THE IMPACT OF THE FINANCIAL CRISIS ON THE INTERNATIONAL COMMERCE

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***Abstract**: The world economy is experiencing its most severe downturn in many decades, notwithstanding decisive policy measures across the globe in response to the financial turmoil and its adverse consequences. Indicators signal a deeper and more synchronized downturn in the global economy. Emerging markets – a main pillar of global growth in recent years – also appear to be increasingly affected by the worsening global economic conditions. Global inflationary pressures have eased owing to the sharp decline in commodity prices and decelerating global demand. At the same time, volatility in many markets has soared, and global economic prospects are currently subject to a high degree of uncertainty. The spreading repercussions of the financial turmoil have recently precipitated a downturn in international trade transactions across the globe. This is evidenced by the sharp and broad-based fall in the global manufacturing Purchasing Managers' Index (PMI) to levels well below its contraction-expansion threshold, suggesting that global industries have continued to scale back activity.*

Keywords: crisis, financial, trade, import, export.

JEL codes: G00; M2; D5

International trade statistics are used extensively by public and private sector decision-makers. For example, businesses can carry out market research and define their commercial strategy. They are also used extensively by public body decision makers at an international, EU and national level. In the case of Community authorities, international trade statistics help in the preparation of multilateral and bilateral trade negotiations, in defining and implementing anti-dumping policies, in evaluating the progress of the Single Market or the integration of European economies (1).

The current account of the BoP provides information not only on international trade in goods (generally the largest category), but also on international transactions in services, income (from employment and investment) and current transfers. For all these transactions, the BoP registers the value of exports (credits) and imports (debits), the difference of which is usually referred to as the balance (surplus or deficit).

Main players in world trade for goods are: EU-27, United States, China (excluding Hong Kong), Canada and Switzerland (Table 1 and Chart 1)[1].

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

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[1] *External and intra-European trade. Statistical yearbook — Data 1958-2007:* This pocketbook provides an overview of the characteristics of the European Union's trade in goods. Data are provided for the European Union as a whole (EU-27), the euro area (EA-15) and the single Member States, with a breakdown by main partners and by major product groups, according to the Standard International Trade Classification (SITC). Trade flows for the 27 Member States are presented with both other EU countries (intra-EU trade) and non-EU partners (extra-EU trade). The source of these statistics is Comets, the Eurostat database containing detailed external trade data for the EU and its Member States.

calculated for both goods and services, based on BoP data; 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.

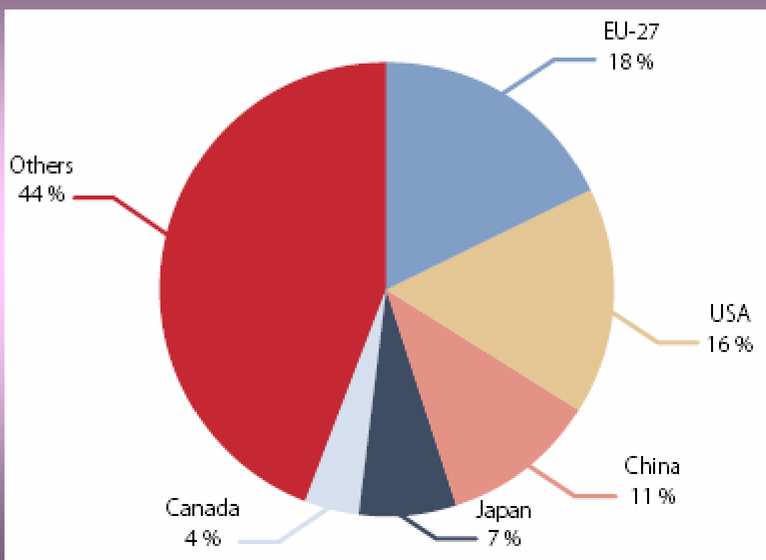
The economy of the EU-27 was more integrated with the international economy in 2006 (in terms of the credits and debits as a share of GDP) than at any time in the previous five years. The average value of EU-27 trade flows of goods corresponded to 10.8 % of GDP in 2006, a much higher ratio than the relative low of 8.6 % in 2003, reflecting the broad upturn in economic activity. Although the volume of international trade in services is less than that for goods, the trade integration of services also rose from a relative low in 2003 to 3.6 % of GDP in 2006.

