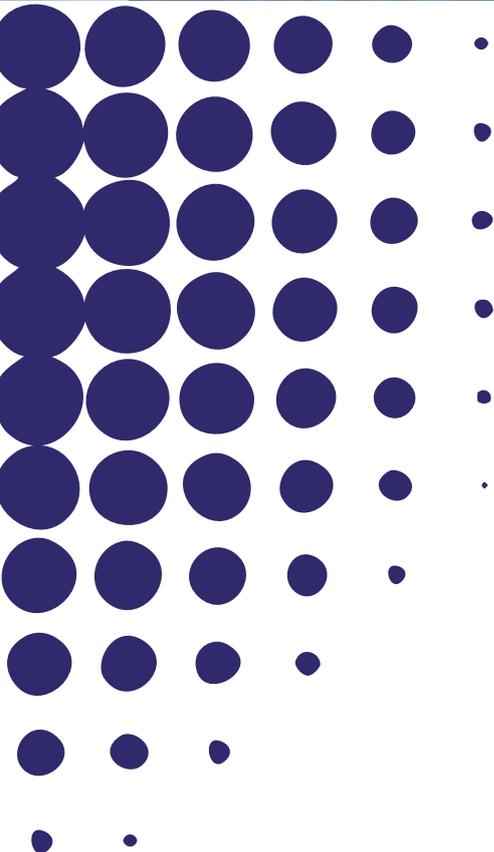


# SEARCH Public Policy Report

How the European Neighbourhood Policy can strengthen  
integration between the European Union and  
Neighbourhood Countries: New Policy Directions.

July 2014



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**SEARCH**

SHARING KNOWLEDGE ASSETS:  
INTERREGIONALLY COHESIVE  
NEIGHBORHOODS



EUROPEAN COMMISSION  
European Research Area

Funded under Socio-economic Sciences & Humanities



SEVENTH FRAMEWORK  
PROGRAMME

## **Sharing Knowledge Assets: InteRegionally Cohesive Neighbourhoods**

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**SEVENTH FRAMEWORK PROGRAMME**

**SSH – 2010**

**SOCIOECONOMIC SCIENCES AND HUMANITIES**

**FP7 Collaborative Research Project**

**Topic SSH-2010.2.2-1-266834 EU regions and their interaction  
with**

**the neighbourhood regions**

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**Coordinator: Jordi Suriñach**

**[www.ub.edu/searchproject](http://www.ub.edu/searchproject)**

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integration between the European Union and Neighbourhood  
Countries: New Policy Directions**

**SEARCH Public Policy Report**

The public policy report of SEARCH – **Sharing Knowledge Assets:**  
**Inter-regionally Cohesive Neighbourhoods Project**  
An EU Framework Programme 7 Project  
(This report was written by Nuala Moran)

***“I commend you for a job well done. There has been a tremendous amount of work, high standards of scholarship and modern methods of evidence gathering. The conclusions of each working package are pertinent, and the policy inferences are realistic and to the point.”***

Sergiu Celac, Former Foreign Minister of Romania, SEARCH Advisory Board member, speaking at the SEARCH Final Policy Conference, Istanbul, Turkey 2 – 3 June 2014.

## **Foreword**

Now more than ever, the European Union needs an effective neighbourhood policy.

With the aftermath of the Euro crisis still reverberating, the increased support for Eurosceptic and anti-immigration parties in the Euroelections in May 2014, and the political instability triggered by the Arab Spring and Russia’s annexation of Crimea, the European Union is in urgent need of effective policies to guide – and around which to strengthen – its relationships with Neighbourhood Countries.

Ten years after it came into effect, the core ambitions of the European Neighbourhood Policy – in seeking to establish special relationships based on the values of the EU and to promote human rights, democracy, the rule of law, good governance and sustainable, inclusive development – are as pertinent as ever.

But current tensions around migration and the shifting geopolitical sands indicate it is time to do more to hone existing policy in the light of experience, to look for fresh approaches and to inject new impetus into neighbourhood policy.

The task of taking up this pressing challenge falls to the newly-elected European Parliament and newly-appointed European Commission, both of which are fully aware of the joint interest in strengthening relationships, whilst at the same time assisting Neighbourhood Countries to carry out reform and strengthen themselves from within.

It is timely then, that the Framework Programme 7 SEARCH project, set up to establish a body of objective research around which to frame policy that will strengthen integration, has just completed its work and drawn up its policy recommendations.

In total, the research carried out in the SEARCH project underpins 77 policy recommendations. From these, 39 core policies covering trade, migration, technology transfer and institutional reform were selected and stress-tested.

Then with the help of the SEARCH Expert Advisory board, a Top Five list of the policies that would both generate the most benefits - and be the least difficult to implement - was drawn up.

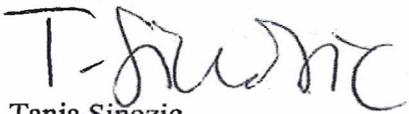
The list is presented in this summary of the key findings of the SEARCH project, which has been written specifically for incoming members of the European Parliament, new Commissioners, and for the policy makers and analysts in the regional, national and EU bodies and non-governmental organisations that are charged with implementing neighbourhood policy. It is also intended to draw the attention of the media to the issues raised, and to inform public debate.

None of the dossiers awaiting the new Parliament and Commission can be handled in a business as usual mode, and this is particularly so for the European Neighbourhood Policy.

