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THE GEOGRAPHY OF TRADE AMONG THE EUROPEAN UNION AND THE EUROPEAN NEIGHBORHOOD POLICY COUNTRIES[4]

The paper analyzes empirically the geography of trade flows among the European Union countries and the European Neighborhood Policy countries. Focusing on the period 2000-2010 and utilizing trade data derived from COMTRADE Database, the paper draws conclusions with respect to the European Neighborhood Policy undertaking. The empirical analysis of the paper highlights that the European Neighborhood Policy countries are engaged in an asymmetric, inter-industry, type of trade activity with the European Union countries, facing serious difficulties in restructuring and diversifying their productive bases. Hence, the trade component of the European Neighborhood Policy does not provide a solid stimulus in the process of "neighbourhood Europeanization". The findings of the paper provide valuable insight to both economic integration theory and policy-making, and, albeit specific to the European Neighborhood Policy countries, may be relevant also to other countries currently deepening their integration with the EU.
JEL: F12; F14; F15

1. Introduction

The recent European Union (EU) enlargements brought the borders of the EU to a set of countries in the East with historically less intensive economic relations. These countries have been part of the (former) Soviet Union and are characterized by lower development levels and significant institutional and structural differences. At the same time, in the Southern and the Eastern rim of the Mediterranean Sea, the EU is faced with countries that are linked to individual EU countries through their colonial past. Both bordering areas, in the EU East and the EU South, have been gaining significance as they include emerging economies, energy suppliers, or, simply, a large neighbouring market, which is crucial for the EU economy

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(Kallioras and Pinna, 2015; Anagnostou, Kallioras and Petrakos, 2016; Petrakos, Tsiapa and Kallioras, 2016; Kallioras, Monastiriotis and Petrakos, 2018). Thus, the Thessaloniki European Council (June 2003) adopted, and the Brussels European Council (December 2003) confirmed, the European Neighborhood Policy (ENP), a unified policy framework towards the EU neighbouring countries (hereinafter: the ENP countries), laying in the external EU periphery (EC, 2003, 2004, 2006, 2007a, 2007b, 2010 and 2011; Kahraman, 2005; Wesselink and Boschma, 2017). The aim of the ENP is, allegedly, to strengthen prosperity, stability and security, transforming an "arc of instability" to a "ring of friends" or, to put it differently, to a "ring of well-governed countries", around the EU geo-political borders. Currently, the ENP framework encompasses Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine (the ENP East; hereinafter the ENPE) and to Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Occupied Palestinian Territory, Syria and Tunisia (the ENP South; hereinafter the ENPS).

The paper analyses empirically the geography of trade flows (i.e. the size, the direction and the composition of imports and exports flows) (Grotewold, 1961; Andersen, 2010) among the EU countries and the ENP countries, aspiring to offer valuable insight to both economic integration theory and policy-making. Particularly, the paper aims at drawing conclusions with respect to the ENP undertaking against the backdrop of trade activity among the EU countries and the ENP countries. To this end, the paper focuses on the period 2000-2010 (i.e. without including the abnormal period that contains the outbreak of the European sovereign debt crisis, the 'Arab Spring', the Russian-Ukrainian war, the Syrian civil war, and the refugee crisis) and utilizes trade data derived from COMTRADE Database (UN). The findings of the paper, albeit specific to the ENP countries, may be relevant, also, to other countries currently deepening their integration with the EU.

The paper proceeds as follows: The next section provides an overview of the ENP framework. The third section surveys the theoretical literature with respect to the geography of trade activity, under conditions of economic integration. The fourth section conducts the empirical analysis of the geography of trade activity among the EU countries and the ENP countries and discusses the findings with respect to the ENP undertaking. The last section concludes and offers some specific policy recommendations.

2. The ENP framework

The ENP is an EU external relations and trade policy tool offering, to the ENP countries, conditional preferential politico-economic relations – but not full membership (Tocci, 2005; Johansson-Nogués, 2007). Implicitly, the ENP is an EU attempt to seek a way out of the dilemma that it faces as it still "digests the 2004 enlargement" (Casier, 2006). The EU must choose between to enlarge and risk over-extension (even beyond the European Continent), and to deny other neighbours the opportunity to join and risk their exclusion (Emerson, 2004). In contrast to the (rigid) Copenhagen criteria that characterized the EU (eastwards) enlargement policy[5], the ENP framework involves bilateral, tailor-made, agreements

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[5] I.e. political criterion: stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; economic criterion: existence of a functioning market

between the EU and each of the ENP countries. In particular, within the ENP framework, the EU negotiates a bilateral "association agenda" with each of the ENP countries, setting out a roadmap for jointly-agreed priorities in terms of political, economic, and institutional reforms. Subject to progress (compliance) with respect to the jointly-agreed priorities, the EU and each of the ENP countries may sign an Association Agreement. Evidently, even though it is a distinct and separate process from the EU enlargement (Browning and Joenniemi, 2008; Schimmelfennig and Scholtz, 2008), the ENP is modelled after the EU enlargement policy. This is so as the partnerships established under the ENP framework entail an almost continuous deepening of relations with the EU, with deep and extensive forms of economic association (Monastiriotis and Borrell, 2012; Monastiriotis, Kallioras and Petrakos, 2017).

