Recent Trends of the EU – 27 Foreign Trade Activities

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Abstract: In line with the world economy trend, the collapse in world trade in goods and services observed in the last quarter of 2008 intensified in the first quarter of 2009, but the trough in growth rates has likely been reached; positive quarterly growth rates are expected by the end of 2009. UE-27 registered the slowest export growth of any region last year, with an expansion of just 0.0per cent, down from 3.5 per cent in 2007. Import growth turned negative in 2008, falling by 1 per cent (+3.5 per cent in 2007). If the 27 members of the European Union are considered collectively (excluding internal EU trade), the five leading exporters were the European Union (15.9 per cent of world exports), China (8.9%), the United States (8.1%), Japan (4.9%) and Netherlands (3.9 per cent). Exports from the EU were worth US$ 1.93 trillion in 2008. Signs of recovery are not yet so clearly visible in the EU-27 like in USA, in the last part of 2009. Each country has its own specific combination of weaknesses such as bursting housing bubbles, declining exports and damaged financial sectors. The eventual recovery is likely to be slow as rising unemployment will hit consumer spending. In the above mentioned conditions, GDP in the euro area is expected to contract 4.8% in 2009 and to show 0% growth in 2010. The previous projections were for a 4.1% fall in 2009 and a 0.3% fall in 2010. The main factors with a positive influence, taken into consideration for revising up the projections for 2010 in euro area are: the strengthening growth in world trade which will help support a turnaround in exports, the governmental policy support and an easing of financial conditions adopted in some countries.

Keywords: exports, imports, world trade, recession, recovery, accession**,** integration share.

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After the Second World War, international trade entered a long period of record expansion with world exports of goods rising by more than 8 per cent per annum in real terms over the 1950-1973 period of time. Trade growth slowed thereafter under the impact of two oil price shocks, a burst of inflation caused by monetary expansion and inadequate macro-economic adjustment policies.

In the 1990s, trade expanded again more rapidly, partly driven by innovations in the information technology (IT) sector.

In 2000 – 2007 period of time, the average expansion of world exports of goods continued to be high – averaging 6 per cent per year.

For the entire 1950-2007 period, international trade expanded by an average rate of 6.2 per cent.

The financial crisis that erupted in the United States around mid-2007 has broadened to include non-bank financial institutions and rapidly spread to the rest of the world. Following the collapse of Lehman Brothers in mid-September 2008, a generalized loss of confidence between financial institutions triggered reactions akin to a "blackout" in global financial markets. Spreads in credit and bond markets surged to very high levels, paralyzing credit and money markets. Prompt and massive policy action to restore confidence and provide liquidity appears to have successfully limited the period of panic, but the need for financial institutions to operate with less leverage and to repair their balance sheets remains. This process of adjustment will take time and impair the flow of credit, and is the key factor weighing on activity going forward.

World economy now looks to be approaching its lowest point, the ensuing sooner recovery at economic and social level being likely to be both weak and fragile for some time, is the opinion of the Western specialists in this moment. But on the way out it looks as if recovery will take hold in a staggered manner across countries reflecting, not least, the extent of policy stimulus and the force of problems every country being confronted with.

In line with the world economy trend, the collapse in world trade in goods and services observed in the last quarter of 2008 intensified in the first quarter of 2009, but the trough in growth rates has likely been reached; positive quarterly growth rates are expected by the end of 2009. The OECD projections estimate that after the severe decline of 16% registered in 2009, the world trade will grow by 2.1% in 2010.

The European Union's trade grew strongly between 2002 and 2007, both with the upswing in world trade taking place after 2003 and with the growing participation of the new Member States on the international stage, some of which simultaneously witnessed rapid internal economic development. Although its international trade in goods grew by 6.8% in exports and by 8.75% in imports, between 2002 and 2007, the European Union (27) has actually lost weight in world trade, given that the growing reciprocal exchanges of goods between the older EU-15 and those Member States that joined during the course of the 2004 and 2007 enlargements have been "internalized". What used to be extra-European Union trade has now become part of intra-European Union trade.