Table 1. Main players in world trade for goods[2]
(EUR 1.000 million)

	Exports				Imports			
	1991	1996	2001	2006	1991	1996	2001	2006
EU-27 (1)	…	…	885	1.157	…	…	976	1.350
EU-15 (2)	403	626	986	1.310	472	581	1.028	1.430
Norway	27	39	66	97	21	27	37	51
Switzerland	50	63	92	118	54	62	94	113
Canada	102	159	291	306	95	134	247	279
China (excluding Hong Kong)	…	119	297	772	…	109	272	630
Japan	254	324	450	515	191	275	390	461
United States	340	490	816	826	411	644	1.318	1.528

(1) Extra EU-27
(2) Extra EU-27
Source: Eurostat (ext.lt.intertrd)

Chart 1. Share in world trade, 2007 (imports and exports)



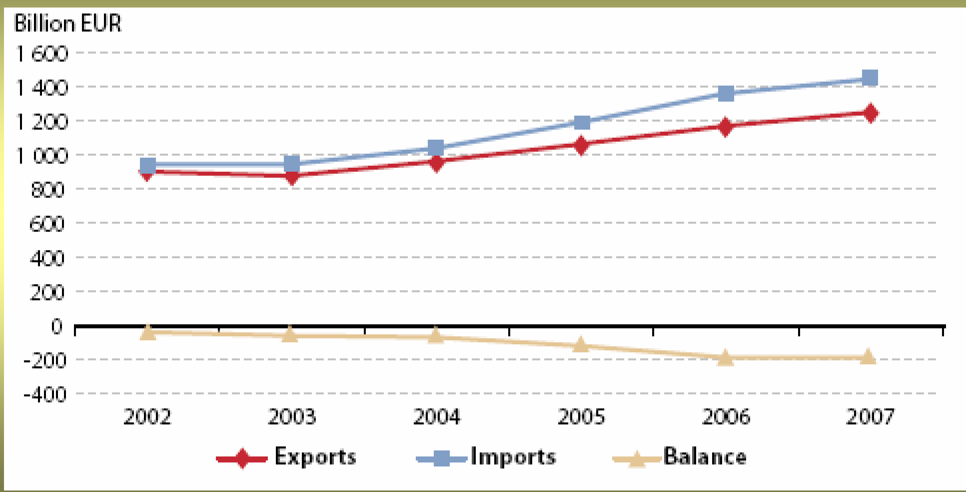
The value of world trade in goods, excluding intra-EU-27 trade, was about EUR 15.000 billion in 2007. The European Union is the leading trader, accounting for 18 % of total world trade. The USA was the second biggest trader with a share of 16 %, followed by China (11 %),

[2] Annuaire Eurostat 2008 – *L'EUROPE EN CHIFFRES. Cap.8 Le commerce international,* p. 363.

Japan (7 %) and Canada (4 %). The EU is the biggest exporter and the second biggest importer in the world. In 2007, the value of extra-EU-27 exports was EUR 1.241 billion and the value of imports EUR 1.434 billion. The USA is the biggest importer in the world. It also records the biggest trade deficit, almost EUR 624 billion in 2007. China has become a major global trader in recent years. In 2004, China overtook Japan as the third biggest trader in the world (5).

Starting from 2003, the European Union recorded a steady growth in both imports and exports. From 2003 to 2007, the average annual growth rate was more than 9 % for exports and more than 11 % for imports. EU trade is characterized by a permanent but generally limited trade deficit. In 2007, the deficit reached EUR 192 billion, which was slightly lower than in the previous year but more than four times higher than in 2002 (Chart 2).

Chart 2. EU trade, 2002-07



In 2007, over 40 % of EU imports came from Asian countries while the other European countries accounted for more than a quarter. The main destination of EU exports in 2007 was Asia with a 30 % share, followed by other European countries (28 %) and North America (24 %). The EU has a considerable deficit in trade with Asian countries, which more than doubled between 2002 and 2007. The largest surplus is recorded in trade with North America (5).