According to the Treaty of Lisbon (EU, 2007), EU policies towards third countries (such as the ENP countries) should be guided by a common set of principles and objectives such as the consolidation of democracy, the promotion of human rights, the preservation of peace, the eradication of poverty and the enhancement of market economy (Koopmann and Wilhelm, 2010). The general principles and objectives enshrined in the EU Treaties underlie, thus, the cornerstone for the ENP undertaking. The EU offers to the ENP countries a triad of incentives in exchange for the approximation of EU standards and values (Cadier, 2013). The first incentive refers to the provision of financial support; the second incentive refers to the removal of tariff and non-tariff barriers-to-trade; the third incentive refers to visa liberalization. With respect to the trade ENP incentive (i.e. removal of tariff and non-tariff barriers-to-trade), the EU, following the suspension of the World Trade Organization (WTO) Doha Development Round (Ferguson, 2011), started to pursue Free Trade Agreements (FTAs)[6], bilaterally with targeted economies, in order to protect its markets and to enhance its competitiveness. Overall, FTAs are designed to create opportunities by opening new markets, by increasing investment opportunities, by promoting trade activity and by making the policy environment more predictable. For the EU, in particular, FTAs represent a "subway" to implement Deep and Comprehensive Free Trade Agreements (DCFTAs) with the ENP countries in order to deepen the substance of trade agreements, thus, bringing the ENP countries closer to the Single Market (Dreyer, 2012). The DCFTAs, the trade policy thrust of the ENP, envisage not only the mutual lifting of trade barriers but also harmonization of economic laws and regulations (related to investment protection, public procurement and competition policy) with the *acquis communautaire* (Woolcock, 2010). The DCFTAs represent, apparently, a "carrot and stick" tactic, involving high-level regulatory convergence. To put it simply, the DCFTAs between the EU and the ENP countries involve tailor-made agreements and conditions; basically, they are FTAs with serious one-way conditionalities related to progress required on political, economic, and institutional issues on behalf of the ENP countries.

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economy and the capacity to cope with competitive pressure and market forces within the Union; legislative criterion: acceptance of the *acquis communautaire* (Preston, 1997).

[6] FTAs are regional integration agreements (RIAs) formed by removing tariffs on trade among members and leaving members with autonomy in setting their tariffs on trade with non-members (Baldwin and Venables, 1995).

Evidently, even though the proper "membership anchor" is missing (Havlik et al., 2012), the ENP countries operate under, tantamount to economic integration, conditions of "neighbourhood Europeanization" (Gawrich, Melnykovska and Schweickert, 2010). This indicates an apparent mismatch between the ENP countries' requirements/demands, on the one hand, and the ENP countries' potential gains/rewards, on the other. To put it simply, on the one hand, the EU has designed the ENP for its neighbouring countries, aiming to expand relations and strengthen prosperity, stability, and security in its external borders. On the other hand, the neighbouring countries perceive the ENP as a first step in a long road that will end-up with full EU membership. Such an expectation is, partly, justified on the historical record of the EU formation, which, in a series of enlargements, has managed to expand, first southwards and then eastwards, and integrate countries with different development levels and institutional endowments. Hence, the trade component of the ENP provides the backdrop against the progress of the overall ENP undertaking may be evaluated. Therefore, the analysis of trade activity among the EU countries and the ENP countries is highly relevant not only to the understanding of the economic linkages and development prospects of both areas but also to the understanding of the evolution of their political relations. Should they develop in a mutually beneficial and balanced way, trade relations between the EU countries and the ENP countries may have a strong growth impact, facilitating convergence with respect to development indicators, and, perhaps, paving the ground for deeper (economic) integration.