The SEARCH project, conducted by researchers at 19 institutions across 14 EU and neighbourhood countries, provides a solid evidence-based foundation on which to reappraise and re-shape European Neighbourhood Policy.



Edward Bergman  
SEARCH Policy Team Leader



Tanja Sinozic  
SEARCH Policy Team Member



Jordi Suriñach  
SEARCH Project Coordinator

## **An introduction to the context of the SEARCH project**

In the ten years since it was established in 2004, the European Neighbourhood Policy has accelerated and intensified trade and capital flows between the EU and the European Neighbourhood Countries.

However, it is also the case that the main policy mechanism, under which free trade agreements with the EU are conditional on a Neighbourhood Country implementing political and institutional changes that are in line with the EU's core values, has not generated the hoped-for reforms.

As a result, there remains considerable scope for further expansion of economic interactions between the EU and its neighbours.

Experience of the European Neighbourhood Policy over the past decade has also highlighted other problems. Integration between the EU and its neighbours is unbalanced, and within individual Neighbourhood Countries has favoured capital cities and the most dynamic regions, leaving less-well endowed regions even further behind.

Overall, the cherished ambition of convergence is far from becoming a reality and the idea that the EU can achieve economic integration with its neighbours needs to be re-examined.

Putting the shortcomings of the European Neighbourhood Policy per se to one side, it is pertinent to note there have been some significant shifts in the environment in which it is operating over the past ten years.

If the Euro crisis has slowed the pace of integration, Russia's reaction to Ukraine's signing of an association agreement with the EU has called into question whether the objective - of strengthening prosperity, stability and security of the EU by creating a ring of politically sound, economically stable countries around its borders - is realistic. As a new Commission and Parliament comes into office, this points to the need for a fundamental reappraisal of the European Neighbourhood Policy.

This final report of the SEARCH project therefore arrives at a very timely moment. It is based on over 100 original research papers from which – with the help of experts in the EU and the Neighbourhood Countries - a series of policy recommendation has been distilled.

*The SEARCH findings, "Could not have been more timely," Yuri Borgmann-Prebil, SEARCH Officer at the European Commission, speaking at the Final Policy Conference, Istanbul, 2-3 June 2014*

## The scope of SEARCH, its policy impact and future research perspectives

Whereas previous academic studies of the European Neighbourhood Policy focussed on trade, the SEARCH project also examined migration, the part the Neighbourhood Policy has played in improving the institutional environment, the ways in which cultural diversity can promote innovation, and the inter-relationships between innovation and social capital.

In another notable departure, the SEARCH project assembled a truly multinational research team, involving academics from across the EU and in the Neighbourhood Countries of Israel, Morocco, Russia, Turkey and Ukraine.

This academic network remains in place and the knowledge base created by SEARCH is open to all via the project's website. These important resources are available to policy makers, and ready to be applied to future research on the relationship between the EU and Neighbourhood Countries.

Indeed, in demonstrating how scientific research can be distilled into policy, SEARCH lays important ground for the Horizon 2020 objective of ensuring projects are relevant to societal needs, and highlights the fact that policy impact is as important as scientific excellence.

Impact is a central feature of SEARCH. From the 100 research papers and series of policy notes and briefs, 77 policy directions were selected and reviewed by team members, who winnowed the list down to 39 policy recommendations that could be expected to have the greatest effect.

These were then assessed by external experts from the Neighbourhood Countries who scored them in terms of how well they might fit varying regional circumstances, their relative benefits and the potential ease of implementation.

To understand the relevance of policy recommendations emerging from SEARCH, policy experts and officials were asked:

- How well does this proposed policy fit what you find on the ground in your region?
- How likely is this policy to benefit your region?
- How easy would the policy be to implement?

In total 12 trade policies, 11 migration policies, 7 innovation policies and 9 institutional policies were scored. Overall, the innovation policies were considered to provide the best fit and the most benefit for ENC regions.

*“Politicians want that evidence presented to them should be actionable,” Sergiu Celac, Former Foreign Minister of Minister of Romania, SEARCH Advisory Board member, speaking at the Final Policy Conference, Istanbul, 2 – 3 June 2014.*

## **The SEARCH Top Five most relevant policies**

There is clearly a trade-off between the desirability of a proposed policy from the EU's perspective and the difficulty of its implementation from the perspective of the Neighbourhood Countries. This Top Five emerges as being both desirable and easy to implement:

- 1. The EU should factor regional differences in the innovation capacity of Neighbourhood Countries into the formulation of its policies.***

The prospect of stronger cross-border knowledge flows is very important to Neighbourhood Countries. However, they face many difficulties in engaging and struggle to take full advantage of these potential benefits, and policies to promote knowledge flows and innovation need to be tailored in the light of these differences and difficulties.

*While it is clear there is no one size fits all policy, the European Neighbourhood Countries can learn from each other. "That's very important. You can look and see what policies were effective," Iurii Bazhal, National University of Kyiv-Mohyla Academy and SEARCH Advisory Board member, speaking at the Final Policy Conference, Istanbul, 2 – 3 June 2014.*

- 2. The EU should make it more attractive for migrants to make remittances by reducing transfer fees and double taxation.***

This would be an easy win because SEARCH has shown remittances from migrants promote economic development and fund education in Neighbourhood Countries.