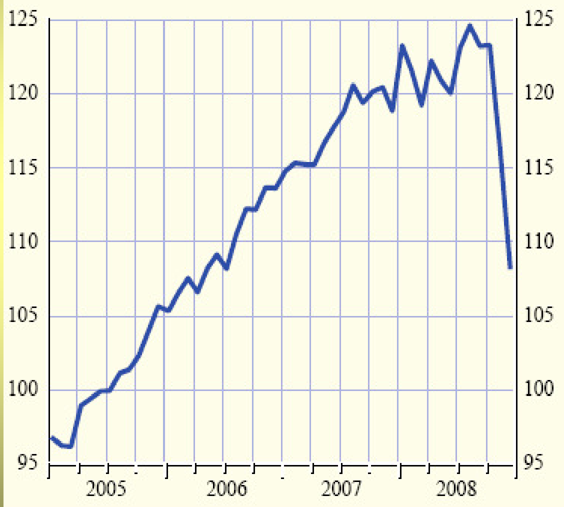
As regards the economic analysis, the world economy has weakened substantially in recent months reflecting the impact of the financial market turmoil, affecting increasingly also emerging market economies. In a climate of heightened uncertainty, a severe fall in world trade volumes has been accompanied by a pronounced decline in domestic demand. This is evidenced by the sharp and broad-based fall in the global manufacturing Purchasing Managers' Index (PMI) to levels well below its contraction-expansion threshold, suggesting that global industries have continued to scale back activity.

Following a period of strong growth, world trade was gradually affected by the general slowdown in global activity that began with the US recession at the end of 2007. After the failure of Lehman Brothers, the strong adverse feedback loop between the financial turmoil and real activity led to a sharp decline in world trade (10). The impact of the financial turmoil on wealth and confidence, together with the associated high level of uncertainty, prompted firms and households to reduce or postpone expenditures, as shown, for instance. The decline in demand for capital and consumer goods – especially durable goods – which have a relatively high import content, caused world output and trade to plummet in the final months of 2008.

The spreading repercussions of the financial turmoil have recently precipitated a downturn in international trade transactions across the globe. According to the latest data release, world trade volumes of goods contracted markedly in November and December 2008, by 5.3% and 7.0% month on month respectively (9). Overall, world trade declined by 6.0% quarter on quarter in the fourth quarter of 2008. According to this latest information, at the end of 2008 world trade had reverted to mid-2006 levels (Chart 3). Moreover, a further contraction is expected, as the February global PMI export orders index remained below its expansion-contraction threshold for the sixth consecutive month (Chart 4).

Chart 3. World trade volumes in goods

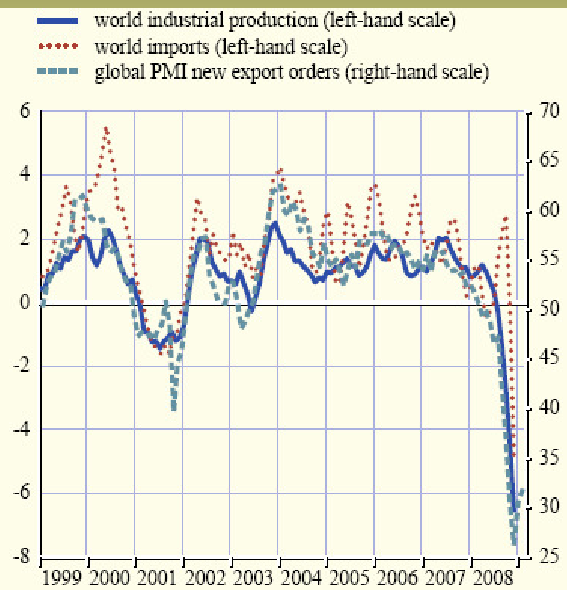
(index 2005 = 100; monthly data)



Source: CPB.