3. Review of the theoretical literature with respect to the geography of trade activity under conditions of economic integration

Together with the benefits (i.e. economic restructuring, sociopolitical transformation and development) that are, indeed, too strong to be overlooked, the process of (European) economic integration brings, also, effects which are of a less unequivocal character (Monastiriotis et al., 2010). Economic integration emaciates border obstacles for the movement of commodities and production factors and further intensifies itself (self-sustained process) via the reduction of transaction costs (Kallioras, Topaloglou and Venieris, 2009). Closed borders distort market size (Niebuhr and Stiller, 2002), whereas the abolition of economic barriers generates (releases) all kinds of spatial dynamics that relate to better access to foreign markets and to import competition (Brülhart, Crozet M. and Koenig-Soubeyran, 2004; Brülhart, 2011; Rodríguez-Pose, 2012). Therefore, the debate concerning the distribution of the overall welfare gains from the economic integration process finds fertile ground since the size, the direction and the composition of trade (and factor) flows determine, to a large extent, the prospects (and the limitations) for development.

Overcoming national borders is meant to create larger economic spaces for exploiting economies of scale, thereby reducing production costs (Myint, 1958; Krueger, 1978). This means that trade activity among the counterparts involved in an FTA is expected to intensify over time (Burke, 1973). The formation of FTAs is, strongly, based on this argument (Kallioras and Pinna, 2017). Theoretical literature, building on the notions of trade creation

and trade diversion (Viner, 1950; Lipsey, 1960)[7], points out that the distribution of the welfare gains generated within the framework of an FTA is related to the comparative advantage of the members relative to each other and to the rest of the world. On the basis of the concept of absolute advantage, first mentioned by Smith (1776), the concept of comparative advantage, formulated by Torrens (1815) and Ricardo (1817), refers to the ability of a country to produce a particular commodity at a lower opportunity cost over another country. In order to gain from international trade, countries are expected to export commodities for which their relative prices in an autarchy situation (i.e. no trade) are lower than other countries. Building on the concept of comparative advantage, the Heckscher-Ohlin-Samuelson (H-O-S) model (Heckscher, [1919]1991; Ohlin, 1933; Samuelson, 1948) predicts the patterns of production and trade on the basis of the factor endowments of trading countries. In particular, the H-O-S model supports that countries will export commodities that use their abundant and cheap factor(s) of production in order to gain from international trade. Overall, traditional theories of international trade indicate that gains from international trade should be greatest among countries with the greatest differences either in terms of opportunity costs or in terms of factor endowments. Hence, international trade should cause countries to export commodities distinctly different from the ones they import. Therefore, on the basis of traditional trade theory, it has been suggested that developing countries (such as the vast majority of the ENP countries) are likely to gain more forming an FTA with high-income countries (such as the vast majority of the EU countries) instead of forming an FTA with other developing countries (Venables, 2003).

Besides the static effects generated for the members of an FTA (especially for the developing ones), dynamic effects may, also, accrue (Balassa, 1961). International trade might generate positive externalities and spillover effects by transmitting and disseminating technological progress, knowledge, and ideas (Rivera-Batiz and Romer, 1991; Coe and Helpman, 1995; Coe, Helpman and Hoffmaister, 1997). Yet, this may not be the case when trading partners are asymmetric in the sense that exhibits considerable differences in terms of endowments and level of technology (Grossman and Helpman, 1991; Deveraux and Lapham, 1994). The positive impact of international trade is expected to be conditioned by the level of development as weak economies, which have a similar structure with their more advanced trade counterparts, may face intense competition and therefore, experience inferior growth performance (Petrakos, Kallioras and Anagnostou, 2011). In an imperfectly competitive economic environment, comparative advantage is said to be created rather than naturally given, favouring intra-industry (i.e. more trade occurs within sectors rather than between sectors) exchanges (Poon and Pandit, 1996). This means that the level and the type of specialization are essential parameters accounting for economic growth. In an open economy, specialization is related to the export base of an economy (Tiebout, 1956). International trade allows for greater specialization – since domestic demand for some commodities can be served by imports – allowing inherent and acquired comparative advantages to be exploited more intensively (Weinhold and Rauch, 1999). Yet, international trade might push some economies to specialize in low value-added sectors (i.e. sectors associated with constant

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[7] Trade creation is the situation that occurs when consumption shifts from a higher-cost producer to a lower-cost producer, whereas trade diversion is the situation that occurs when consumption shifts from a lower-cost producer to a higher-cost producer.

and/or decreasing returns to scale activities), with an, overall, detrimental impact on long-term economic growth (Young, 1991; Rivera-Batiz and Xie, 1993; Paci and Usai, 2000).

