a result of European research projects will receive less attention in this overview because the focus is mostly on applied empirical knowledge about the ENP, but they will also be detailed if relevant to describe the state-of-the-art knowledge on the impact of the ENP. All

references in this report also refer to project numbers in order to clarify which publications belong by which project. These numbers are listed in the project overview tables, appended to the report.

## **2. Main Institutes Performing Empirical Research on ENP**

Many of the research projects described in this working paper have been funded by either the European Framework programmes, by specific grants like the Marie Curie grant or by other European funding mechanisms. A range of universities, independent research institutes and research networks carry out these types of research. Some of the most active players in the field of research on the ENP are listed below, with a short reference to their core activities.

CASE is the Center for Social and Economic Research. This center is an independent research institute that carries out policy research for the European Union. They apply for funding through the Framework Programmes, but they also carry out contract research for national governments and the European Commission. Their core focus is on the countries in Central and Eastern Europe, but they have recently diversified into studies of the Mediterranean countries. They have participated in a few large studies of the ENP, and they have also carried out smaller country studies for some of the eastern ENP countries (CASE, 2011a).

FEMISE is the Euro-Mediterranean Forum for Economics institutes. This forum has 94 members, and it promotes research on Euro-Mediterranean collaboration. The forum was founded in 1998, when it was studying the effects of the Barcelona process and the EuroMed collaboration. With the ENP subsuming previous policies, the FEMISE is now dedicated to studying the effect of the ENP on southern ENP countries. The FEMISE receives a yearly budget of around 6 million Euros from the FEMIP, a facility from the European investment fund to assist economic development and integration in the Mediterranean area. In yearly funding rounds all members can compete for research projects. All research projects relate to the southern ENP countries. All projects work towards the main goal of gaining a deeper understanding of the impact of the ENP on southern countries (FEMISE, 2011).

The CREMed, a collaboration between the European Institute of the Mediterranean and the Barcelona Graduate School of Economics, also strives to monitor the economic dimensions of the ENP. This institute was founded in 2008, so it does not have a large number of reports yet (CREMed, 2011). These institutes are the most important sources of research on the ENP in the topics of the SEARCH project. Of course there are a lot of other institutes that also research the

European Union, but for these institutes the ENP and the topics of the SEARCH project are not the core focus of research.

### **3. Trade, FDI and Localization**

The goal of work package two is to gain a comprehensive insight into the determinants and the impact of the ENP on trade and capital flows between the partner countries and the EU, and the policy implications of these effects. The impact of trade and FDI can be analyzed in terms of spatial patterns, economic growth, structural change and cohesion. This literature overview will give insight into existing European research projects that analyze these effects.

#### **3.1. Trade liberalization**

The ENP promises access to the free internal market to the partner countries in exchange for political and economic reforms. The promise of the benefits of free trade is the driving force behind the reforms that the ENP strives to realize. That is why it does not come as a surprise that a large part of ENP literature is devoted to the effects of trade liberalization. The ENEPO project and some smaller projects carried out by the CASE institute, and a range of projects carried out by members of the FEMISE and by CREMed have resulted in a range of reports that try to assess the impact of trade liberalization. Most reports do an ex-ante analysis, and use computable general equilibrium models (CGE's) to predict what effect further trade liberalization could have on economic growth in different ENP partner countries. There are also some reports that do an ex-post analysis and try to estimate what the effects are of existing reforms.

Other reports use a range of different approaches to execute a more detailed analysis by examining only the impact on a few countries, or a few sectors in those countries, or on the labour market of specific countries. All these reports examine the impact of tariff-barriers to trade. There is also a range of reports that tries to estimate the size and impact of non-tariff barriers (NTB) to trade, such as technical product specifications or other quality assurance demands, and the possible effects of removing these barriers. Finally, a range of reports use a qualitative approach to map the importance of specific trade flows for policy, for instance energy trade in the eastern ENP countries. Table 1 lists the most important projects and the rest of the section further details these projects and a number of other academic publications that have advanced our knowledge of the impact of the ENP on trade with ENP partner countries.

**Table 1: Overview of European Research Projects relating to the effects of the European Neighbourhood Policy on Free Trade.**

<b>Institutes</b>	<b>Project Details:</b>	<b>Countries</b>	<b>Topic</b>
CASE	<b>Nr 1.</b> ENEPO May 2006- May 2009 32 reports	CEE Countries, CIS Countries ,Russia	Influence of ENP on FDI, trade (TB's and NTB's), labour migration, remittances and institutional harmonization
	<b>Nr 2.</b> Trade and Economic Integration in the Euro-Mediterranean Region Dec 2008-Jul 2009 2 reports	EU 27, MEDA countries	Effect of existing integration agreements, EU-south and south-south, on trade patterns in the region using CGE's. Study of potential future FTA's in region, short- and long-term.
	<b>Nr 3.</b> Economic Aspects of the Energy Sector in CIS Countries. Aug 2007- Apr 2008 2 reports	Azerbaijan, Belarus, Kazakhstan, Georgia Russia, Turkmenistan Ukraine, Uzbekistan	Impact of energy sector on respective countries on macro-economic indicators. Influence of possible EU policies towards energy (that are part of the ENP) on the future development of energy-trade.
	<b>NR 4.</b> Economic Impact of EU-Armenia and EU-Georgia FTA Jul 2007- March 2008 4 reports	Georgia, Armenia, Azerbaijan ,Black Sea countries	Implications of FTA between EU and Georgia and Armenia, and implications of regional integration
	<b>NR 5.</b> Prospects for EU-Moldova Economic Relations Aug-Dec 2006	Moldova	Comprehensive analysis of the impact of ENP policies on trade, FDI, finance, migration, regulatory frameworks, and local conflicts.
	<b>NR 6.</b> Prospects of EU-Ukraine economic relations May-Dec 2006	Ukraine	Examination of implementation of ENP economic reforms by Ukraine. Analysis of optimal level of integration and freedom of movement of labor, capital, goods and services
Case and CEPS for the FEMISE	<b>NR 7.</b> MEDPRO: Prospective analysis for the Mediterranean region. Feb 2010-Jan 2013 5 reports up to dec 2011	Mediterranean Partner Countries	Possible alternative political scenarios for 2025 for the region. Possible role of EU policy in the process. Impact of policy on energy and climate change mitigation, economic development, trade and investment, human capital, social protection, inequality, and migration.
Various institutes related to FEMISE	<b>NR 8.</b> Assessing the Macro Economic Effects of the Barcelona Initiative's Liberalization Process FEM 31-10, 2007	Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia, Israel, Turkey	Literature review of 25 articles that perform ex-ante CGE models on EU integration. First ex-post CGE analysis of FTA's from Barcelona Process
	<b>NR 9.</b> Income Inequality and Poverty after Trade Liberalization in MENA Countries	MENA countries, Morocco and Israel	Impact of free-trade on low income jobs. Specific case studies of Morocco and Israel