- 3. The European Neighbourhood Policy should aim to encourage the development of improved infrastructure for making electronic money transfers.***

Making it easier to transfer money would further enhance and promote the positive effects of remittances.

*The SEARCH Istanbul Conference took place in the wake of EU elections that saw far-right, anti-immigration and Eurosceptic parties increase their share of the vote and number of MEPs. This shift in sentiment should be taken into account in framing policy recommendations, said Torek Farhadi, Senior Advisor, Trade Finance for SMEs, International Trade Centre, who suggested immigration is "more digestible" if it is linked to economic success.*

- 4. Build channels for knowledge to diffuse within and between the European Neighbourhood Countries and the EU.***

SEARCH suggests two ways to do this, first promoting mutual understanding of different cultures and languages would reduce barriers to communication and make it easier for people to collaborate.

Second, allow students from the Neighbourhood Countries to study in the EU and be interns in EU companies, and encourage EU students to go to Neighbourhood Countries to study and gain work experience.

*“A central pre-condition for catching up in economic, social and political spheres is the acquisition and creation of knowledge and technology,” Stefano Usai, University of Cagliari, Italy and SEARCH researcher, speaking at the Final Policy Conference, Istanbul, 2 – 3 June 2014.*

Mobility of students is already recognised as one of the key mechanisms of knowledge diffusion within the EU and is supported by a number of EU programmes. Extending this to the Neighbourhood Countries is a potent way to promote knowledge exchange and build social capital.

*“Turkey has gone to [a] mid-tech [economy] thanks to customs union [with the EU] But to move from mid-tech to high-tech you need more - and deeper – engagement, in intellectual property rights, research partnerships, co-authorship, co-inventorship,” Ozan Ocar, the Economic Policy Research Foundation of Turkey, at the Final Policy Conference, Istanbul, 2 – 3 June.*

##### **5. Increase technical assistance and investments in Neighbourhood Countries to promote the development of an innovation-friendly environment**

The ambition of promoting overarching institutional reform has been undermined by experience and the upheavals of the Arab Spring and Russia’s annexation of Crimea. Rather than across the board institutional change, the European Neighbourhood Policy should home in on reforms that generate long-term improvements in the institutions that are required to underpin the formation and growth of companies.

#### **Perspective of the Arab Maghreb Union**

Following the Arab Spring, the Maghreb Union is moving to renew its mission and reinvigorate the economic integration process put in train on its formation in 1991. Some of its committees and bodies are active, others in the process of being set up; a trade agreement to establish a common market, agreed in 2010 is in the process of being implemented and a bank is ready to be launched to finance infrastructure and trade, as Redi El Merini of the Arab Maghreb Union described.

As things stand, Maghreb is “the least developed neighbourhood in the world,” with major development challenges, including high youth unemployment, vulnerability to climate change, governments under pressure, security challenges, and so on. “Maghreb is working to tackle this; it needs substantial support, particularly from the EU,” El Merini said.

Although the EU has bilateral links with individual countries in Maghreb, there needs to be an EU/Maghreb link to support integration and allow Maghreb to learn from EU experience. European Neighbourhood Policy could be applied to Maghreb, in particular in the areas of education and governance, El Merini told the Final Policy Conference in Istanbul, 2 – 3 June.

The Top Five policy recommendations are endorsed by the SEARCH Advisory Board.

Other policy recommendations from four areas of the European Neighbourhood Policy - and the research underpinning them - are discussed below and in the SEARCH Final Policy Report (<http://www.ub.edu/searchproject/wp-content/uploads/2014/05/SEARCH-Deliverable-6.5.pdf>).

- The four areas are: Trade and Foreign Direct Investment
- Mobility and Migration
- Innovation and Knowledge Flows
- Building Institutions and Social Capital

## **Trade and Foreign Direct Investment: Policy Recommendations**

***Policy recommendation 1: The EU needs to more finely calibrate conditions and concessions to the specific circumstances of each Neighbourhood Country.***

The EU has put trade incentives at the centre of neighbourhood policy, but to understand the attractions of such incentives and to structure future policy, it is essential to understand the volume, value and type of current bilateral trade flows.

It turns out that with the exception of energy, trade between the (then) EU27 and the European Neighbourhood Countries, was flat between 2000 – 2010, raising the possibility that the conditions the EU attaches are a deterrent to agreeing a trade pact.

***Policy recommendation 2: Trade concessions, incentives and support should focus on growing trade between the Neighbourhood Countries and the EU's middle and low income member states.***

Overall, SEARCH shows trade with the EU contributes to the growth of gross domestic product in the Neighbourhood Countries. But there is a curious anomaly, in that this only applies when trade is with middle and low income member states. When trade as a percentage of GDP with high income member states increases, the impact on a European Neighbourhood Country's trade turns negative.

This suggests that policy should focus on fostering trade between neighbouring countries and the newer EU members.

***Policy recommendation 3: Attempts to promote industrial diversification in Neighbourhood Countries should initially focus on those sectors that lead in terms of exports. In the longer term, policy should focus on improving the innovation ecosystem to support the formation and growth of companies. Lifting trade restrictions would bolster both these long- and short-term measures.***

Jumping into a new industry is not the route to successful diversification of production and exports. Instead, countries need to build on existing strengths and move into related areas. As the SEARCH project demonstrates, product relatedness has a strong effect, both in keeping a comparative advantage in established products and in diversifying into new products.