Engaged in an integration process with distant and more advanced partners, peripheral and less advanced economies tend to develop (locked-in) an inter-industry (i.e. more trade occurs between sectors rather than within sectors) type of trade relations (Kallioras and Petrakos, 2010; Petrakos, Fotopoulos and Kallioras, 2012). This type of trade relations, which imposes a specific economic structure with specialization typically in labour- or resource-intensive economic activities, is the outcome of the inability of peripheral and less advanced economies to compete (successfully) with their more advanced counterparts in the markets for capital-intensive and knowledge-intensive economic activities (Brülhart and Elliott, 1998). Even though it provides an alternative (and perhaps the only feasible) route for the exploitation of the locally available skills, it is doubtful whether such a structural differentiation can produce long-term income convergence. Peripheral and less advanced economies, having weaker productive bases, with a high share of sensitive, labour- and/or resource-intensive, sectors and unfavourable geographic coordinates are struggling in the process of integration to effectively redeploy their resources in order to gain from the opening-up of markets (Camagni 1992; Puga 2002). Moreover, due to unequal exchange mechanisms (Baran, 1957; Emmanuel, [1969]/1972; Amin, 1974), as integration improves market access and raises incomes, the patterns of consumption and production change and imports increase disproportionately to exports. This has the tendency to produce structural trade deficits, which threaten the stability of the local currencies and contribute to fiscal imbalances.

Hence, moving from traditional to modern theories of international trade, the idea that developing countries have to increase the variety of their export basket, in order to boost growth, stabilize exports earnings and upgrade value-added, started to prevail (Conkling and McConnell, 1973; Amable, 2000; Al-Marhubi, 2010). This follows the recognition that not all commodities are equal, and they may have very different effects on growth performance (Hidalgo et al., 2007; Boschma and Capone, 2016). Under a different perspective, such a recognition indicates that international trade is not always and for all beneficial (either in absolute or in relative terms), no matter who the trade partners are and no matter what mix of products are traded.

4. Empirical evidence with respect to the geography of trade activity among the European Union countries and the European Neighborhood Policy countries

The EU attempts to expand its trade relations and apply its "neighbourhood Europeanization" policies to countries that, on aggregate, have large populations and low levels of development. Noteworthy is the fact that while (year 2010) the population of the ENP countries is equivalent to 55% of the EU population, the corresponding ratio for the real (constant, year 2005, prices) Gross Domestic Product (GDP) level is only 6% (Petrakos, Tsiapa and Kallioras, 2016). Speaking in per capita GDP terms, while (year 2010) the average EU real (constant, year 2005, prices) per capita GDP figure is equal to $29,535 per inhabitant, the corresponding average ENP countries' figure is just $2,977 per inhabitant (Petrakos, Tsiapa and Kallioras, 2016). In fact, among the ENP countries, only Israel is a significant outlier as it enjoys a level of development, exhibiting (year 2010) per capita GDP figure equal

to \$21,516 per inhabitant, which is significantly higher than the corresponding level of many EU countries (Petrakos, Tsiapa and Kallioras, 2016). This is, clearly, a very serious development gap that places a real pressure on the demographic balances of the ENP countries, especially when considering that the rural population in the ENP countries' area represents 40% of total population (i.e. approximately 111.5 million inhabitants), making the external EU frontiers sensitive to migration forces (Petrakos, Tsiapa and Kallioras, 2016). Taking this into consideration, the paper conducts an empirical analysis in order to provide comparative empirical evidence as regards the geography of trade activity among the EU countries and the ENP countries. To this end, the paper undertakes a descriptive statistical and graphical analysis of the findings derived from the estimation of a series of trade indicators. The latter are perceived to be the stepping stones in the empirical trade literature, providing information in a, rather, straightforward and reliable manner (Markusen, 1992). This is because trade data is so widely available, relatively reliable and highly disaggregated (Brülhart, 1998). Thus, trade indicators, as the result of using trade data, are, often, the most available input for evidence-based policy-making (Scott 2005; Mikic and Gilbert, 2009).

The paper focuses on the period 2000-2010 (i.e. without including the abnormal period that contains the outbreak of the European sovereign debt crisis, the 'Arab Spring', the Russian-Ukrainian war, the Syrian civil war, and the refugee crisis), and utilizes national-sectoral-level (i.e. 2-digit SITC classification) trade data[8], derived from COMTRADE Database (UN). The sectors included in the analysis belong to the primary and the secondary sector of production and form six (6) groups of activities, according to the intensity of the production factors used in the corresponding production process.[9] In order to gain a better insight on the evolution and the characteristics of trade activity among the EU countries and the ENP countries, the paper classifies the EU countries into three (3) sub-groups, according to the level of their GDP with respect to the corresponding average EU level (Anagnostou, Kallioras and Petrakos, 2016). The first sub-group comprises of Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxemburg, the Netherlands, Sweden, and the United Kingdom (UK) (hereinafter: the EU12); these countries have relatively high (i.e. above the EU average) per capita GDP level. The second sub-group comprises of Cyprus, Czech Republic, Greece, Malta, Portugal, Slovenia, and Spain (hereinafter: the EU7); these countries have relatively medium (i.e. above the 75% of the EU average and below the EU average) per capita GDP level. The third sub-group comprises of Bulgaria, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia (hereinafter: the EU8); these countries have relatively low (i.e. below the 75% of the EU average) per capita GDP level.

