PRESS RELEASE OF THE WORKING PAPER 2/08

The determinants of trade activity among the EU and the ENP countries

September 2013

OBJECTIVE

The objective of the paper is to detect the determinants of exports flows from the ENP countries to the EU countries, and, moreover, to indicate whether significant irregularities in the geographical direction of exports flows from the ENP to the EU countries, if they exist, have any implications for the economic performance of the ENP countries. What would be the factors determining the geographical distribution of trade flows of a given country? Who are the more likely destinations of these flows? The gravity model for the EU – ENP trade activity, indicates that in an international framework with no major obstacles to commodity flows, the value of exports from the ENP countries to the EU countries is a direct function of a series of explanatory variables. Given that the ENP countries operate under conditions of "neighborhood Europeanization", it is important to know whether (and to what extend) the ENP exports flows to the EU are largely driven by market forces or by a set of less detectable, but existing, political type of considerations. Furthermore, to the extent that there is a bias in the geographical pattern of trade relations, it is interesting to know whether such a bias has affected (and in which direction) the economic performance of the ENP countries. The results of paper provide valuable insight with respect to the EU – ENP trade relations.

MAIN RESULTS

The findings of the gravity model indicate that the gravitational logic applies to the case of the EU – ENP trade relations. High levels of GDP and population, in the ENP and the EU countries, low distance, low income differences, common land borders and colonial relations in the past are among the factors favoring the increase of exports from the ENP to the EU countries. Otherwise, the EU – ENP trade activity is hindered. On the basis of the results derived from the gravity model, a Coefficient of Irregularity in the Geographical Direction of Exports Flows (CIGDEF) is estimated. The CIGDEF measures the degree to which the direction of trade flows of a country is diverging or is different from that predicted by the gravity model equation. A high value of the CIGDEF is, therefore, associated with a geographical trade structure that is "irregular", in the sense that it is very different from the one produced by the gravity model. In contrast, a low value indicates a geographical trade structure that is very close to the one predicted by the model. The results of the CIGDEF indicate that there are cases where significant irregularities in the geographical direction of exports flows arise. Overall, these irregularities exert a negative, though not strong, impact on the ENP countries' economic performance.