	FEM 33-02, 2009		
	<b>NR 10.</b> Unemployment, Job Quality and Labour Market Stratification in the MED Region: The cases of Egypt and Morocco FEM 32-20, 2009	Egypt, Morocco	Impact of the gradual integration of Morocco and Egypt in the world economy on the wage distribution in the labour market, differentiated by skill and gender.
	<b>NR 11.</b> Deep Integration, Firms and Economic Convergence FEM 33-23, 2010	Morocco	Impact integration on business environment. Differential impact of business environment on firms. Overview of institutional changes in Morocco that have furthered convergence.
	<b>NR 12.</b> Impact of Liberalization of Trade in Services. FEM 22-02, 2005, 10 articles in one report	Egypt, Morocco, Tunisia, Turkey	Predicting the effect of liberalization of Banking, telecommunication, and Maritime sector on four selected countries.
	<b>NR 13.</b> South-South Trade, Monetary and Financial Integration and the Euro-Mediterranean Partnership: An Empirical Investigation FEM 22-39, 2005	Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Qatar, Saudi Arabia, Syria, Tunisia, UAE, Yemen	Measuring level of integration between respective countries and suggesting policies for further integration.
	<b>NR 14.</b> Regional Integration, Firms' Location and Convergence: An Application to the Euro-Mediterranean Area FEM 33-01, 2009	Mediterranean and North African Countries	Measuring the effect of the Barcelona Process and the ENP on integration in the MENA area by analyzing co movement of macro-economic indicators.
CREMed	<b>NR 15.</b> Comparative analysis of importance of technical barriers to trade (TBT) for Central and Eastern European Countries' and Mediterranean Partner Countries' exports to the EU FEM 22-03, 2005	CEE countries, Mediterranean Partner countries	Measuring the size of TBT's, and their impact on the economy of Mediterranean partner countries. Quantifying the benefits of harmonization of institutions.
	<b>NR 16.</b> Assessing the Macroeconomic Effects of the Barcelona Initiative Working paper 6, 2010	Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia	Using econometrics to calculate effect of free-trade agreements on respective countries. Calculating the predictive power of earlier studies that estimate the effect of the removal of trade barriers.
	<b>NR 17.</b> ClubMed? Cyclical fluctuations in the Mediterranean basin Working Paper 1, 2011	EU 27, MENA countries	Examining the level of economic integration by measuring co-movement of macro-economic indicators.

The ENEPO project focuses on the Commonwealth Independent States (CIS), most of which are eastern ENP countries. The project offers two overview reports that describe the baseline state of affairs in the CIS countries and estimate the gaps between the EU and the CIS countries on economic, human, openness, environmental, and institutional dimensions (1, Sinitsina et al., 2008), and the differing interests and motives of the various CIS countries for integration (1, Menkiszak et al., 2008). These articles give a concise overview of the state of affairs regarding the actual situation in these countries and their approach to the ENP framework.

The ENEPO project also has authored a report on the ENP and trade flows on a country level, which uses a CGE model to assess the possible impact of different types of free trade agreements (FTA's) for four CIS countries (1, Francois and Manchin, 2009). It suggests that an FTA in only goods would most likely have a negative effect on the economic growth of these countries, but that FTA's with deeper integration might have a positive effect on the CIS countries.

The CASE has also contributed to the MEDPRO project within the FEMISE network. The MEDPRO is an ongoing project which assesses the prospects of the Mediterranean area. Within this project, Ghomein (7, 2011) has authored a report that studies trade flows in with the Southern ENP countries. This project uses similar techniques to assess the impact of more extensive free trade agreements with the southern ENP countries.

The FEMISE has also authored a range of smaller projects that focus on the southern ENP countries. Lucke and Nathanson (8, 2007) for instance give an overview of all previous studies that model the potential impact of removing tariff barriers in the southern ENP countries, using General Equilibrium Models. This study reviews 25 studies, lists the countries concerned and the calculated impacts. All these studies are ex-ante studies that examine the possible effect of trade liberalization. The vast majority of these studies have been performed before the launch of the ENP, and they focus on the impact of earlier trade reforms initiated through the Barcelona process. Lucke and Nathanson (8, 2007) perform the first ex-post CGE analysis in which the actual effects of reforms are analyzed. The study uses data up to 2005, and therefore does not incorporate reforms carried out due to the ENP. However, it does provide a useful starting point to understand the impact of earlier trade reforms.

Lucke and Zotti (16, 2010) have further analyzed the use of CGE models in the southern ENP countries, this time through the CREMed institute. They analyze the predictive power of all studies that have carried out CGE models, and find no statistical evidence to support the idea that

these models can effectively predict the benefits of trade liberalization. This suggests that the slew of studies using CGE's to predict the effect of trade reforms due to the Barcelona process were not the most effective approach in understanding the possibilities of trade reforms.

The ENEPO has not only focused on the national-level impact of free trade, but has also authored two reports that model the sub-national spatial effects of trade liberalization using numeric simulation techniques. Melchior (1, 2009a) used a numeric simulation model with 90 regions in 9 countries to examine to what extent post-enlargement integration could predict the shift in spatial income distribution. The model finds that areas further away from the middle of the EU grew faster after enlargement. This could be taken as a sign that the integration offered by enlargement reduced the costs of distance for economic activity. The effect was also visible in Ukraine, Turkey and Russia, suggesting that the enlargement has also had benefits for ENP countries. In the second report this model was used to examine the effect of enlargement on border areas of the EU and of ENP countries (1, Melchior, 2009b). The conclusions of this model were that growth did significantly differ between border regions, but that these differences could be explained by country effects, not integration effects. These models do not explicitly measure the effect of integration caused by the ENP, but they could offer a framework or theoretical model for analysis of the regional impact of the ENP.

The FEMISE has also supported a range of projects that study the effect of free trade on different levels than the national level. Nathanson (9, 2009) examines the effect of trade liberalization on low-income jobs. They find that it depends a lot on the specific policies of countries whether the poor benefit from economic growth resulting from trade liberalization. In this report, two in-depth case studies of the labour markets of Israel and Morocco provide more information about the mechanisms that guide the influence of trade liberalization on trade.