Trade activity among the EU countries and the ENP countries has grown significantly over the period 2000-2010, even though a decrease is recorded during the period 2008-2009, just after the eruption of the financial crisis (Figure 1). This is a clear sign of increased interaction.

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[8] There are no data for the Occupied Palestinian Territory. Croatia is not included in the analysis.

[9] Particularly, on the basis of the Harmonized System (HS) classification (UNCTAD 1996), these groups are: HS1 (non-fuel primary commodities), HS2 (fuel primary commodities), HS3 (labor-intensive and resource-based commodities), HS4 (low skill-, low technology-, low capital- and low scale-intensive commodities), HS5 (medium skill-, medium technology-, medium capital- and medium scale-intensive commodities), and HS6 (high skill-, high technology-, high capital- and high scale-intensive commodities).

Specifically, the ENPS levels of trade with the EU countries are significantly higher than the corresponding ENPE levels. The major trade partner for both the ENPS and the ENPE is the EU12. Trade activity with the other EU countries' sub-groups remains at relatively low – and at rather stable – levels. Noteworthy is the fact that trade activity among the Southern and the Eastern pairs of the external and internal EU periphery (i.e. ENPS–EU7 and ENPE–EU8, respectively) is still (year 2010) limited, despite the geographical proximity of the countries involved.

Figure 1

Trade activity between the ENP countries and the EU countries *(absolute figures)*, period 2000-2010
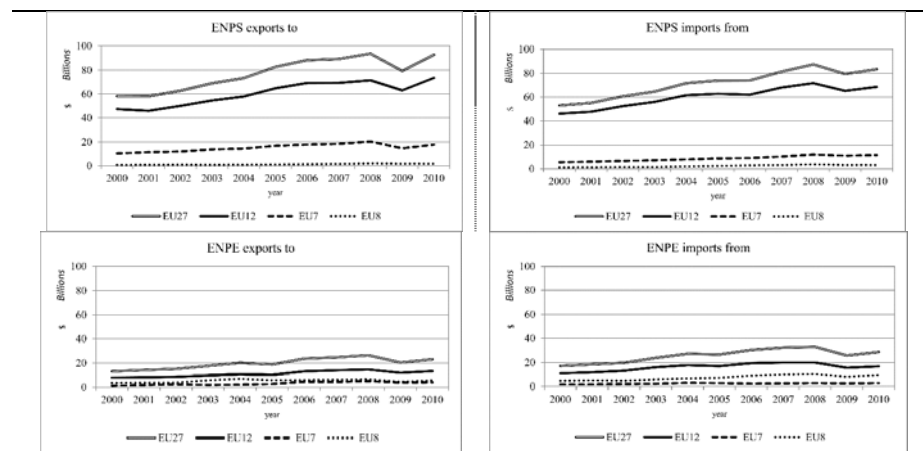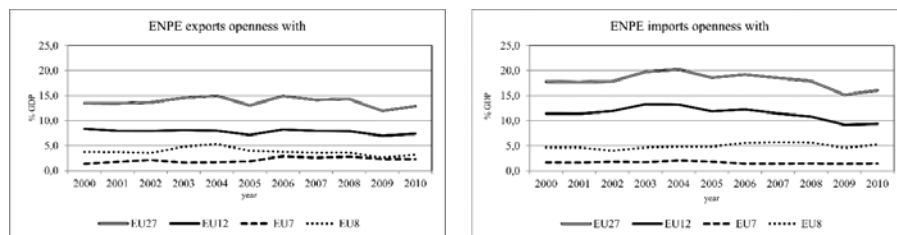

Sources: COMTRADE Database (UN) / Authors' Elaboration

Nonetheless, the EU is the most significant trade partner for the ENP countries. Particularly, trade openness[10] with respect to EU27 accounts, for both the ENPS and the ENPE, for well-above the level of 15%, mostly due to the interaction with the EU12 (Figure 2).