Chart 4. World import volumes, world industrial production and global PMI new orders

(index; percentage changes)



Sources: CPB, World Bank and ECB calculations.
Note: Figures for world industrial production and world import volumes refer to three-month-on-three-month percentage changes.

From a historical perspective, the link between the US business cycle and global economic developments remains strong, and US recessions have often been associated with downturns in world trade. Although this relationship does not necessarily imply any causality, it provides a useful benchmark for gauging current developments. Based on data collected since the late 1950, Chart C shows the average pattern of the change in world import volumes of goods and services during US recessions (with quarter "0" corresponding to the start of the US recession as dated by the National Bureau of Economic Research). In general, US economic recessions have been accompanied by a slowdown in the pace of expansion of world trade (on average, the rate of increase in world trade declines for around eight quarters after the start of a US recession).

Looking at the past US recessions individually, the recession in the early 1980 shows similarities with the current cycle. Both are characterized by significant adverse impacts on consumption, residential investment and imports. In addition, the recession in the early 1980 was associated with difficulties in the banking sector, as is the present cycle. The impacts of that recession on world trade were particularly strong, with trade remaining below its pre-recession levels for the next four years.

Developments in the current downturn in trade have so far been relatively similar to those in the early 1980. Therefore, using the latter as a rough benchmark, it seems legitimate to expect some further weakness in world trade for a period of time. Moreover, features particular to the current episode may give rise to downside risks to world trade prospects, such as limited access to trade credit or the emergence of global production chains that could intensify the synchronous decline in trade across the globe. However, these risks could be somewhat mitigated by the recent fall in oil prices, as the resulting decline in transportation costs might support a recovery in international trade activity (4).

The euro area economy is relatively open, particularly when compared with the world's two other leading economies: in 2006, the combined value of imports and exports of goods and services was equivalent to around 42% of GDP. The euro area also accounted for 18% of the value of world exports, compared with 10% for the ten largest oil exporting countries. Moreover, the trade openness of the euro area has increased noticeably since 1998 (by 11 percentage points), particularly as a result of rapidly growing trade with new EU members and China (2).

Table 2. Imports of goods - total - Percentage change m/m-1 (SA)

	2008 02	**2008** 03	**2008** 04	**2008** 05	**2008** 06	**2008** 07	**2008** 08	**2008** 09	**2008** 10	**2008** 11	**2008** 12	**2009** 01
Imports of goods - total	**-2.2**	**0.8**	**1.3**	**-1.2**	**2.5**	**3.0**	**-3.4**	**0.1**	**-2.8**	**-4.2**	**-5.5**	**-8.1**
Food, drink and tobacco	-4.1	-3.0	2.4	2.8	-1.6	-1.0	0.8	0.4	-2.8	-0.3	-0.9	-12.5
Raw materials	-0.2	0.3	0.2	1.1	0.8	3.6	0.3	3.1	-3.2	-3.5	-13.3	-26.4
Mineral fuels, lubricants and related materials	-2.5	4.6	-1.7	2.6	9.7	8.3	-11.6	-3.4	-8.6	-10.8	-10.1	-14.0
Chemicals and related prod	-2.2	4.0	-1.1	-2.5	0.1	5.2	0.5	0.9	-4.7	-0.8	-3.3	-5.3
Other manufactured goods	0.7	-3.7	1.4	-1.1	1.8	4.4	-1.4	2.4	-1.2	-11.6	-1.8	-1.4
Machinery and transport equipment	-1.7	-1.9	1.1	-3.6	0.1	4.6	-3.3	0.6	-3.9	-1.0	-4.7	-5.4

Following the onset of the turmoil and increased volatility in financial markets in early August 2007, which had been triggered by deterioration in the US sub-prime mortgage market and the reprising of risk, the outlook for economic activity in the euro area became clouded by unusually high uncertainty

Table 3. Imports of goods - total - Percentage change m/m-12 (NSA)