Said (10, 2008) has also analyzed the impacts of trade liberalization on labour markets, but focused specifically on Egypt and Morocco. This analysis shows that liberalization has varying effects. On the one hand it has caused wage gaps to narrow and labour conditions to improve; on the other hand the economic prospects have on average worsened.

Augier (11, 2010) uses firm-level data of Morocco to examine the varying effects trade liberalization has on firms. The report gives an in-depth overview of economic reforms in Morocco, coupled with a firm-level analysis of the performance of firms related to the business environment. Using the influence of various business environment variables on different types of

firms, and the influence of trade liberalization on the variables, the impact of trade liberalization on different firms could be predicted. The study suggests that Moroccan firms probably suffer from a mismatched access to credit, especially the smaller firms that do not export, and that trade liberalization might improve access to credit.

FEMISE does not only examine the effects of liberalization in trade of goods, but also in trade of services. They have authored a range of studies, published in one report, that examine liberalization of three service sectors; the banking, telecom, and maritime sector in Turkey, Tunisia, Morocco and Egypt (12, Bilkent University, 2005). The studies use a range of methods and have varying results. The studies suggest that Morocco would have the most to gain from adopting the EU *acquis*, with strong growth potential in all three sectors after adoption of the *Acquis*. In Egypt, liberalization would create most growth potential in the maritime sector, marginal growth in the banking sector, and unknown results in the telecom sector. For Tunisia, the effect was only studied for the maritime sector, and the study had inconclusive results due to a dearth of data.

All these projects model the possible effect of complete liberalization of markets. However, these projects do not actually measure the state of integration at the moment. Other projects do attempt to measure the actual level of integration in order to find out whether reform policies actually reach their goal. Through a FEMISE project Neaime (13, 2005) for instance analyzes to what extent neighbouring Mediterranean and Middle Eastern countries – many of which are part of the southern ENP policy – are integrated. He uses a model in which co-integration is examined by checking to what extent macro-economic variables between countries exhibit co-fluctuations. When different countries experience convergence in the fluctuation of macro-economic variables, they can be said to be integrated to a certain extent. Based on this measure of integration, barriers to trade flows can be examined. The report then analyzes differences between different types of countries in the Mediterranean and Middle Eastern area, and examines policy recommendations that could enhance future integration and trade flows.

Within another FEMISE project Peridy (14, 2009) has examined integration between the southern ENP countries and the EU countries. Using similar techniques to Neaime (13, 2005), convergence of macro-economic indicators of EU and MENA countries was examined. The Barcelona process before 2004 and the ENP after 2005 does not seem to correlate with increased macro-economic convergence between the MENA and EU countries. Interestingly, the level of investments by the

European Investment Bank in a country did correlate with convergence to the EU and therefore did seem to impact integration.

Canova and Ciccarelli (17, 2011), in a study authored by the CREMed institute, also analyze the extent of integration between the EU and Mediterranean and North African countries, most of which are southern ENP countries, by examining the extent of co-movement of macro-economic indicators. They find that the EU 27 is integrated, but that in the MENA area there is only selective co movement in localized areas, not general co movement. They conclude by suggesting that any level of integration in the southern ENP countries is localized and easily reversible.

One of the reasons that removing tariff barriers is not enough for true integration is that there are also a large number of non-tariff barriers (NTBs) to free trade. Most of the southern ENP countries have FTAs with the EU, but according to the above-mentioned studies integration between the EU and the southern ENP countries is weak at best. Part of the promise to ENP countries is that by adhering to the reforms that the EU proposes, these NTBs will disappear.

A FEMISE project authored by Michalek (15, 2005) tries to offer a starting point to formally calculate whether it is beneficial for MEDA countries to accept the economic reforms of the ENP. The study examines the impact of non-tariff barriers in the form of technical compliance regulations for import products. Different product groups have different types of technical compliance demands, which mean that the southern ENP countries with different export profiles experience different effects of these technical barriers to trade. The proposal of the ENP to give neighbouring countries access to the unified market when they take up substantial parts of 'the Acquis' will remove these barriers to trade as it will give these countries open access to the market, but adopting the Acquis will also cost money. The study concludes that the benefits of the ENP will vary between countries, but that further studies are necessary to calculate the exact effect for different countries.

Maliszewska et al. (1, 2009), through the ENEPO project, try to model the effect of the removal of these NTB's in eastern ENP countries. They find the effects to be significant and very diverse, ranging from 1.7 per cent GDP growth in Georgia to 5.8 per cent GDP growth in Ukraine. Their study relies on a previous study by Taran (1, 2009) who has made an inventory of existing NTBs in these countries.

Focusing on a single sector, ENEPO has also investigated the energy sector in the Eastern ENP countries. A set of articles based on this project examine both the state of the energy trade between the EU and eastern ENP and Russia (1, Papava et al., 2009), and the influence it has on regional policy efforts of the EU (1, Dura, 2009).

The literature on the effect of the ENP in the area of trade has several important gaps. First of all, most impact studies examine the potential effect of complete trade liberalization. These studies analyze the maximum potential that free trade can offer. At the moment however, none of the ENP countries has the prospect of getting completely free access to the market. There are negotiations with some ENP countries to close deep and comprehensive free trade agreements, but even in such an arrangement only some products are completely liberalized and barriers still remain. No research up to now has tried to model the impact of specific policy arrangements that realistically lower trade barriers in certain sectors, instead of completely removing all barriers instantly. Such a study would be useful, as it would more accurately model the actual benefits ENP countries could derive from the ENP.

Secondly, there are significant costs associated with adopting all the relevant EU regulations and developing the standards compliance institutes needed to get access to the internal market. The ENP does supply funding to help the harmonization efforts, but it is not clear how high the costs actually are. A clearer understanding of the costs and benefits of the ENP is relevant because many critics of the ENP point out that the benefits the ENP promises are too low in comparison to the costs, which delays reforms in ENP countries.

Thirdly, the ENP is quite a recent policy, and reforms carried out due to the ENP have been even more recent. To complicate matters, reforms that date from before the ENP are still phasing in. The projects that have been reviewed either work with data that is not new enough to incorporate reforms taken under the ENP, or they do not try to separate the impact of the ENP and previous reforms. The projects that have been reviewed that assess integration always look at the effect of all policies combined, and never try to isolate the effect of a single policy measure. This means that up to now no project has truly managed to assess the impact of the ENP on trade flows.