Figure 2

Trade openness of the ENP countries as regards the EU countries, period 2000-2010

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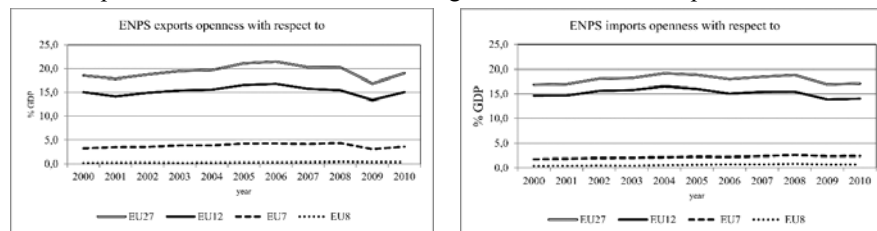
[10] Trade openness measures the importance of international trade for an economy and gives an indication of the degree to which an economy is open to trade. The index is expressed as the value of trade (i.e. exports and/or imports), with a specific partner country, or the world in general, in relation to the value of GDP (Frankel and Romer, 1999).

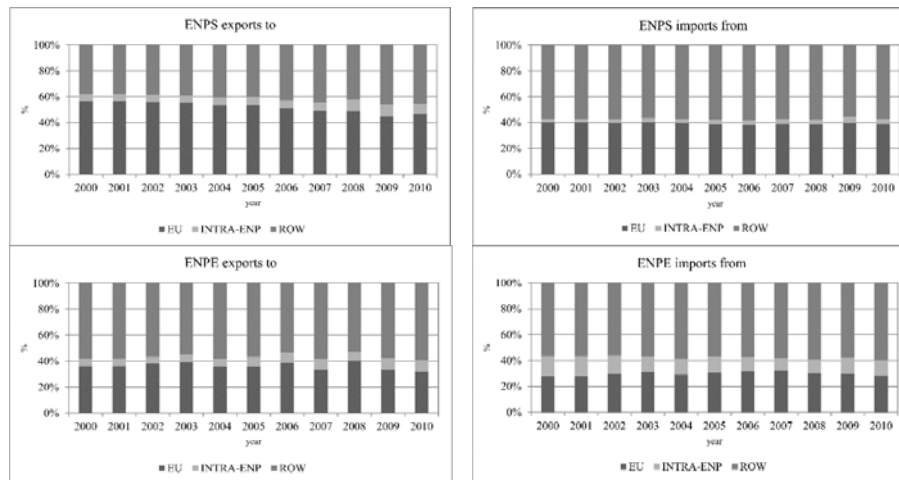*Sources: COMTRADE Database (UN) / Authors' Elaboration.*

Yet, despite the increase in both absolute and relative (i.e. % GDP) terms, the EU does not increase its share in the ENP countries' trade activity (Figure 3). Especially with respect to exports, such a trend indicates the difficulty of the ENP countries to succeed in the EU markets. Such a difficulty may, mainly, attribute to the level of tariff barriers-to-trade (Dreyer, 2012; Sklenková, 2012), which is probably the most important condition for the success of an FTA. Indeed, the EU imposes (year 2010) relatively high average tariff barriers-to-trade with the ENP countries, especially on agricultural goods (i.e. goods that the ENP countries mainly specialize), thus making it difficult for the ENP countries to achieve (enjoy) conditions of trade creation with respect to their EU counterparts (Kallioras and Pinna, 2015; 2017). At the same time, the share of the rest of the world (RoW) countries is getting increased. This trend may, mainly, attribute to the dynamism that the BRICS (i.e. Brazil, Russia, China, India, and South Africa) exhibit. Surely, such a trend is alarming for the EU as the BRICS may increase their political influence (besides the economic one) in the ENP countries' area. Noteworthy is, also, the fact that the intra-ENP-countries share is extremely small. This fact indicates that the ENP countries' economic space is still fragmented, with weak demand-and-supply chain links.

The diminishing EU shares to the ENP countries' trade activity (to exports activity, in particular) may attribute to the asymmetric nature of trade activity among the EU countries and the ENP countries. On average, the ENP countries appear with a strong revealed comparative advantage (RCA)[11] (i.e. with figure well-above 1.o) in the sectoral group of HS2 (Figure 4). Given that the EU is a major energy importer (Ratner et al., 2013), this particular sectoral group becomes a key-sector for the study of trade activity among the EU countries and the ENP countries (and the ENP undertaking, in general). Examining each ENP countries' sub-group separately, it is noteworthy that the ENPS exhibit RCA against the EU12 (i.e. the high-income EU countries) and the EU7 (i.e. the medium-income EU countries) only in the sectoral group of HS2. In contrast, against the EU8 (i.e. the low-income EU countries) the ENPS do not exhibit RCA in the sectoral group of HS2 (this is the only case, with respect to this particular sectoral group, that an ENP countries' sub-group does not exhibit RCA against an EU countries' sub-group). Instead, the ENPS appear with a mild

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[11] The index of RCA is expressed as the proportion of country under consideration exports' in a specific sector divided by the proportion of a partner country (or world) exports' in the same specific sector (Balassa, 1965). When the index takes values greater than 1, a comparative advantage is "revealed". Otherwise, the country under consideration has a comparative disadvantage.