UE-27 registered the slowest export growth of any region last year, with a zero growth rate, down from 3.5 per cent in 2007. Import growth turned negative in 2008, falling by 1 per cent (+3.5 per cent in 2007).

If the 27 members of the European Union are considered collectively (excluding internal EU trade), the five leading exporters were the European Union (15.9 per cent of world exports), China (8.9%), the United States (8.1%), Japan (4.9%) and Netherlands (3.9 per cent). Exports from the EU were worth US$ 1.93 trillion in 2008.

Germany confirmed again its reputation as exporting nation with a share of 9.1% in the world exports in 2008. It is followed at a considerable distance by Italy and France with shares of 11.5% and 11.4% respectively. Together these three countries were responsible for more than half of all EU-27 exports.

With a share of 21%, and corresponding to a value of EUR 261.7 billion in 2007, the United States remained by far the main destination country of EU-27 exports. Switzerland (EUR 92.8 billion) and Russia (EUR 89.1 billion) both accounted for a 7% share, followed by China with 6%. Together, those four countries are responsible for over 40% of all extra-EU shipments.

Since 2000, exports to Russia and Ukraine have developed particularly rapidly, displaying average annual growth rates of 22%. Impressive increases were also noted for China (+16% per year between 2000 and 2007), and, at a lower level in absolute terms, for India and the United Arab Emirates (both at +12% per year). The total value of exports to Japan stagnated at the precedent year level.

With regard to imports, in 2007, Germany kept its first position, as 18.8% of all imports arriving from outside the European Union were destined for this country. The United Kingdom and the Netherlands follow with shares of 14.4% and 12.5% respectively.

Looking at EU-27 imports, China overtook the United States in 2006 and it was, in 2007, the European Union’s main supplier, with a share of 16% of the total. The value of imported goods from China more than tripled since 2000 (from EUR 74.6 billion to EUR 231.4 billion in 2007), with an 18% average annual increase registered over that period.

With the two most recent enlargements, the European Union has grown into the EU-27, the world’s largest open market. Today’s 27 members benefit in many ways including the proximity of export markets, barrier-free distribution and integrated transport networks, the ready availability of quality goods at competitive prices and reduced political risk in trade. The EU-27‘s exchanges have further been facilitated by the euro’s implementation by actually sixteen Member States.

Under the influence of a lot of general and specific factors, the foreign trade of Central and Eastern European (CEE) countries which recently joined the European Union has been constantly growing till the second part of 2008 year, registering higher yearly growth rates than the total of EU-27 (Tabel 1).

With the exception of Czech Republic, the CEE countries registered a 18.9% export growth rate and a 20.1% import rate, for the entire 2005-2007 period of time, with a growing trade balance deficit from 36.4 billion ECU in 2005, to 60.6 billion ECU in 2007 (Table No.1).

In the last years, for the foreign trade of all the ten new EU members CEE states it appears like a common trace the deeply process of growing the importance of the intra EU commercial relationship within the total international economic relationship of these countries. Between the new EU members, the most important weight of the intra EU commerce in their total foreign trade is registered by the Check Republic (83%), Slovakia (80%), Latvia (76%), Poland (75%), and Estonia (75%) – Table No.2.

In business environment, institutional, and logistics performance, the EU accession countries stand out as the best performers. Most of the new EU member states are in fact catching up to OECD countries on some measures of logistics performance, and all rank in the top 50 with the exception of Lithuania (ranked 58th).