Finally, only two studies explicitly examine the effects of trade liberalization on GDP development on a sub-national scale. These studies are limited because they model a limited number of regions, and have few possibilities for explicit modeling of different levels of trade liberalization. This means that there is huge potential to explore the potential effects of trade

liberalization on economic development on a sub-national level. These two studies could provide a starting point for the further development of trade models on a sub-national level which include more realistic policy elements.

### **3.2. FDI**

FDI also plays an important role in the ENP because it offers strong prospects for growth and integration of the EU neighbouring countries. Whilst the CREMed, FEMISE and CASE devote less attention to FDI than to trade flows, they have still produced a variety of reports on the topic (table 2). These reports partially focus on determining the variables that influence FDI flows, often using gravity models but also a range of other econometric models, and partially on the potential impact of integration on FDI flows. Further, there is also a quite extensive academic literature on FDI, the EU, and neighbouring countries. Most of these articles focus on the accession countries and the effect of the EU enlargement, but some specifically analyze the ENP. This overview will only give an overview of the articles that analyze FDI flows in ENP countries.

The ENEPO project has carried out two studies that are related to FDI flows. The first examines the determinants of capital inflows in the CIS countries, most of which are eastern ENP countries, (1, Kudina and Lozovyi, 2007) using the Tobin-Markowitz framework, and the second examines the motives and impediments investors experience in investing in four CIS countries (1, Jabuciak and Kudina, 2008) using surveys. Kudina (1, 2009) gives a summary of these articles and extracts policy conclusions. Most interestingly, Kudina and Lozovyi (1, 2007) show that there is a correlation between FDI flows in the fifth enlargement accession countries and in the CIS countries. They tentatively suggest that this could mean that investors expect the ENP to have similar effects on the institutions and economy of ENP countries as the enlargement had on accession countries.

Jabuciak and Kudina have also studied FDI through a project of the OECD. In this project they have examined the conditions for a positive impact of FDI on the economy. Since FDI is often concentrated in industries that have limited interaction with the rest of the economy, like mineral extraction, this research examines under what conditions FDI has the largest impact on regional and local economies. Four CIS countries are used as case studies: Georgia, Moldova, Kyrgyzstan and Ukraine (19, Kudina and Jabuciak, 2008).

Over the years FEMISE has regularly commissioned studies on FDI in both accession countries and countries that were part of the Barcelona process and later on the ENP. A good example is a

three-part study on the impact of ENP on FDI in the MENA countries, most of which are Southern ENP countries, by Cherif (18, 2009). The first part of this study examined the effect of signing partnership agreements with the EU on FDI inflows in MENA countries and does not measure any significant change in FDI flows.

**Table 2** Overview of European Research Projects relating to the influence of the ENP on FDI.

<b>Institutes</b>	<b>Project Details:</b>	<b>Countries</b>	<b>Topic</b>
CASE	<b>NR 1.</b> ENEPO May 2006- May 2009 32 reports	CEE Countries, CIS Countries ,Russia	Influence of ENP on FDI, trade (TB's and NTB's), labour migration, remittances and institutional harmonization
Various institutes related to FEMISE	<b>NR 18.</b> Private Capital Flows in Southern Mediterranean Countries : Determinants and Impact on Economic Growth, Domestic Investment and Wage Inequality FEM 32-14, 2009, 3 articles in one report	MENA countries	Impact association agreements as signed through Barcelona process on FDI. Impact FDI on economic growth. Impact different forms of investment on Real Exchange Rate Appreciation.
OECD	<b>NR 19.</b> OECD Investment Policy Perspective 2008, Chapter of report	Kyrgyzstan, Georgia, Moldova, Ukraine	Conditions for spill-overs in local economy of FDI.

**Table 3** Overview of European Research Projects relating to the impact of the ENP on Localization choices of firms.

<b>Institutes</b>	<b>Project Details:</b>	<b>Countries</b>	<b>Topic</b>
University of Macedonia	<b>NR 20.</b> Move: The moving frontier: the changing geography of production in labour intensive industries. Sept 2004- May 2007, 1 book.	EU countries	Development theoretical framework to understand localization and delocalization effects. Range of case studies applying the framework on different sectors in a range of EU countries.

The second part of the study analyzes the impact of FDI on economic growth in MENA countries. This study does report a positive effect, suggesting that FDI does have a positive influence on economic growth. The final study analyzes the effect of FDI as opposed to other forms of investment on the foreign exchange rate, as the exchange rate influences export competitiveness. It finds that contrary to other forms of investment like portfolio investment, development aid, or foreign borrowing, FDI does not have an appreciative effect on exchange rates. This suggests that FDI can be a useful source of capital flows for the development of a country.

Because there have been a limited number of European Research projects relating to FDI and the ENP, a brief overview of academic literature on this theme will also be offered. Academic literature has focused on a range of questions relating to FDI and ENP countries. For instance, there were fears that greater integration with the Central and Eastern European accession countries would negatively impact FDI flows to Mediterranean countries. Ferragina et al. (2005) reject this fear by showing that FDI flows to accession countries and southern ENP countries are not significantly related. This is shown by developing a gravity model for FDI flows. A gravity model relying purely on domestic economic, political and environmental variables is most effective in predicting FDI flows, and using external variables such as FDI flows to other countries did not improve the predictive power of the model.

Other research has tried to find out what determines why accession countries have a much higher level of FDI than the ENP countries. Kinoshita and Campos (2002) compare Central and Eastern European Countries with CIS countries in order to determine how FDI flows vary between these countries. Johnson (2006) also examines the differences between the Central and Eastern European accession countries and the CIS countries in order to find out whether the economic transition or other factors influence FDI flows.

Some studies have examined the development of FDI in a single ENP country more in-depth. Karmar and Badkardzhieva (2002), for instance, did an in-depth comparison between Egypt and three Eastern European accession countries. The three accession countries have witnessed a far more rapid uptake in FDI flows than Egypt, even in the period before accession. One of the main conclusions is that the promise of access to the unified EU market has tremendously increased the value of investments in the Central and Eastern European countries, even before accession has actually taken place. This suggests that if investors will find the promise of the ENP to grant access to the internal market credible enough, FDI flows to ENP countries could increase drastically before any FTAs have been signed. Further examples of specific case studies are

offered by Bakir and Alfawwaz (2009), who have examined the determinants of FDI flows in Jordan using a gravity model, or Al-rawashdeh et al. (2011), who have used ARIMA models to predict future FDI flows in Jordan.

