

# Economics in Brief



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## Is an EU Association Agreement worth it?

Authors:

Steffen Wölfel,

Dr Barbara Richter, phone +49 (0) 69 7431-5329, [research@kfw.de](mailto:research@kfw.de)

In June of this year the European Union entered into association agreements (AA) with Moldova, Georgia and Ukraine as part of its neighbourhood policy. The AAs ease restrictions on trade, which the third countries in particular hope will lead to an acceleration of bilateral trade flows. Are these expectations realistic?

### A look back

In the 1990s, so-called "Europe Agreements" were signed with what later became accession countries in Central and Eastern Europe (CEE), while "Euro-Mediterranean Agreements" were signed with countries in North Africa.

From an economic perspective, these agreements are aimed at abolishing customs duties. Thus, once an AA is fully implemented, the expectation is that it will bolster bilateral trade. One significant difference between the "Europe Agreements" and the "Euro-Mediterranean Agreements" is that the CEE countries were granted the prospect of accession right from the outset.

For the CEE countries we examined the cases of the Czech Republic (accession chapter on "customs union" concluded in 2002) and Romania (2004). Of the countries in North Africa, only Tunisia (2008) and Morocco (2012) have so far implemented the "Euro-Mediterranean Agreements" in full.

### Swift growth in trade

In terms of foreign trade with the large European economies, the EU-5 (DE, FR, UK, IT and ES), exports rose by an average of USD 2.1 billion p. a. in the Czech Republic and by USD 2.3 billion p. a. in Romania in the four years prior to

concluding the customs union chapter of the accession procedure. In the four years thereafter, exports rose by an average of USD 6.1 billion p. a. in the Czech Republic and by USD 4.1 billion p. a. in Romania. Similar developments were observed in the imports of the two countries. This meant there was a much sharper acceleration in the bilateral trade of goods after the customs union was completed (see figure 1).

For Tunisia, exports rose by an annual USD 1.3 billion before the AA implementation process was finished. In the 12 months that followed, exports declined owing to the global financial and economic crisis, but looking at the average of the first four years following the completion of the AA implementation process, export levels were higher than before. This is a good result given the deep crises many EU countries find themselves in.

The development of foreign trade in Morocco mirrors this: although foreign trade with the EU contracted in the crisis year of 2009, taking the four years prior to implementing the AA as a whole, the aver-

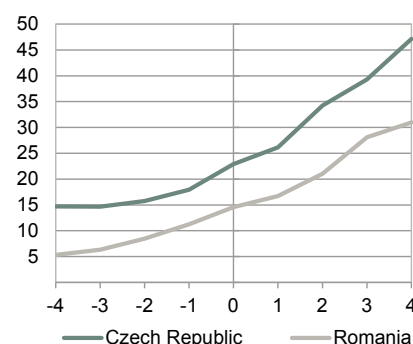
age export figures were stable. As the agreement was only fully implemented in 2012, we only have data available for the first year after the AA was concluded. That said, the volume of exports in 2013 totalled USD 13.3 billion, which is the highest figure of the period observed and points towards the positive effects of the AA (see figure 2).

It should be noted that "Euro-Mediterranean Agreements" generally only result in a reduction of custom duties for certain product groups (in this case industrial products), while a customs union essentially has no exemptions at all. Against this backdrop, the positive figures of the North African countries are all the more remarkable.

### Conclusion

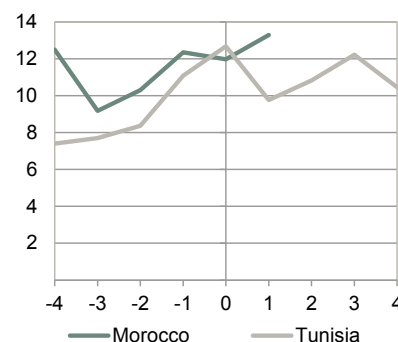
In view of the figures, we can happily say from a trade policy perspective that an EU Association Agreement delivers on its promises. Both the CEE countries and the states in North Africa managed to boost trade with the EU, or maintain existing levels despite the crisis. Hence, dismantling trade restrictions between the EU and third countries is definitely worth it, regardless of any subsequently planned accession. ■

Figure 1: Exports to EU-5 in USD bn



Sources: UN Comtrade Database, authors' calculations

Figure 2: Exports to EU and EU-5 in USD bn



Sources: UN Comtrade Database, European Commission, authors' calculations