As a result, short-term policy should focus on development of closely-related sectors. Over the longer-term it is important to promote development of institutions and capabilities that support company formation and growth.

***Policy recommendation 4: Persist with the promotion of reforms to make Neighbourhood Countries attractive destinations for FDI, by focussing on property rights, legal systems and the strengthening of the institutional frameworks.***

European neighbourhood countries attract similar levels of FDI to EU member states, even though currently they may lack many of the supports and protections that are available for

businesses in the EU28. Despite this, the quality of economic institutions and governance was shown by SEARCH to be a driver in FDI decisions.

Given this, SEARCH concludes that continuing to promote institutional reforms has the potential to further stimulate FDI in neighbourhood countries.

Strong governance not only attracts international capital, it is also fundamental to stimulating domestic economies, which in its turn, is a further lure for foreign investors.

***Policy recommendation 5: Ensure the greater potential of FDI from the EU - vis-à-vis foreign capital from other sources – is highlighted in discussions and negotiations on trade and institutional reforms. At the same time the European Neighbourhood Policy should address the finding that regional disparities are intensified by FDI.***

Evidence from SEARCH shows that FDI originating in the EU has what the researchers term a “productivity advantage”, over investments from elsewhere, because it generates greater spillovers for domestic companies.

As things stand, the value of FDI spillovers is yet to be maximised, suggesting further capital will deliver increasing benefits. These future productivity benefits and the growth that can be expected to flow from FDI originating in the EU should be highlighted when offering trade pacts as an incentive for institutional reform.

However, it is also important that EU policy focusses on helping Neighbourhood Countries to redress regional disparities set in train by FDI.

*“The EU is not Santa Claus. We are there to do good, but we also want to look after our own interests,” said Jussi Narvi, EU External Action Service ENP Division and SEARCH Advisory Board member, commenting on the SEARCH study on the patterns of economic interactions between the EU and Neighbourhood Countries, and policies to increase trade and FDI at the Final Policy Conference, Istanbul, 2- 3 June 2014.*

### **Regional Disparities and FDI in Ukraine**

SEARCH surveyed 153 foreign companies in three regions of Ukraine in 2012, to understand the motivation for their investment decisions. Investors are most likely to invest in the capital region of Kyiv, rather than the bordering regions of Lviv and Kharkiv, due to larger markets, better access to resources and the higher quality of institutions in the capital. Lviv, which is closest to the EU border, has a high concentration of human capital, which pulls in labour-seeking FDI.

Meanwhile, the Kharkiv region on the eastern border retains its Soviet era industrial infrastructure and continues to attract inward investment from companies in the Commonwealth of Independent States, reinforcing long-established trading relationships.

The attractions of the higher quality business environment in Kyiv for foreign investors underline the need for the European Neighbourhood policy to support measures that aim to reduce regional disparities. This policy lesson from Ukraine could read across to other Neighbourhood Countries with similar regional structures and levels of economic and institutional development. It also points to the need to balance compliance with EU standards with targeted programmes of support to improve skills, build technology infrastructure and promote formation and growth of SMEs.

## **Mobility and Migration: Policy Recommendations**

***Policy recommendation 1: Promote inter-regional and international competition for skilled labour by reducing institutional barriers to the circulation of highly-educated people between the EU and Neighbourhood Countries and supporting their participation in research networks.***

Evidence gathered by the SEARCH project indicates that EU programmes such as Erasmus Mundus, Marie Skłodowska-Curie and the European Research Council, which promote the mobility of highly-skilled researchers and scientists, can play a significant role in fostering innovation in less-developed regions.

However, distance and differing terms and conditions remain as barriers for skilled researchers who might otherwise be persuaded to relocate. Increasing the transparency of recruitment procedures, improving the portability of health insurance and pension provision, and reducing differences in taxation via bilateral agreements, could lower these hurdles.

Research collaborations within the EU have been shown to reduce the frictions that limit labour mobility and this benefit could be extended if Horizon 2020 and other research programmes were to embrace the neighbourhood countries.

***Policy recommendation 2: Establish a programme for assessing the skills levels of migrants and provide assistance in transferring skills to new markets.***

SEARCH found that immigrants from neighbouring countries are likely to be better educated than natives and that there is a risk they will be trapped in jobs for which they are over-qualified. Migration policy should incorporate formal criteria related to education levels and matching current labour market needs, as for example, in Australia's points system.

There should also be a system for assessment and recognition of foreign skills and help for skilled immigrants to transfer their skills to new labour markets.

***Policy recommendation 3: Focus policies for attracting skilled workers on capital cities.***

Since highly skilled workers tend to concentrate in capital cities and their regions, talent cannot be used as a means to promote economic convergence. However, this does mean it is logical to focus policies designed to attract highly-skilled workers on capital cities and the EU could promote efforts to attract highly-skilled people to the capital cities of the Neighbourhood Countries.

***Policy recommendation 4: Make sure migrants are aware of labour market conditions in destination countries.***

There is a relationship between labour market conditions and migration. The effect of changes in the labour market should be taken into account in framing migration policy. For example, increasing the minimum wage may attract more natives into the labour force, whilst at the same time attracting more migrants.

Migration policy therefore needs to be calibrated against labour market conditions and information made available to would-be migrants.