RCA (i.e. with a figure above 1.0) against the EU8 in the sectoral groups of HS1, HS5, and HS6 (this is the only case, with respect to the latter couple of sectoral groups, that an ENP countries' sub-group exhibits RCA against an EU countries' sub-group). Looking at the ENPE, the latter exhibit RCA against all EU countries' sub-groups in the sectoral groups of HS1, HS2, and HS4. Against the EU12, the ENPE exhibit RCA in the sectoral group of HS3 (this is the only case, with respect to this particular sectoral group, that an ENP countries' sub-group exhibits RCA against an EU countries' sub-group). The ENPE do not exhibit RCA against an EU countries' sub-group in the sectoral groups of HS5, and HS6.

Figure 3

Trade activity between the ENP countries and the EU countries *(relative figures)*, period 2000-2010

Sources: COMTRADE Database (UN) / Authors' Elaboration.

Figure 4

RCA of the ENP countries as regards the EU countries, period 2000-2010
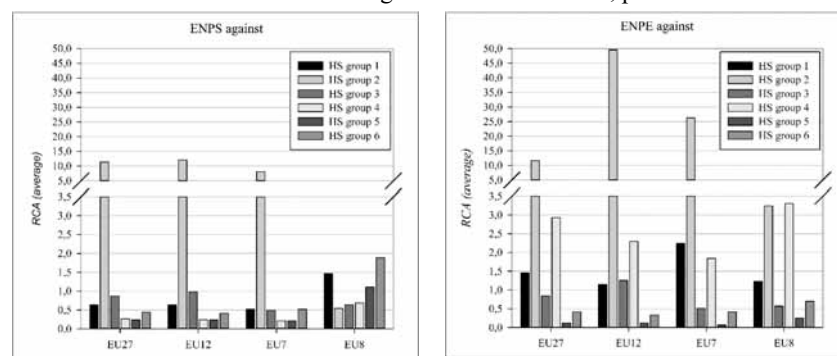
Sources: COMTRADE Database (UN) / Authors' Elaboration.

The asymmetry that characterizes the trade activity among the EU countries and the ENP countries means that the latter is, mostly, of inter-industry type (Figure 5). In particular, both ENP countries' sub-groups have low intra-industry trade (IIT)[12] shares with the EU countries. This is especially so with respect to the EU12 sub-group (i.e. IIT figures are below 0.300; even though as regards the ENPS there is an increasing trend), indicating that "structural proximity" matters for the structure of trade activity. The inter-industry type of trade interaction is exactly the one that, typically, characterizes the "North-South" trade relations (i.e. trade among 'unequal' or 'distant' partners). This type of trade relations raises questions about its ability to reduce the income (or development) gap among the trade partners involved. With respect to the trade activity among the EU countries and the ENP countries, the high inter-industry trade shares (or the low intra-industry trade shares, respectively) provide a strong indication for the inability of the ENP countries to compete with their EU counterparts in the markets for capital-intensive products. Especially for the ENP countries that do not exhibit RCA in the sectoral group of HS2, such a lack of competitiveness may "translate" into trade deficits.

Figure 5

IIT of the ENP countries with the EU countries, period 2000-2010
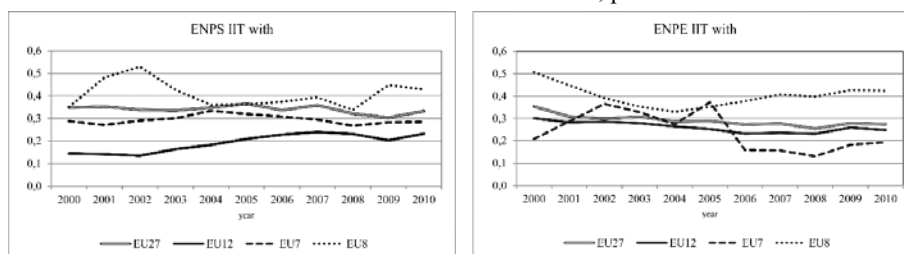
Sources: COMTRADE Database (UN) / Authors' Elaboration.