The literature concerned with the ENP and FDI has similar gaps as the literature on the ENP and trade. The data used by most projects is not recent enough to assess the impact of reforms carried out due to the ENP. The studies that do have recent data take a macro-perspective and do not link changes in FDI to specific policy changes. This makes it impossible to separate the effect of the ENP from other policies that are still being phased in. Furthermore, the literature on FDI focuses on countries as a whole. There is very little, if any, attention for the sub-national spread in FDI flows, and the determinants and effects of different sub-national patterns of FDI.

### **3.3. Localization choices**

To our knowledge, there has been only one European research project that specifically focuses on localization choices and delocalization effects in the European Union (table 3). The MOVE project has studied the question of how production patterns have shifted after the EU enlargement, resulting in a book on the topic (20, Labrianidis, 2008). The book first attempts to build a coherent theoretical framework out of previous, somewhat fragmented research into localization and delocalization effects. Then, a range of case studies are used to examine shifting spatial patterns in industrial sectors due to economic integration of regions. Most case studies focus on the European perspective, but there is also a range of case studies from other continents. Even though this book does not specifically focus on the localization effects of the ENP, it could offer a basis for further research into localization effects.

The academic literature further consists of a number of case studies that examine localization in the EU, but to our knowledge none specifically focus on the impact of the neighbourhood policy or one of its precursors.

In the literature relating to localization choices much work still needs to be done. The framework that results from the MOVE project could be seen as offering a starting point for further research on localization effects of the ENP. Since no studies have explicitly examined the impact of the ENP, this means that any research in this area could enhance our understanding of the impact of partial integration on localization choices. A potentially interesting venue of research is to study how the partial integration offered by ENP affects different sectors. Sectors have different location needs, so it is to be expected that partial integration would cause a shift in the spatial industrial

specialization patterns. This differential effect could be accentuated due to the fact that the ENP offers the possibility to negotiate sector-specific liberalization agreements. By researching the sector-differential shifts in spatial industrial specialization patterns, the SEARCH project could deliver important contributions to our understanding of the interplay institutional frameworks and localization choices.

#### **4. Labour Migration and Remittances**

The goal of work package three is to gain a comprehensive insight of the determinants and the impact of the ENP on labour and remittance flows between the partner countries and the EU, and the policy implications of these effects. The impact of labour migration and remittances can be analyzed from the sending and receiving region on the labour market, human capital formation, economic growth and social capital formation. This literature overview will give insight into existing European Research Projects that analyze these effects. These projects focus on both the determinants of existing migrant flows, the impact of these migrant flows on sending and receiving countries, and the potential migrant flows and their impacts under different policy regimes. The projects (table 4) use different criteria to disaggregate the migrant flows: some projects look at skill level, other projects at the demographic composition, and still other projects at historical cultural relations of migrants. The projects use a range of models: from simple gravity models, to CGE models, to multi-region world overlapping generation models.

##### **4.1. Migration Patterns**

The ENEPO project has generated four reports that analyze the determinants and impacts of migration patterns in selected eastern ENP countries. Atamanov et al. (1, 2008) analyze and model migrant flows in Russia, Ukraine, Belarus and Moldova. They differentiate between two different flows of migrants: those with ethnicities that have close ties with other countries or large Diasporas (e.g. Armenians in Russia or France) and migrants that migrate due to economic concerns. It is assumed that the first category of is less affected by push and pull factors than the second group. For the first group, a simple geometric projection is used, and for the second group a Computable General Equilibrium model is used. Three scenarios with varying levels of migratory restrictions to the EU and Russia are used to predict future flows of migrants. Some limited conclusions are drawn on the effects of these migratory flows on the demographic distribution in the example countries.

A second report by Borgy and Chojnicki (1, 2008) examines the question of the demographic impact of migratory flows in more detail, by using a multi-region world overlapping generation's model to simulate the interaction between population aging, pension reform and international capital and its effect on migratory flows.

**Table 4** Overview of European Research Projects relating to the impact of the ENP on migration flows and remittances.

<b>Institutes</b>	<b>Project Details:</b>	<b>Countries</b>	<b>Topic</b>
CASE	<b>NR 1.</b> ENEPO May 2006- May 2009 32 publications	CEE Countries, CIS Countries ,Russia	Influence of ENP on FDI, trade (TB's and NTB's), labour migration, remittances and institutional harmonization
	<b>NR 21.</b> ENPI - Costs and Benefits of Labour Mobility between the EU and the Eastern Partnership Partner Countries Aug 2011 – Feb 2013. Unknown number of publications	Eastern Partner Countries Germany, United Kingdom, Italy, Poland, Spain	Predict future flows of labour migration from Eastern partner Countries, the impact of existing policy, and possible future policies that would aid in labour-matching with the EU. Also examine possible future inflows to the EU from other countries, especially the southern partner countries.
Case and CEPS for the FEMISE	<b>NR 7.</b> MEDPRO: Prospective analysis for the Mediterranean region. Feb 2010-Jan 2013 5 publications up to dec 2011	Mediterranean Partner Countries	Possible alternative political scenarios for 2025 for the region. Possible role of EU policy in the process. Impact of policy on energy and climate change mitigation, economic development, trade and investment, human capital, social protection, inequality, and migration.
Various institutes related to FEMISE	<b>NR 22.</b> Regional Integration and Goods and Factors Flows in the Middle East and North African Region and Turkey FEM 31-07, 2007. 7 articles in one report	Turkey, Germany	Range of articles that study determinants and effects of remittances. Notably the effect of the 1996 Customs Union between Turkey and the EU is examined, and found to have positive impact.
	<b>NR 23.</b> A Dynamic Long and Short Term Approach to Migration Between MPC's and the EU: Demographical Framework and the Role of Economic and Social Reforms FEM 32-06, 2008, 3 articles in one report.	Southern Partner Countries	Report that gives an overview of existing labour migration patterns from Southern Partner Countries to the EU. Analysis of determinants of migration flows. Prediction of future migration flows under different policy scenarios. Analysis of the way a common migration policy could fit in the ENP.
	<b>NR 24.</b> Tendances migratoires entre les pays méditerranéens et l'UE: Evaluation quantitative et implications en termes de politiques économiques FEM 31-01, 2007	MENA countries	Analysis of newly raised migration patterns between MENA countries and EU. Comparison with migration patterns of other southern countries. Examination of coherence between national migration regimes and the ENP.
CREMed	<b>NR 25.</b> The impact of MENA-to-EU migration in the context of demographic change Working paper 5, 2010	MENA countries	Analysis of impact of different types of migration flows from the MENA countries to the EU on the sending and receiving areas. Analysis decomposed between the impact of low-skill and high-skill migrants. Implications studied of possible common migration policy which is selective based on skill.