Trade integration of goods and services is measured as the average value of debits and credits (summed together and divided by two) expressed as a share of GDP. This indicator is calculated for both goods and services; higher values indicate higher integration within the international economy. It is normal that smaller countries will display a higher recourse to international trade, as they are more likely to import a range of goods and services that are not produced within the domestic market. All the EU-27 countries, including the new CEE states, have become steadily more integrated with the world economy as measured by their trade-to-GDP ratios – Table No.3. The value of this indicator varies, in the case of CEE states, between 78.5% (Slovak Republic) and 33.0% (Romania).

On the bases of a lot of relevant indicators drawn up by the World Bank specialists (Table No.4) the following ideas can be revealed for the CEE states, new EU members:

- Most of the countries with fast trade growth are those that have recently joined the EU and have implemented policy and economic reforms in the context of their accession. The Slovak Republic saw the highest trade growth of nearly 17 percent in 2007, its third consecutive year of double digit growth following its 2004 accession to the EU.
- From the point of view of the commercial policy indicators, CEE countries are considered to be between the most permissive markets in the world, the region’s trade-weighted tariffs in 2007 of 2.1% (on an MFN basis) being very low.
- Over all sub-periods during the last decade, the CEE countries’ currencies, on average and on a real, trade-weighted basis, have appreciated in the range of 3.2–5.7 percent annually. Large exchange rate appreciations (on a real, effective basis) have been experienced by Hungary (12.2 percent), the Slovak

Republic (10.8 percent), Romania (9 percent), and to smaller extent by Bulgaria. Despite the exchange rate appreciation, export growth ranged from 12 percent to 17 percent, suggesting that other policy and institutional factors, generally good economic performance, or international market developments were more important in affecting trade performance

- In business environment, institutional, and logistics performance, the EU accession countries stand out as the best performers. Most new EU member states are in fact catching up to OECD countries in this respect.

Table 1. Foreign trade of Central and Eastern European (CEE) countries which recently joined the European Union (2005-2007)

Billion of EURO

Country	EXPORTS				IMPORTS				Commercial balance sold		
	2005	2006	2007	Annual Growing Rate 2005-2007 (%)	2005	2006	2007	Annual Growing Rate 2005-2007 (%)	2005	2006	2007
CEE - TOTAL	**278.0**	**335.8**	**393.4**	**18.9**	**314.4**	**372.7**	**454.0**	**20.1**	**-36.4**	**-36.9**	**-60.6**
Bulgaria	9.2	11.7	13.5	21.1	12.5	15.3	21.9	32.0	-3.3	-3.6	-8.4
Czech Republic	62.8	75.7	89.3	19.25	61.5	74.2	86.0	18.2	1.3	1.5	3.3
Estonia	6.2	7.5	8.0	13.6	8.2	10.6	11.3	17.4	-2.0	-3.0	-3.3
Latvia	4.2	4.9	6.1	20.5	7.0	9.2	11.2	26.5	-2.8	-4.3	-5.1
Lithuania	9.5	11.2	12.5	14.7	12.5	15.4	17.7	19.0	-3.0	-4.1	-5.1
Hungary	50.6	59.3	69.0	16.8	53.5	61.3	69.3	13.8	-2.9	-2.0	-0.3
Poland	71.9	87.9	101.3	18.7	81.7	100.3	118.7	20.5	-9.8	-12.5	-17.4
Romania	22.3	25.9	29.4	14.8	32.6	40.7	51.0	25.1	-10.3	-14.9	-21.6
Slovenia	15.5	18.5	21.9	18.9	16.4	19.2	23.0	18.4	-0.9	-0.7	-1.1
Slovak Republic	25.8	33.2	42.4	28.2	28.5	26.5	43.9	24.1	-2.7	-3.3	-1.5

Source: Europe in Figures – Eurostat Yearbook, 2008
Eurostat – Statistical Books – Panorama of European Union Trade. Data 1999-2006. 2007 Ed.