	2008 02	**2008** 03	**2008** 04	**2008** 05	**2008** 06	**2008** 07	**2008** 08	**2008** 09	**2008** 10	**2008** 11	**2008** 12	**2009** 01
Imports of goods - total	**9.0**	**4.7**	**16.1**	**8.6**	**13.7**	**17.3**	**7.6**	**15.8**	**4.2**	**-4.0**	**-5.7**	**-22.1**
Food, drink and tobacco	10.5	1.1	12.7	14.6	12.5	8.9	1.2	5.4	-5.4	-5.9	3.2	-20.8
Raw materials	5.7	-2.6	13.3	5.2	9.4	12.2	3.4	24.1	12.0	2.9	-2.8	-36.3
Mineral fuels, lubricants and related materials	34.0	45.5	46.2	41.0	57.6	60.7	45.0	44.3	19.9	-2.9	-18.1	-34.2
Chemicals and related prod	6.2	0.8	13.3	0.3	3.6	8.0	1.0	14.1	4.6	1.9	3.6	-12.6
Other manufactured goods	1.2	-13.0	2.4	-5.1	-3.2	1.4	-6.0	7.4	-0.4	-7.1	-2.8	-16.4
Machinery and transport equipment	-1.6	-3.5	7.4	-1.3	0.9	2.5	-7.4	3.0	-4.9	-6.9	-3.4	-19.6

As a result, demand for euro area goods and services has slowed. Euro area exports were fl at in the second and third quarters of 2008 and slumped sharply in the final quarter of the year (falling by 7.3% quarter on quarter). This was one of the factors behind the very strong decline in industrial production observed in that period. Looking ahead, export orders remain at historically very low levels and business surveys point to another sharp fall in exports in the first quarter of 2009 and later in the year. Although exports may gain some impetus from the depreciation in the nominal effective exchange rate of the euro since the turn of the year, if it is sustained, near-term prospects for the global economy remain bleak and it is unlikely that exports will provide strong support for euro area demand in the coming quarters (the tables 2 – 5)[3].

Table 4. Exports of goods - total - Percentage change m/m-1 (SA)

time geo	**2008** 02	**2008** 03	**2008** 04	**2008** 05	**2008** 06	**2008** 07	**2008** 08	**2008** 09	**2008** 10	**2008** 11	**2008** 12	**2009** 01
Imports of goods - total	**2.0**	**-4.6**	**5.2**	**-4.0**	**0.6**	**3.6**	**-3.1**	**2.0**	**-2.5**	**-6.4**	**-0.6**	**-16.7**
Food, drink and tobacco	-0.9	0.6	2.7	-5.0	-1.9	6.0	-2.5	0.9	0.2	-5.6	0.6	-7.4
Raw materials	3.5	-1.2	6.3	-4.9	-1.3	4.4	-5.9	-1.1	-3.5	-23.5	0.7	-16.1
Mineral fuels, lubricants and related materials	6.6	-4.9	3.8	-2.5	20.7	-4.0	-0.5	0.1	-12.6	-21.1	-13.5	-14.2
Chemicals and related prod	-0.3	-3.1	1.8	-3.3	2.6	1.1	1.2	-4.7	0.0	-4.7	-0.2	-4.8
Other manufactured goods	2.1	-4.6	2.6	-3.1	-0.8	3.2	-0.5	-1.1	-1.2	-9.2	-2.9	-13.7
Machinery and transport equipment	3.0	-4.7	5.4	-7.0	-1.2	4.4	-2.5	1.3	-1.3	-6.4	1.2	-14.3

As final domestic demand has slowed, euro area imports have also tended to moderate over the past year. Following more robust growth in the third quarter of 2008, imports fell by 5.5% in the fourth quarter. However, with exports falling faster, the contribution of net trade to GDP growth was again negative in the fourth quarter.