In this model the eastern ENP countries and the EU are modeled using detailed demographic and economic data, and the effects of a range of migration scenarios on economic growth, the demographic distribution, and possibilities for pension reforms are calculated. A third report by Borgy et al. (1, 2009) is based on the same multi-region world overlapping generations model, and studies migration from a global perspective instead of purely the eastern ENP countries.

Finally, Atamanov et al. (1, 2009) focus on the economic effects of changes in migration flows for Moldova, Ukraine, Georgia, Kyrgyzstan, and Russia using a CGE model. All countries except for Russia are large net exporters of migrants. In all these countries remittances have a strong positive effect on private consumption. Russia is the destination country for most of the out-migration from CIS countries, and the model suggests that these inflows of migrants depress real wages in Russia.

The MEDPRO project, carried out by CASE through the FEMISE, is in its early stages, and has as of November 2011 not generated reports on migration or remittances in the southern ENP countries. However, it has generated a report on tourism flows to the southern ENP countries. The third work package of SEARCH will also study tourists as a form of people flows, so this report might be interesting. Tourism is a crucial element of most economies in the Mediterranean region, and has seen tremendous growth over the past decades. This report by Lanquar (7, 2011) projects the impact of different future policy regimes and different levels of political stability on tourism flows to the region. The projections suggest that even in a worst-case scenario, tourism flows will increase towards 2030.

The CASE has just started a new study called: “ENPI – Costs and benefits of Labour Mobility between the EU and the Eastern Partnership Partner Countries” (21, CASE, 2011b), which will focus on the impact of the ENP on labour mobility between Eastern ENP countries and the EU, the effect of these migration flows on sending and receiving areas, and possible policy interventions. This project has no finished reports yet, but in the course of the SEARCH project it is expected to generate a large number of reports that are relevant for SEARCH. Several of these reports would also model the impact of remittances on local economies, and the possible development of remittances due to different policy regimes.

FEMISE has authored two studies which relate to migration. These projects focus specifically on labour migration between the EU and southern ENP countries. The first study from Peridy (24, 2007) analyzes existing trends of migratory flows between the EU and MENA countries, many of

which are southern ENP countries, and determines factors that predict these flows. The study also tries to distinguish these flows from migrant flows from Sub-Saharan African countries. Further, the impact of specific national migration policies on existing migration flows is studied, and the coherence of these policies with ENP migration policies is examined. A rich and detailed econometric model is used to estimate the effect of specific policy measures. Finally, potential migration flows are studied in order to find out to what extent migration flows have reached their potential.

The second study by Lorca and Arce (23, 2008) consists of three publications. The first publication analyzes the extent to which the EU national migration policies are converging to a common policy. It concludes that collaboration on combating illegal migration has proceeded far more effectively than collaboration on allowing legal migration. There is precious little EU-wide collaboration on migration, especially since the rejection of a common constitution which would have enabled migration reforms. However, policy does seem to converge slowly. The second publication takes a purely demographic perspective and shows that continuing trends over the years will strengthen the pressure for existing migratory flows. The third publication concentrates on determining what variables predict migration flows, the influence of policies on these flows, and potential future migration flows under different policy regimes. The publication also gives an overview of a lot of previous articles that have modeled migration flows from and to the EU, and reviews the strengths and weaknesses of these publications.

The CREMed has also authored a study on migration from the MENA countries to the EU, by Docquier and Marchiori (25, 2010). Whereas previous studies look mainly at demographics, this study focuses more specifically on the impact of migration of high and low skill labour on both the sending and receiving regions. Like other studies that assess the impact of migration in both sending and receiving region, they use a multi-region world overlapping generation's model to study the impact of labour migration differentiated by skill. Based on this analysis they conclude that selective migration policies can have a detrimental effect on sending regions, unless there are targeted policies to compensate for loss in human capital. They do make the caveat that large outmigration of skilled labour might introduce stronger incentives for people to get highly educated, which might raise the level of human capital in a region, but do not explicitly model this effect.

There are several important gaps in the reviewed literature. First of all, the literature on migration has only examined the determinants and effects of migration flows on a national level and

regional. These studies do not use data on sub-national migratory flows on a sub-national level, and can therefore not model the causes and effects of migrant flows on this level.

Secondly, the reviewed literature has limited its impact studies to direct effects on the labour market and gdp growth. However, other literature suggests that migration also influence the human capital stock strongly through a range of mechanisms, and thus indirectly affect the economy. These effects can be both positive and negative. Because migration flows are so large in most ENP countries, these effects could have a significant impact on the economy of these countries and therefore deserve more attention.

Thirdly, the research on migration flows does model different policy regimes, and in this regard offers more realistic models than the literature on trade flows (section 3.1), but no research has empirically researched actual changes in migration flows due to specific visa agreements. Visa facilitation agreements have been concluded with several ENP countries (Deliverable 1.2 SEARCH), so it should be possible to empirically measure the impact of these policies.

#### **4.2. Remittances**

Remittances have received less attention than labour migration, but the studies that do examine remittances find that they have a significant effect on receiving economies. Internationally, there is a wide range of literature that examines these effects, but in relation to the ENP the research is relatively scarce.

The only direct study of the effect of the ENP on remittances was done by Atamanov et al. (1, 2009) in the ENEPO project. In this study four CIS countries are examined, and the impact of migration on the sending region is explicitly modeled. It is found that remittances constitute 8 per cent of GDP in Ukraine up to 30 per cent of GDP in Moldova. This is a huge number, and it shows how sensitive these countries could be to changing migration regimes following from the ENP. If the ENP enables free movement of people between ENP countries and the EU, the expectancy is that remittance flows will increase to even higher levels.

The FEMISE has authored one study on remittances. This study does not focus on ENP countries, but takes Turkey as a case study in order to examine different aspects of remittance flows (22, Akkoyunlu, 2008). However, since Turkey exists in a customs union with the EU, without being a member, it could offer an example of the direction the ENP could go. The ENP promises complete access to the internal market, which is similar to entering a customs union. This study has resulted

in seven articles, which each study different aspects of the dynamics between labour migration and remittances.