Table 2. Central and Eastern European (CEE) countries, which recently joined the European Union, contribution to Intra- and Extra-EU-27 trade in 2007

Country	Share in total trade[1)]		
	Total trade[1)]	Extra-EU-27 trade[1)]	Intra-EU-27 trade[1)]
Bulgaria	100.0	41	59
Czech Republic	100.0	17	83
Estonia	100.0	25	75
Latvia	100.0	24	76
Lithuania	100.0	33	67
Hungary	100.0	26	74
Poland	100.0	25	75
Romania	100.0	29	71
Slovenia	100.0	28	72
Slovak Republic	100.0	20	80

1) Exports plus imports

Source: Eurostat – Statistics in Focus No. 92/2008

Table 3. Central and Eastern European (CEE) countries, which recently joined the European Union - Share of international trade with goods and services in GDP

(% of GDP in 2006)

Country	Goods			Services		
	Exports	Imports	Share of international trade in GDP	Exports	Imports	Share of international trade in GDP
EU-27	**10.1**	**11.5**	**10.8**	**3.8**	**3.3**	**14.0**
Bulgaria	47.8	71.7	59.8	15.9	12.0	14.0
Czech Republic	66.7	64.0	65.4	9.6	7.9	8.8
Estonia	60.5	75.6	68.1	22.7	15.1	18.9
Latvia	30.9	55.6	43.3	12.4	6.2	9.3
Lithuania	46.4	63.2	54.8	12.6	8.4	10.5
Hungary	65.6	66.7	66.2	12.2	10.0	11.1
Poland	34.3	36.5	35.4	5.9	5.5	5.7
Romania	26.8	39.1	33.0	6.2	6.2	6.2
Slovenia	55.8	59.1	57.5	9.9	6.6	8.3
Slovak Republic	75.1	81.9	78.5	9.1	6.8	8.0

Source: Europe in Figures – Eurostat Yearbook, 2008

Table 4. Central and Eastern European (CEE) countries, which recently joined the European Union –

Key Trade-Related Indicators

Country	Trade Restrictiveness Index (2006)	Applied tariff trade weighted (2007)	Market Access Trade Tariff Restrictiveness Index (2006)	Rest of the world applied tariff trade weighted (2006)	Ease of doing business (2007)	Logistics Performance Index (2006)	Real growth trade (2007)	Real growth exports (2007)	Export concentration index (2007)
Total CEE countries	**5.7**	**2.1**	**3.6**	**2.8**	**41.9**	**3.0**	**13.3**	**11.7**	**13.4**
Bulgaria	5.9	2.1	2.0	1.3	46.0	2.9	11.9	10.8	15.4
Hungary	3.8	2.1	4.4	2.6	45.0	3.2	12.0	13.4	13.8
Latvia	3.8	2.1	4.4	2.9	22.0	3.0	13.8	9.3	10.8
Lithuania	3.8	2.1	4.4	3.4	26.0	2.8	11.1	10.0	18.9
Poland	3.8	2.1	4.4	3.7	74.0	3.0	13.5	12.1	8.2
Romania	14.8	2.1	1.5	0.9	48.0	2.9	13.9	8.0	11.5
Slovak Republic	3.8	2.1	4.4	5.0	32.0	2.9	16.9	18.0	15.2

Source: World Bank – World Trade Indicators, 2008

Global economic integration creates opportunities for growth and for development for all the member countries, including the Central and Eastern European states, which recently joined the European Union. But it also increases pressure on global resources and on traditional industries and livelihoods. The European Union is committed to ensuring that the European economy is open to the world and competitive on the world stage. It supports a strong multilateral trading system as the most effective means of managing trade for the benefit of all.

In this respect, it has to be mentioned the fact that, during 2003-2007 period of time, the commercial balance with the other EU countries of the Central and Eastern European (CEE) countries, which recently joined the European Union, was a negative one, with the exception of Czech Republic, Hungary and Slovak Republic (Table 1).