*SEARCH provides a good theoretical framework on migration, with most of the findings in line with findings from surveys we have carried out, said Ummuhan Bardak, Senior Labour Market Specialist at the European Training Foundation. However, there is a difficulty in, “Drawing common conclusions from such a diversity of geography,” Bardak told the Final Policy Conference in Istanbul on 2 – 3 June 2014*

***Policy recommendation 5: Migration policy needs to factor in economic cycles.***

The financial crisis has spurred new waves of migration. At the same time, SEARCH found that immigrants from neighbouring countries are at greater risk than natives of losing their jobs as a result of economic downturn or

recession. For host countries, and by extension, the EU as a whole, the presence of large numbers of unemployed immigrants presents a risk.

This highlights the need for the European Neighbourhood Policy to take the impact of financial cycles into account. It would make sense for the EU to invest in increasing the employability of would-be migrants, increasing the pace of their assimilation.

***Policy recommendation 6: Understand attitudes to migrants.***

Sentiment towards migrants varies across the EU, with respondents to surveys in western Europe worrying about threats to economic and social welfare, while respondents in the newer EU member states worry more that immigrants will undermine local culture. Given this, both the EU and neighbouring countries need to understand the specific fears and bear these factors in mind when framing immigration policy.

***Policy recommendation 7: Make remittances work to promote economic development and education in neighbouring countries.***

Work carried out by SEARCH indicates that remittances contribute to development in receiving countries, with evidence that these funds are frequently used to pay for education. It is suggested that measures to assist people in making remittances are factored into migration policy.

It should be made easier for immigrants to send money home by promoting the provision of infrastructure for electronic money transfer, reducing fees and eliminating double taxation. If migrants were encouraged to make larger, fewer remittances this would stimulate the provision of services to make the transfers, SEARCH says.

***Policy recommendation 8: Stimulate temporary migration.***

Hand-in-hand with moves to increase remittances, stimulating temporary migration of higher-skilled people who remit more money would both avoid a permanent brain drain and have a financial benefit for neighbourhood countries.

At the same time, temporary migration can better meet labour requirements of host countries across the business cycle. Returning migrants will take home new skills, experience and contacts.

## **Knowledge and Innovation Policies: Policy Recommendations**

***Policy recommendation 1: Encourage the diffusion of knowledge between the EU and Neighbourhood Countries by promoting mutual understanding of languages and culture.***

Since collaboration is favoured when people speak a common language, EU neighbourhood policy should foster learning of languages and understanding of different cultures. In particular, SEARCH highlights the potential for the Francophone countries to build common knowledge networks. It is suggested that MOOCs (Massively-open online courses) could be used as a tool to promote language learning and knowledge-sharing.

***Policy recommendation 2: Balance the flow and mobility of students.***

This will ensure knowledge flows are two-way. In addition, students should not be limited to academic study, but should also be able to take up internships in companies.

***Policy recommendation 3: Promote the generation and diffusion of knowledge by, and amongst, universities, in specific sectors, and in specific companies, and allow Neighbourhood Countries to take part in the Framework R&D Programmes.***

Taking part in collaboration networks, such as those funded through the Framework R&D programmes, has been shown to significantly increase and enhance research productivity, without requiring that collaboration partners are geographically close.

In view of this, if high quality universities and public research institutions in Neighbourhood Countries were the focus of research collaboration networks, it could have a positive effect on the productivity of a region.

Allowing universities in Neighbourhood Countries to take part in Framework Programmes could provide the kernel for regional economic development policies that aim to attract corporate laboratories related to the research specialisation, and underpin skills development and infrastructure development.

Opening Framework Programmes to companies in neighbourhood countries would increase their ability to adopt externally-generated technologies.

***Policy recommendation 4: Skills first; R&D second.***

All other things being equal, SEARCH has shown it is more important to invest in skills than R&D, since this promotes both the internal creation of knowledge and the absorption of knowledge that has been generated externally. Overall, the impact of a well-educated labour force on innovation activity is much greater than the impact of formal R&D budgets.

***Policy recommendation 5: Remove red tape constraining innovation.***

Laws on intellectual property rights and the movement of scientific materials and chemical and biological samples vary from one European Neighbourhood Country to another, hindering cooperation.

In supporting development of national legal frameworks, European Neighbourhood Policy should promote international standards. In particular, national rules on the import and export of scientific samples are a significant barrier to science and technology cooperation with neighbourhood countries.

***Policy recommendation 6: Establish training courses on innovation management and entrepreneurship in Neighbourhood Countries.***

Promoting the exchange of information between institutions in member states that have expertise in innovation management and entrepreneurship would allow Neighbourhood Countries to develop these critical competences. There should also be channels to share experience on legislation, tax and intellectual property rights issues that have an impact on innovation policy, to identify best practice and barriers, in both EU member states and Neighbourhood Countries.

***Policy recommendation 7: Encourage joint ventures, strategic alliance and mergers and acquisitions by de-risking foreign direct investment and encouraging innovative EU companies to start operations in Neighbourhood Countries.***

Innovation can be driven by FDI and trade. In fact, joint ventures, strategic alliances and M&A represent a key channel for directing innovation-promoting investment to the Neighbourhood Countries and strengthening the competitiveness of ENC markets.

In view of this, ENP should introduce policies to reduce the risks for foreign investors arising from uncertainty and instability in Neighbourhood Countries, and support neighbouring countries in making their markets more open and competitive.