The impact of the ENP on remittances has received much less attention than the impact of the ENP on migration in the literature. No projects have yet analyzed remittance flows to southern ENP countries, although this information is forthcoming because CASE just started a project on labour migration (21, CASE, 2011b). The studies that have been done mostly examine only the direct income effects of remittances and rarely look at income replacement effects, either through alteration of the human capital stock, through Dutch disease like effects, or through other indirect effects. Also, realistic policy modelling has not been carried out. Finally, there is no overview of the size, causes, and effects of the remittance flows on a sub-national level.

## **5. Technological Activities and Innovation Diffusion**

The fourth work package of the Search project deals with innovation diffusion and technological activities in the ENP countries. The focus of this work package will be on explaining the spread of technological activities and the diffusion of innovation through the EU27 and the ENP countries, and understanding the influence of the ENP on this process. In 2000 the European Research Area (ERA) was launched with the goal of creating a single European research market. In 2007, it was decided to open up the ERA to the ENP countries (ERAWatch, 2011a). Specific research and education policies like the Framework Programmes, Erasmus Mundus, and TEMPUS, were opened for ENP countries on a case-by-case basis (Deliverable 1.1, SEARCH). This section will first give an overview of the research on ERA, and then it will focus on the impact of specific policies like Erasmus Mundus or TEMPUS on innovation systems in ENP countries (table 5).

### **5.1 The ENP and ERA**

To our knowledge there are no projects that specifically examine the impact of the ERA on ENP countries. The two projects that do study innovation systems in the ENP area were launched before the ENP countries were invited to the ERA; these projects will be discussed later in this section (table 5). There are other projects that do examine the European Research Area, but none of these projects specifically focus on the ENP. The ERAWATCH network regularly publishes reports on different elements of the ERA. In these reports the ENP countries are sometimes also mentioned, but to our knowledge the ERA has not published any study that is specifically focused on the ENP countries or on ENP policies concerning the ERA (26, ERAWatch, 2011b).

**Table 5** Overview of European Research Projects relating to the impact of the ENP on technological activities and innovation diffusion.

<b>Institutes</b>	<b>Project Details:</b>	<b>Countries</b>	<b>Topic</b>
ERAwatch network	<b>NR 26.</b> ERAwatch: Range of research documents on the European Research Area. Yearly innovation survey through INNO-Metrics.	All European Area countries	Research Range of research that analyzes the European Research area from different perspective. Never a central focus on ENP countries, but they are often taken along in a general analysis.
Range of partners	<b>NR 27.</b> ESTIME: Evaluation of Scientific and Technological capabilities in Mediterranean countries. Sep 2004-Feb 2007 13 synthesis reports and final overview report.	Morocco, Tunisia, Algeria, Egypt, Lebanon, Syria, Jordan, Palestinian Territory	Description of state of research institutes and science and technology policies. Statistical overview of knowledge production through bibliometrics, in different sectors. Analysis of dynamics of research activities, and use of scientific results. Analysis of impact of specific policy measures and regimes on innovation and research.
Range of partners	<b>NR 28.</b> ASBIMED: Assessment of the bilateral scientific co-operation between the European Union Member States (MS), Accession Countries (AC), Candidate Countries (CC) and the Mediterranean Partner Countries (MPC) May 2004- Jun 2006 9 country reports and 3 overview reports.	Morocco, Tunisia, Algeria, Egypt, Lebanon, Syria, Jordan, Palestinian Territory, Turkey	Stock-taking of existing policies regarding education, research and development. Analysis of impact of separate policies on research collaborations.
CASE through the ERAWatch network	<b>NR 29.</b> Contribution of policies at the regional level towards the realization of the European Research Area. Dec 2008 - Jul 2009	16 EU countries	Analysis of contribution of ERA to the structuring of local science and technology policies. Analysis of barriers to engagement in the ERA process. Possibilities for strengthening the ERA
	<b>NR 30.</b> Monitoring progress towards the European Research Area Oct 2008 – Mar 2009	EU 27 countries	Analysis of the evolution of ERA related policies.

CASE has also carried out two projects that give an overview of the impact of the ERA. The first project by Górczyński (29, 2008) examines to what extent regional policies in sixteen EU regions contribute to the goals of the ERA. This project disaggregates the regions into three different types. Only for the regions which have significant research activities and who can specify their research policies autonomously has the ERA had significant impact.

The second project by Nauwelaers and Wintjes (30, 2008) has monitored the progress of innovation policies towards the goals as espoused by the ERA. This project has carefully examined the activities and programmes at institutional level, and the innovation policies at sub-national, national and regional level in selected areas to find out to what extent the principles of the ERA are being adhered to. The conclusion of this study is that a substantive convergence towards the principles of the ERA is indeed taking place in most regions, but that this convergence is mostly driven by grass-roots efforts of individual research institutions and not so much by national or supra-national policies. It remains to be seen whether this convergence also occurs in institutions and regions that are located in ENP countries.

## **5.2. ENP and Innovation Systems**

Data on scientific production and innovation in the Mediterranean countries is scarce and unreliable. ESTIME is the first project which has tried to develop a systematic overview of the state of the science and innovation systems, and its related policies, in Mediterranean countries, a sub-set of southern ENP countries. A range of country reports for the first time give in-depth information, comparable and consistent information on the concentration of research in different sectors of the Mediterranean partner countries, and the relative impact of scientific production of these countries as compared to other countries. The project also gives a detailed inventory of all the local and regional innovation policies, and analyzes the value of these policies. It concludes that most innovation policies date back to the seventies, and that they are not conducive to either production of innovative scientific knowledge, or the diffusion of this knowledge to society. The report concludes that, by and large, there is a strong separation between research and society and that most knowledge does not diffuse into society (Arvanitis, 2008).

The ASBIMED project also has a focus on the southern ENP countries. Its focus is mostly on bilateral innovation policies between different EU countries and the southern ENP countries. The main purpose of the project was to create an inventory of existing policies which could help with designing more coherent innovation policies in the future. The project has also carried out some analysis on the effectiveness of the innovation policies. By examining the different bilateral and

multilateral innovation and research mobility programs in relation to developments in co-publications and researcher mobility, the project has tried to establish the effectiveness of these policies. It concluded that these policies often bear no correlation to the amount of collaboration between researchers in different countries. Finally, the project maps in significant detail co-publications and collaboration between researchers in southern ENP countries and within the EU. This information gives an initial overview of the existence of research networks in between the EU and ENP countries (28, ASBIMED, undated).