Indeed, the prominent role of the sectoral group of H2 for the ENP countries' trade activity is reflected in the corresponding trade balances with respect to the EU (Figure 6). To clearly demonstrate the argument, the paper provides an alternative classification of the ENP countries; in particular, the ENP countries are classified into the ENP "Fuel" (i.e. fuel-exporting ENP countries) and the ENP "Non-Fuel" (i.e. non-fuel-exporting ENP countries) sub-groups. The ENP "Fuel" sub-group contains the ENP countries that exhibit their highest RCA in the sector of HS2; these countries are Algeria, Azerbaijan, Belarus, Egypt, Georgia, Libya and Syria. The ENP "Non-Fuel" sub-group contains the rest of the ENP countries. As it turns up, the ENP "Fuel" runs a trade surplus, while the ENP "Non-Fuel" runs a trade

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[12] The index of IIT matches the value of the exports of a specific sector to the value of the imports of the same specific sector, for a country under consideration (Grubel and Lloyd, 1971). The index takes values in the interval [0, 1]. Values close to 0 indicate that trade activity between a country under consideration and a partner country is an inter-industry one (i.e. concerns products that grossly belong to different sectors). Values close to 1 indicate that trade activity between a country under consideration and a partner country is an intra-industry one (i.e. it concerns products that grossly belong to the same sectors).

deficit with respect to trade activity with the EU countries. Interestingly, the trade deficit of the ENP "Non-Fuel" is milder when trading with the EU7 and the EU8. This fact supports the argument that trade imbalances are less important when the development gap between trade partners is smaller.

Figure 6

ENP countries balance of trade with the EU countries, period 2000-2010
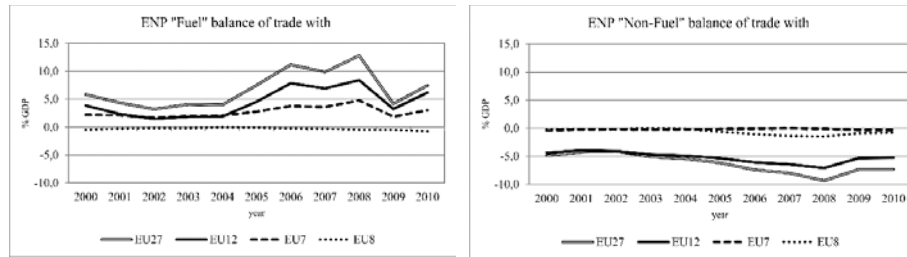
Sources: COMTRADE Database (UN) / Authors' Elaboration

5. Conclusions and implications for theory and policy-making

The empirical analysis of the paper provides evidence that the ENP countries are engaged in an asymmetric, inter-industry, type of trade activity with their more advanced EU counterparts, within the ENP framework, facing serious difficulties in restructuring and diversifying their productive bases. The trade component of the ENP (and the DCFTAs, in particular), involving tailor-made agreements and conditions with serious one-way conditionalities related to progress required on political, economic and institutional issues on behalf of the ENP countries, provides the backdrop against the progress of the overall ENP undertaking may be evaluated. Despite the fact that the trade activity among the EU countries and the ENP countries is getting increased in absolute terms, the asymmetric, inter-industry, type of the latter indicates that the trade component of the ENP does not provide a solid stimulus in the process of "neighbourhood Europeanization". The findings of the paper suggest that the trade activity among the EU countries and the ENP countries can be beneficial for the growth performance of both partners when "structural proximity" is involved. This means that "North-South" trade relations need to be balanced and complemented by "South-South" trade relations (i.e. trade among "equal" or "close" partners) as a necessary ingredient for a successful integration experience for the ENP countries. The slow reforms and the upheaval and the tensions in both ENP countries' sub-groups (still in full swing) have their roots in the difficulty of the ENP countries to adapt their productive system to the pressures of internationalization and to deliver measurable welfare results (i.e. sustainable incomes and jobs) to large, and increasingly mobile, populations.

Clearly, the ENP undertaking has not produced the anticipated results. Indeed, in an economic space with still-existing barriers to interaction, the ENP countries still face serious difficulties to penetrate the EU markets and turn their attention to the rising BRICS group that may offer easier-to-entry and conditionality-free markets. The reduction of the EU share of trade with the ENP countries should be conceived as a signal for the adjustment of the

ENP undertaking to the (changing) reality. Policy recommendations towards the ENP reform may include the (unilateral) improvement of the ENP countries' access to EU markets, the encouragement of trade relations along the external EU frontier (i.e. between the ENP countries and the medium- and low-income EU countries), and the provision of technical support seeking to improve variety in the ENP countries' productive bases. Ideally, these policy recommendations should be independent from *acquis communautaire* compliance. The EU may have to be prepared for a paradigm shift in its integration policy. The idea that the EU can integrate to its core productive system successive homocentric rounds of geographically more and more dispersed and economically less and less developed areas, without altering the basic model of integration, and without incurring any costs for anyone,

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