*Showing what policies have been implemented in which countries, “Will give a sense of how easy [a particular] policy is to implement,” said Danny Shefer, Centre for Urban and Regional Studies, Technion-Israel Institute of Technology and SEARCH Advisory Board member. A policy may be perfectly sensible, but impossible to implement, so each policy suggestion should be tagged with the probability of success. “This would be a more usable tool in terms of where to put effort,” Shefer commented at the Final Policy Conference, Istanbul, 2 – 3 June 2014.*

SEARCH found there are an increasing number of patents with co-citations between the EU and Neighbourhood Countries, pointing to greater collaboration in research and commercialisation. This will increase as the amount of FDI and the level of trade openness grows.

The European Neighbourhood Policy needs to accommodate regional differences in innovation capabilities. There should be moves to stimulate exports in the short run, by focussing on those companies in Neighbourhood Countries that have the greatest chance of success in foreign markets.

## **Institution Building and Social Capital policies: Policy Recommendations**

### ***Policy recommendation 1: Reinvigorate the European Neighbourhood Policy.***

Many European Neighbourhood Countries remain low in international rankings in terms of democracy, human rights, good governance, the rule of law and open market economies, calling for a renewal of the European Neighbourhood Policy and a fresh push to address these deficits.

One of the key underpinnings of all such reforms is good quality data. SEARCH researchers encountered significant difficulties accessing reliable data and make recommendations for improving the situation. At the same time, ENC officials are unable to make reliable assessments of the exact circumstances with which they are dealing, making it difficult to tailor policies.

While it may be self-evident that strong institutions and social capital underpin development, SEARCH is important in having drawn together quantitative evidence in the following areas:

- The importance of social capital and institutional quality for economic growth;
- The role of social capital in innovation and entrepreneurship;
- How the European Neighbourhood Policy can be applied to influence the quality of institutions in European Neighbourhood Countries;
- How to tailor policy to suit the specific situation of individual Neighbourhood Countries;
- How to address the disparity in the education systems of the EU and the neighbouring countries.

The ‘Institutional Quality of Public Services Index’ indicates that to date the European Neighbourhood Policy has been a positive influence in some aspects of institutional reforms, for example, there have been considerable improvements in the quality of education in Ukraine and of innovation capacity in Moldova.

However, elsewhere the picture is not so encouraging, and convergence is far from being a reality. The danger is that the reform process runs out of steam, again pointing to the need for a renewed push on neighbourhood policy.

### ***Policy recommendation 2: Attend to informal institutions.***

Equal attention should be paid to informal institutions (for example personal networks) as to formal institutions. Both are required for the emergence of functioning market economies.

### ***Policy recommendation 3: Support the restructuring of vocational education and training systems.***

SEARCH identified a mismatch between skills supply and labour market demand in the European Neighbourhood Countries, indicating a need for restructuring and reform.

Amongst other recommendations, there should be incentives for older workers to retrain, for companies to do more vocational training, measures to open the labour market to women and to encourage companies to take on more young workers.

***Policy recommendation 4: Tailor policies designed to boost social capital to individual countries.***

The importance of understanding the drivers in each country is exemplified in the case of social capital.

SEARCH found that in general, trust levels increase with overall economic development and growing incomes, appearing to indicate that pro-growth policies should foster development of social capital. However, in countries, including Serbia and Ukraine, with low initial welfare levels, rising incomes are associated with low trust in institutions and lower acceptance of social norms.

Indeed, in some newer member states, including Bulgaria, Hungary and Latvia, trust in institutions has been shown to be lower than in some European Neighbourhood Countries, even though these member states are in a phase of development where it would be expected that growing incomes would promote higher levels of trust.

***Policy recommendation 5: Enhance participation in networks and collaborations.***

Social capital and innovation are closely linked. Professional and social contracts that are established in collaborations are important both for diffusing knowledge and building social capital.

Universities and the private sector should be supported to take part in collaborations and form networks with peers across the EU. They could for example be invited to take part in Horizon 2020. The challenge-led, multidisciplinary approach that is being pioneered in this latest Framework Programme will bring together scientists and policy makers from different backgrounds, creating links across disciplines and within regions.

***Policy recommendation 6: Address individual sectors according to their technology opportunity levels.***

In knowledge-intensive industries, such as software and information and communication technologies, a culturally-diverse labour force of people with similar competences yields high levels of innovation.

However, in low-tech industries, where rather than knowledge creation, knowledge diffusion is what matters, cultural diversity of the workforce has a smaller impact on innovation. It is more important in such sectors that competences are complementary.

***Policy recommendation 7: Liberalise the business environment to encourage SMEs.***

Many Neighbourhood Countries still lack the basic institutional framework in which entrepreneurship can flourish, new companies are formed and established firms invest and grow.

In addition to macroeconomic stability and property rights, this calls for an institutional support structure for SMEs. There needs to be formal institutions to monitor and enforce competition laws, a requirement for informal institutions that build trust and underpin development of broad networks of business partners.

***Policy recommendation 8: Address the skills/labour market mismatch.***

There is a clear mismatch between skills that are taught and the labour market requirements in the mid-level workers with secondary education in many Neighbourhood Countries.

This calls for reform of secondary vocational schools to improve efficiency and replace out of date curricula.

Higher education also needs attention, since there is a growing demand for highly skilled workers. Better provision of adult training and re-training would help to meet the demand for new skills that is driven by new technology and structural change.