The ESTIME and ASBIMED projects suggest that the southern ENP countries have weak innovation systems at best, with a strong top-down structure. Linked to the conclusion of Górczyński (29, 2008) that only regions with a strong autonomous research policy benefit from the ERA, this would suggest that the ENP countries would have little benefit from the ERA. However, the context in southern ENP countries is significantly different from the EU context, so the results cannot easily be extrapolated. Similar inventory projects to our knowledge do not exist for Eastern ENP countries.

Existing research into innovation in the ENP countries has been hampered by a lack of reliable data and statistics. Two projects have ameliorated this problem by performing a first inventory of the state of research and innovation, and related policies, in the southern ENP countries. To our knowledge, no similar projects have been carried out in the eastern ENP countries, which mean that there is a gap in the data on this topic.

Although these projects try to trace the effectiveness of several policies instated through the ENP that are designed to enhance student and researcher mobility and cooperation they mostly work with outdated data. The ENP has significantly developed the implementation of these policies since these projects have been carried out (Deliverable 1.2, SEARCH). New research could shed more light on the effect of these developments.

Since the ENP countries have been accepted into the ERA in 2007, ERA policies could also influence the innovation systems in ENP countries. No specific research has been done yet into the changes in innovation policies since this decision, or the impact it has had on research and innovation in the area. Some more general studies have been done that try to assess the impact of ERA in the EU and these studies show a cautiously positive result but it is not clear if these results can be extrapolated to the ENP countries due to their drastically different internal structure.

Because research into the impact of the ENP on innovation is in its early phases, most of the gaps identified in the previous work packages are also relevant for this work package. The impact of specific policies is barely studied, no effort is made to disentangle the effect of previously implemented policies and ENP efforts, and studies are only done on a national scale. Finally, indirect effects of the ENP on innovation are rarely studied. For instance: commercial parties also shape the innovation system in countries. These commercial parties and their R&D decisions are inevitably influenced by a range of policies implemented due to the ENP. For example, increased FDI and trade could lead to more commercial R&D in ENP countries, and changing human capital stocks due to migration could also have an impact on R&D.

## **6. The ENP and Social Capital, Cultural Diversity, and the Institutional Environment**

The fifth work package of the SEARCH project focuses on the social, cultural and institutional environment in ENP countries. The themes treated in this work package are quite broad and wide-ranging, so this report will focus on the three core topics which are emphasized in this work package: the role of social capital in innovation and economic growth, the role of cultural diversity in creativity and innovation, and the role of the institutional environment in knowledge creation and innovation diffusion.

The ENP does promote policies that in theory should directly influence the social capital, cultural diversity, and institutional diversity in ENP countries. In the bilateral and cross-border programmes there is funding for cultural programmes, and the Union for the Mediterranean and the Eastern Partnership have funding for an integrated cultural programme which focuses on people-to-people contact and fostering cultural diversity (European Commission, 2011). However, the effects of these policies on social capital and cultural diversity, and its resulting effect on innovation, are difficult to measure. To our knowledge, no project up to now has tried to measure the impact of these types of policies on ENP countries.

As mentioned in section 5, the ENP can also indirectly affect innovation. For instance, migration and trade could affect the level of human capital or the amount of cultural diversity in a region, which could then in its turn affect innovation. Although to our knowledge these effects have not been studied in ENP countries, they have been studied in the EU (table 6). The TRANSFORM project has taken stock of the culture of innovation throughout the EU (31, Didero et al., 2008), which could provide a methodology for collecting data on culture and innovation. The project

limited itself to taking stock of the levels of a culture of innovation, but it did not examine how this culture of innovation is affected by for instance migration or economic development. There is a range of academic literature which does study these kinds of effects. For instance, Niebhur (2006) examines the effect of migration on cultural diversity, and its impact on innovation in regions in Germany, and Hunt and Gauthier-Loiselle (2008) similarly explore the effect of migration on innovation in the United States.

Efforts have also been made to measure the effect of the institutional environment on innovation. The InnoDrive project aims to deliver data on the role of intangible capital in innovative capacity and performance of firms in the EU. On the one hand, this project has developed a method to quantify intangible capital, and has compiled an extensive region-level database of the spread of intangible capital through the EU. On the other hand, a wide range of publications were authored which examine different ways in which intangible capital influences performance and innovation (31, InnoDrive, 2011).

Finally, a number of projects study the effect of the ENP on convergence in a range of other themes, which indirectly might influence social capital, the institutional environment and cultural diversity. The EXLINEA project deals with the fifth enlargement and examines to what extent there is capacity to support the formation of European regions across border areas in Central and Eastern Europe. These European regions would consist of co-operative structures which alter the institutional environment, and could therefore offer a study of the ways in which integration could shift the institutional structures on a sub-national level (Scott & Matzeit, 2006). The EUDIMENSIONS project has similar goals, and examines how cross-border cooperation between the EU and neighbouring countries is affected by the shifted political environment, and how this affects relations between communities across borders (Boechner & Scott, 2009). The EUBORDERREGIONS project, finally, has just started in 2011 and will further examine the role of cross-border interactions and its effect on economic, social and territorial cohesion. These three projects do not directly relate to the topics of work package five, but they indirectly all study how the institutional environment shifts in border areas of the EU in response to European policies (EUBORDERREGIONS, 2012).

This overview suggests that research into these topics is in its starting phase. Although a number of mechanisms have been explored through which social capital, cultural diversity and institutions influence innovation, both in empirical research on the EU and in academic research; no-one has specifically examined these effects in ENP countries. Furthermore, although the effects of social

capital, cultural diversity and institutions have been explored to some extent, to our knowledge no studies have specifically examined how policies have affected these topics. There is a dearth of data on these topics, and the SEARCH project could contribute significantly to our understanding of the mechanisms that shape these topics, and the mechanisms through which these topics can influence innovation.

**Table 6** Overview of European Research Projects relating to the social, cultural, and institutional environment in ENP countries and its impact on innovation.

<b>Institutes</b>	<b>Project Details:</b>	<b>Countries</b>	<b>Topic</b>
Transform consortium	<b>NR 31.</b> TRANSFORM: Benchmarking and Fostering Transformative Use of ICT in EU Region. Jan 2006 – Jun 2008	EU 27 countries	Analyze the transformative role of ICT on a sub-national level, and analyze the way in which the local culture of innovation influences this process
University of Vaasa	<b>NR 32.</b> InnoDrive: Intangible Capital and Innovations, Drivers of Growth and Location in the EU Mar 2008 – Feb 2011 20 academic publications and a number of databases	EU 27 countries	Analysis of the role of intangible capital on innovation in the EU through a range of publications. Development of a database with information on the spread of intangible capital throughout the EU

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