In EU-27, there was a sharp turn-around in economic activity after the first quarter of 2008 for both industry and services. This was reflected most clearly in a rapid and steep reduction in output; industrial output declined by 16.7 % between the first quarter of 2008 and the first quarter of 2009, and that of services by 8.3 %.

There was a relatively rapid reaction to this downturn in industrial employment, with cumulative cutbacks of 4.9 % in the four quarters through to the end of the first quarter of 2009.

There was also a relatively rapid downturn in the index of persons employed in services; growth in the second quarter of 2008 slowed markedly, followed by accelerated declines in the three quarters through until the first quarter of 2009. These were the first falls in the index of persons employed in services recorded in the period for which EU-27 data are available (since 1998).

The index of production for the *capital goods* in EU-27 peaked in the first quarter of 2008, after almost five years of sustained growth. In the year following that peak, the index of production for capital goods fell by 22.3%, returning close to the level of the previous relative low reached in the second quarter of 2003. The decline in the number of hours worked in capital goods activities was the fastest to reflect the downturn in production, falling back in the second quarter of 2008 after two years of growth; the index of the number of persons employed started to decline one quarter later. By the end of the first quarter of 2009, the decline in the index of the number of hours worked in capital goods activities in the EU-27 had reached 6.2 %, twice the rate of the decline in the index of the number of persons employed.

Among all of the manufactured industrial goods, the sharpest decline in output in the year to the end of the first quarter of 2009 was in *intermediate goods*; from the relative peak in the first quarter of 2008, output declined by 23.5 %, to its lowest level since the first quarter of 1997. After years of a relatively steady level of employment in these activities within the EU-27, the knock-on effect of this change in production was a decline of 9.1 % in the index of hours worked over the year between the first quarters of 2008 and 2009, with the index of persons employed also falling by 5.8 % in this same period.

The EU-27's production index of durable consumer goods fell by almost one fifth (18.8 %) up to the end of the first quarter of 2009 from the relative peak one year earlier. The level of the EU-27's production index at the end of the first quarter of 2009 was the lowest since the fourth quarter of 1993. This sharp and deep turn-about in production is also reflected in employment data. After years of relative stability in the indices of persons employed and hours worked within the grouping of durable consumer goods activities, there were also steep cutbacks in the year to the end of the first quarter of 2009. The index of hours worked fell by 9.1 % from the level recorded at the end of the first quarter of 2008, with the index of persons employed declining by 7.9 %.

The EU-27 indices for persons employed and hours worked in the grouping of *non-durable goods* activities fell at almost identical rates between the first quarters of 2008 and 2009 (-5.6 % and -5.5 % respectively). These rates were slightly steeper than for the index of production in the same period (-4.2 %).

In contrast to the other manufactured industrial goods, the volume of output of *energy* activities in EU-27 has been on a downward trend for a number of years. For much of this period, there was also a steady fall in the indices of persons employed and of hours worked, which broadly continued in the year after the first quarter of 2008.

As a highly labour intensive sector, the sharp downturn in *construction activities* in EU-27, after the first quarter of 2008 was closely followed by the labour input indices. Against the background of a 10.3 % fall in the production index for construction activities in the year to the end of the first quarter of 2009, the index of hours worked in construction in the EU-27 declined by 7.2 % and the index of person employed reduced by 6.9 %.

Signs of recovery are not yet so clearly visible in the *euro area* like in USA, in the last part of 2009. Each country has its own specific combination of weaknesses such as bursting housing bubbles, declining exports and damaged financial sectors.

The eventual recovery is likely to be slow as rising unemployment will hit consumer spending. In the above mentioned conditions, GDP in the euro area is expected to contract 4.8% in 2009 and to show 0% growth in 2010. The previous projections were for a 4.1% fall in 2009 and a 0.3% fall in 2010. The main factors with a positive influence, taken into consideration for revising up the projections for 2010 in euro area are: the strengthening growth in world trade which will help support a turnaround in exports, the governmental policy support and an easing of financial conditions adopted in some countries.

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