***Policy recommendation 9: Focus on practical requirements to depoliticise legal alignment.***

The European Neighbourhood Policy's formal attempts to harmonise laws have, for one reason or another, lost credibility and more or less run into the ground.

SEARCH recommends that rather than focussing at the political level, the emphasis should switch to trade. Enhanced cooperation, closer institutional links and networking at a technocratic level would promote alignment on trade-related issues and depoliticise moves towards regulatory and legislative alignment.

At the same time, trade incentives should be re-orientated towards the reform of trade and regulatory frameworks, rather than focussing on political reform. Attempts to harmonise intellectual property rights should drop one size fits all, and adopt a more balanced, bi-lateral approach. The main focus of bi-lateral agreements on IPR should be in trade, with the aim of ensuring coordination of judicial procedures and enforcement mechanisms.

*The biggest incentive for Neighbourhood Countries to embark on institutional reform is EU accession, noted Kamile Yuksel Gurdal, Republic of Turkey Ministry of EU Affairs. Between 1999 (when Turkey became a candidate country) and 2005, significant reforms were put in train. Now though the accession process has run into the ground and as a result the EU risks losing credibility. "The driving force for institutional transformation in Turkey is EU accession. [Turkey] won't adopt EU values if it can't see light in the end," Gurdal told the Final Policy Conference in Istanbul, 2 – 3 June 2014.*

## **Stress-testing the validity of the SEARCH policy recommendations**

Whilst the researchers have confidence in the methodology and review process underpinning the SEARCH policy recommendations, they have subjected their findings to further evaluation. The aim was to illustrate where the individual policy references fit within the broader frames of reference. In particular:

1. What is the relevance of specific policies to specific ENC regions? Which concepts are considered by external ENC experts to be applicable and which not?
2. How do the four broad areas of policy overlap, and are they potentially complementary?
3. How should officials go about drawing up strategic portfolios of policy concepts from across the four categories?

In addition to the external expert review as described earlier in the report, two other tests – text-mining and modelling of policy impacts – were used in the evaluation.

This stress testing of the policy recommendations, the guide to the strategic grouping of recommendations from different policy areas to generate synergies and maximise impact; and the use of a robust and proven technique for modelling impact, adds to the value and utility of the SEARCH findings.

## Concluding perspectives from SEARCH and future policy directions

As one of the EU's main economic policy instruments, the European Neighbourhood Policy is undoubtedly due a rethink. Putting geopolitical shifts and the financial crisis to one side, SEARCH has highlighted the need for a new mind set.

Neighbourhood Policy should not start from the point of imposing European values. Rather, Neighbourhood Countries should be viewed as current and future (equal) partners and policy should concentrate on upstream factors that enhance a country's ability to absorb external knowledge. This is the route to enhancing domestic capabilities, promoting economic growth and making Neighbourhood Countries more competitive.

The SEARCH project has generated the evidence base that will help policy makers to reorient the European Neighbourhood Policy to meet the needs of the EU and of its neighbours.

In summary, the results of this project will:

- **Broaden** the scope of possible evidence-based policies available to ENP policy makers;
- **Stimulate** use of major strategic policy clusters as a means of framing policy choices;
- **Improve** the chances that the fit, benefit and implementation potential of policies are considered;
- **Inform** a rethink and reassessment of ENP by the newly-elected European Parliament, newly-appointed European Commissioners and ENC officials
- **Enable** ENCs to improve their negotiating positions
- **Help define** the subsequent Horizon 2020 research agenda.

## **Addenda**

### **1. SEARCH Project overview and objectives**

The European Union (EU) has progressively established partnership agreements to strengthen cooperation with its neighbouring countries. In 2004 the European Neighbourhood Policy (ENP) was established with the objective of avoiding the emergence of new frontier divisions between the enlarged EU and its immediate European Neighbourhood Countries (ENCs), while striving to bring peace, prosperity and stability to all. The partnership agreements have been difficult to negotiate in some cases due to internal opposition to expected Acquis reforms or because the value of integration diminished somewhat with the onset of the financial crisis. In extreme cases, some ENCs withdrew from partnership negotiations entirely, Ukraine most notably and tragically, but also Armenia, in the face of measures taken by Russia to promote its own Neighbourhood Policy. This report attempts to document the principal factors affecting integration potential by conducting rigorous evidence-based research of underlying factors and presenting policy inferences worthy of further consideration.

The main objective of the SEARCH Project is to strengthen integration between the EU and the European Neighbourhood Policy Countries by focusing on the potential of the European Research Neighbourhood (ERN). The SEARCH Project analyses the impact of ENP on the integration of the EU and ENCs in terms of their trade and capital flows, mobility and human capital, technological activities and innovation diffusion, and institutional environment. The aim is to facilitate a better understanding of the conditions characterising the institutional framework of the ENCs and their economic interactions with the EU in relation to their peoples, capital, trade, knowledge and innovation. SEARCH seeks to enhance the implementation of the ENP on the understanding that “one-size-fits-all” policy recommendations are inappropriate given the bilateral nature of the EU-ENC country agreements.