Table 5. Exports of goods - total - Percentage change m/m-12 (NSA)

	2008 02	**2008** 03	**2008** 04	**2008** 05	**2008** 06	**2008** 07	**2008** 08	**2008** 09	**2008** 10	**2008** 11	**2008** 12	**2009** 01
Imports of goods - total	**16.1**	**-1.5**	**17.2**	**4.8**	**5.8**	**12.3**	**-1.5**	**11.9**	**2.8**	**-10.7**	**0.1**	**-24.8**
Food, drink and tobacco	14.4	1.7	29.6	7.7	9.0	16.1	-0.1	19.1	11.4	-3.0	9.7	-16.3
Raw materials	21.7	8.7	26.4	9.9	12.2	21.5	2.9	11.9	0.6	-26.2	-18.3	-40.0
Mineral fuels, lubricants and related materials	47.5	29.9	30.3	36.4	42.3	41.2	54.8	46.4	16.9	-12.5	-30.4	-39.4
Chemicals and related prod	10.6	-9.1	14.0	2.9	9.0	12.8	0.0	4.6	1.3	-11.0	7.9	-17.2
Other manufactured goods	13.9	-5.5	16.9	1.4	-1.2	7.5	-6.5	8.4	0.8	-11.8	-3.6	-30.6
Machinery and transport equipment	15.5	-1.0	17.2	3.7	3.5	10.8	-5.2	10.3	1.6	-10.3	3.4	-23.9

Following the onset of the turmoil and increased volatility in financial markets in early August 2007, which had been triggered by deterioration in the US sub-prime mortgage market and the reprising of risk, the outlook for economic activity in the euro area became clouded by unusually high uncertainty

In major emerging markets, the turmoil led temporarily to a rise in financial market volatility, but the capacity of most emerging markets to withstand this turbulence appeared to be stronger than in the past. In the largest central and eastern European EU countries, economic activity has weakened noticeably in recent months. In Hungary, the economy contracted by 1% quarter on quarter in the fourth quarter of 2008, following a decline of 0.1% in the third quarter. Real GDP growth decelerated slightly in the third quarter in the Czech Republic and Poland, to 0.9% and 1.2% respectively. Short-term indicators point to a very significant weakening of economic activity in both countries.

In Romania, real GDP growth was still strong in the third quarter of 2008, partly driven by good harvests in the agricultural sector, marked deceleration in recent months. The growth

[3] External trade statistics cover any movements of goods between the reporting country and the rest of the world. "Goods" means all movable property, including electrical current. The table indicates the seasonally adjusted values of the EU and euro-zone exports. Exports are valuated FOB (Free on Board), i.e. only incidental expenses (freight, insurance) incurred in the part of journey located on the territory of the reporting country are included. The raw values of the Member States are adjusted according to the number of working days on the basis of each national calendar and then seasonally adjusted before being aggregated to provide the EU and euro-zone totals.

outlook has worsened markedly over the past few months in all four countries as a result of increased risk aversion towards the region, tighter financing conditions and weakening international trade (7).

In 2008, FOB exports amounted to € 33613.6 million, their value being with 25.2% higher than 2007, calculated based on the values expressed in lei, respectively 13.8% calculated based on the values expressed in euro.

In the structure of exports, three of the 10 sections of goods comprised in the Standard International Trade Classification (SITC Rev. 4) account for 74.2% of total exports as follows: machinery and transport equipment (36.2%), manufactured products mainly classified by raw material (19.5%) and miscellaneous manufactured articles (18.5%).

In 2008, CIF imports amounted to € 56134.4 million, their value being higher than 2007 with 20.3% based on the values expressed in lei, respectively 9.4% based on the values expressed in euro. In the structure of imports, four of the 10 sections of goods comprised in the Standard International Trade Classification (SITC Rev. 4) account for 81.2% of total imports, as follows: machinery and transport equipment (35.8%), manufactured products, mainly classified by raw material (21.9%), mineral fuels, lubricants and connected materials (12.6%) and chemicals and similar products not-elsewhere specified (10.9%).

The value of intra-community exchanges of goods in 2008 was lei 86946.7 million (€ 23657.1 million) for deliveries and lei 142448.5 *million (€ 38734.7 million) for inputs, representing 70.5% of total exports and 69.1% of total imports.*

In December 2008, FOB exports amounted 7527.5 million lei (1934.0 million euro), with 7.0% less compared with December 2007 at values expressed in lei (with 15.6% at values expressed in euro). In December 2008, CIF imports amounted to 13385.4 million lei (3437.4 million euro), less compared with December 2007 with 16.0% at values expressed in lei (23.8% at values expressed in euro) (8).

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