The specific objectives are as follows:

- To provide a framework for a theoretical and empirical understanding of the relationships forged between the EU and the ENCs.
- To undertake a theoretical and empirical study of the patterns of economic interaction between the EU and ENCs and to estimate the sub-national (i.e., regional) impact of these interactions.
- To analyse the role of labour migration and its economic and social consequences (costs and benefits) both for the EU and its neighbouring regions.
- To investigate the extent to which the innovative performance of the regions (EU-27 and NC-16) depends on endogenous ability in knowledge creation or on the capacity to absorb, adopt and imitate other regions’ knowledge and innovations.
- To identify the impact of changes to the institutional structures of the ENCs and regions on prospects for (a) improved economic development and social cohesion, and (b) for stronger integration with the EU and, in particular, with the New Member States (NMS).

- To extract country-specific policy guidelines for policymakers in the EU and the ENC's to support the development of higher levels of economic integration for the enhanced growth, competitiveness and cohesion of the two areas.
- To disseminate the research findings to both policymakers and academic researchers at European, national and regional levels, in order to improve both future neighbourhood policy making and future academic research in the area.

The SEARCH Project (<http://www.ub.edu/searchproject>) is organised in eight work packages. The first six involve research and policy issues and their objectives are listed below:

<b>WP</b>		<b>Objectives</b>
<b>WP1</b>	<b>BACKGROUND ENP: PAST, PRESENT AND FUTURE</b>	To provide a framework for the theoretical, empirical and policy analyses of work packages WP2-WP6, establishing a foundation for relationships between the EU and the ENC's.
<b>WP2</b>	<b>TRADE FLOWS AND LOCALISATION CHOICES</b>	To undertake a theoretical and empirical study of the patterns of economic interaction between the EU and the ENC's, to project future trends and to identify the effects of higher levels of economic integration on the growth, competitiveness and cohesion prospects of the two areas.
<b>WP3</b>	<b>PEOPLE MOBILITY AND HUMAN CAPITAL</b>	To analyse the current and potential future role of labour migration and its economic and social consequences (costs and benefits) both for destination (EU regions) and origin regions (ENC's). Particular attention to be given to the role of intangible assets, including human capital, entrepreneurship and technology diffusion.
<b>WP4</b>	<b>TECHNOLOGICAL ACTIVITIES AND INNOVATION DIFFUSION IN THE EU AND INTERACTIONS WITH NEIGHBOURING REGIONS</b>	To investigate the innovative performance of the regions (EU-27 and NC-16) to determine the extent to which this performance depends on the endogenous ability for knowledge creation, on the one hand, and on the absorptive capacity of regions to adopt and imitate, on the other.
<b>WP5</b>	<b>INSTITUTIONAL ENVIRONMENT</b>	To investigate the current status of the social, cultural and institutional environment in the ENC's and regions; to identify the impact of current changes on prospects for improved economic development, social cohesion, and stronger integration with the EU area.
<b>WP6</b>	<b>POLICY ISSUES AND RESEARCH IMPLICATIONS: TOWARD AN INTEGRATED EUROPEAN POLICY POSTURE</b>	To identify and analyse policy recommendations with the objective of contributing to evidence-based policy making and integrated European Research Neighbourhood policies.

## **2. List of institutions involved in SEARCH**

1. Universitat de Barcelona. AQR Research Group, Spain
2. Urban and Regional Research Centre Utrecht, The Netherlands
3. University of Thessaly, South and East European Development Center, Greece
4. Centre for North and South Economic Research, University of Cagliari, Italy
5. London School of Economics and Political Science, United Kingdom
6. Vienna University of Economics and Business, Institute of Regional and Environmental Economy, Austria
7. Brunel Law School, United Kingdom
8. Economic Research Centre of the University of Saint-Etienne, France
9. Center for research in Economic Policy. University of Pécs, Hungary
10. Institute of Economic and Cultural Geography, Leibniz University of Hannover, Germany
11. University of Tartu, Estonia
12. The State University, Higher School of Economics, Russia
13. University of Cady Ayyad, Morocco
14. International Centre for Black Sea Studies, Greece
15. European Institute of the Mediterranean, Spain
16. Hebrew University of Jerusalem, Israel
17. The Scientific and Technological Research Council of Turkey, Turkey
18. Bournemouth University, United Kingdom
19. Science And Technology Policy Research Center Middle East Technical University, Turkey

### **3. SEARCH Advisory Board members**

1. Mr. Iurii Bazhal, Head of Economics Department, National University of Kyiv-Mohla Academy, Ukraine.
2. Mr. Jussi Närvi, DG External Relations of the European Commission, Directorate D, European Neighbourhood Policy Sector Coordination Unit, Belgium.
3. Mr. Daniel Shefer Kunin-Lunefeld, Chair in Urban and Regional Economics, Center for Urban and Regional Studies, Technion-Israel Institute of Technology, Haifa, Israel.
4. Mr. Sergiu Celac, Former Foreign Minister of Romania, Senior Adviser, National Center for Sustainable Development, Bucharest, Romania.
5. Mr. Ivan Bortnik, former Deputy Minister of Science, Chairman of Board of the Russian Foundation of Assistance to Small Innovative Enterprises, Russia.
6. Mr. Norbert Pap, Associate Professor, Head of Department of Political Geography and Regional Development, University of Pécs, Hungary.
7. Mr. Ernst Aichinger, Country Representative for Austrian Federal Ministry for European and International Affairs, Head of Department for Scientific and Technical Cooperation, Austria.
8. Ms. Sana Jelassi, Gender Advisor, UNRWA, Amman, Jordan.

