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EU TRADE IN THE TIME OF FINANCIAL CRISIS

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Abstract: *The paper is focused on the European Union (EU) trade and trade policy in the time of global financial and economic crisis. The analysis of the EU exports and imports points out that the financial crisis has had a negative impact on the intra as well as on the extra-EU trade in the period 2007-2009, but differences among the EU member states have existed. Although the EU tries to support trade development in the world and remove barriers to trade, some protectionist tendencies were recorded in the time of the economic crisis. The last part of the paper gives emphasis to the EU trade policy and some trade measures which have been taken in the EU and its member states to support trade development or vice versa, to protect domestic industries. The results of the analysis show that, although some protectionist tendencies have been recorded both in extra and intra-EU trade, trade relations which are provided among member states are of significant importance all the time.*

Key words: *Extra and intra-EU trade, Common Commercial Policy, financial crisis, protectionism.*

1. Introduction

External trade influences the general functioning of economy in an important way. Having a short term effect on prices, incomes and level of consumption, trade creates a long term press on relocation sources and growth. But the rate of country engagement to trade and investment relations with the other countries is different in the individual states. There are real factors such as the economic proportion and the economic maturity of the country, and also system factors, presented by the type of economic mechanism which influenced the rate of economic openness. Generally, the smaller the economy and the higher the economic development is, the higher the openness rate that the economy achieves.

There is also a theoretical presumption that countries generally exhibit a bigger closeness of their economies in time of war and economic crisis. Protectionist measures such are growing tariffs, anti-dumping or countervailing duties, quota restrictions and other non-tariff barriers, are motivated by the infant-industry argument, national defence and so called optimum tariff. [8] In reality, governments want to reduce domestic unemployment and cure deficit in the nation’s balance of payments.

The European Union (EU) includes small, as well as big economies, with different economic levels and rate of

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economic openness. The main objective of the paper is to find out if the economic crisis in the world has had any implications on the growth and structure of the EU trade in the period 2007-2009. The next objective of the paper shows some trade measures which have been accepted by the European Commission or the national governments of the member countries in the previous two years. Firstly, there is determination of the EU trade and its two flows. The analysis of the changes in the EU trade in the time of economic crisis is presented in the second part of the paper by using statistical information which was published by Eurostat and the WTO. The subject of the analysis is only trade of goods, not of commercial services. The last part of the paper points out some measures which have been received by the EU and its member states with the impact on the external trade, and compares it with obligations to which the EU bind on the G20 summits.

2. Dimension of the EU Trade

The European Union is a leading exporter and importer in the world merchandise trade. Its share in the world exports was 15.9 % in 2008, with a value of 1924.9 billion dollars; regarding the world imports of goods, the EU shared 18.3 % with the value of 2282.2 billion dollars at the same time. The EU good performance is due to the upgrading of product quality, combined with the ability of EU companies to sell products at premium price due to quality, branding and related services. The EU position in the world trade is not significant only in the area of merchandise trade, but also in the trade of commercial services, where the EU shares almost 27% of the world exports and 24% of the world imports in 2008. [10] This leading position of the EU, especially with focus on export performance, is threatened by the increasing competition of the fast growing emerging markets, particularly in Asia.

But the EU provides its exports and imports not only with non-EU member countries (so called “extra-EU trade”), but also among the EU states (intra-EU trade). These two types of EU trade differ in scope, institutional and legal bases, as well as in data processing and publishing.

The most important trade for all EU states is represented by intra-EU trade with a growing number of member states and an internal market with almost half a milliard people. The main reason for this is the fact that the existence of the internal market enables the free movement of goods, services, capital and people without any barriers.

Figure 1 displays the dimension of the EU trade in the period 2004-2008. In this period, the EU passed through two waves of enlargement (ten countries entered EU in 2004 and next two countries joined EU in 2007). The left scale of the figure displays the values of the EU imports from third countries and arrivals of goods from the EU countries. The right side of this figure displays the EU exports to the third countries and dispatches which were provided to other EU states. Data about extra and intra-EU trade is reported in billion of Euros.

Fig. 1. *The intra and extra-EU trade*
Source: Own drafting according to [7]

Dispatches and arrivals in intra-EU trade achieved traditional higher value than exports and imports within the external EU-trade. The intra-EU dispatches of goods had the value of 2704.5 billion Euros in 2008, more than double the value of exports to non-member countries. [7] The proportion of the total trade in goods accounted for by these two flows varied considerably among the EU states, reflecting, to some degree, historical ties and geographical location. The highest levels of trade integration within the EU were recorded for the Czech Republic, Slovakia and Luxembourg. Each of these countries reported that intra-EU trade in goods accounted for about 80% or more of their total trade in goods. In contrast, about 60% or less of the external trade in goods of the United Kingdom, Italy, Bulgaria, Greece and Finland were accounted for by intra-EU trade. [6]

Although the intra-EU trade in goods between the EU states was by far the most important market for goods produced within the EU27, the Union is dependent on the imports of minerals and raw materials from the EU-non member states (especially from Russia and Norway). The placement of the production of low market products to countries such as China and other emerging economies creates another assumption for the formation of trade relations with the third countries. The EU develops trade relations also with many developing countries, aiming at helping them escape from poverty.

EU's leading trade partners are the United States, Russia, Switzerland, China, Turkey, Norway and Japan. These seven countries shared on total EU exports more than 51% in 2008 and 58% of the total EU imports. [7] While trade with the United States and Switzerland is traditionally in surplus, the EU trade with China, Norway, Russia and Japan is in deficit.

3. Implication of the Financial Crisis on the EU Trade Development

The global financial and economic crisis started in 2007, when major financial institutions began to incur heavy losses as a result of their exposure to the market for subprime mortgages. The uncertainty about the extent of these losses reduced the lenders' appetite for risk and severely constrained credit flows to businesses and consumers, as well as between banks. The plunge in equity values, combined with further declines in housing markets influenced the manners of both firms and consumers. Firms cut back on investment spending in response to the growing level of economic uncertainty, and consumers reduced their consumption. The result was a fall in aggregate demand caused by contract world trade and output in the last quarter of 2008. Regarding the interconnection of the international markets on which transnational corporations operate, the economic slowdown rapidly became a global phenomenon.

According to data which were published by the World Trade Organization (WTO), the growth of world merchandise production reduced from 4% in 2006 to 1.5% in 2007 and to -0.5% in 2008. The world merchandise exports grew at 8.5 % in 2006, one year later at 6.0% and only at 1.5% in 2008. The decline in the world merchandise production and exports lowered the world gross domestic product (GDP), which dropped double, from 3.5% to 1.5% in the period of 2006-2008. [10] Although the crisis hit all the regions in the world, the decline in the growth of production, exports and GDP was different across the individual regions and countries. Developed countries, such as the United States, Japan, the EU, recorded bigger decline in exports than emerging countries such as China, India etc. Table 1 shows the EU's export and import growth as compared to those of the world.

Growth in the volume of world and EU merchandise trade Table 1

	2007	2008	2000-2008
World [%change]			
- Exports	6.0	1.5	5.0
- Imports	6.0	1.5	5.0
EU-27 [%change]			
- Exports	3.5	-0.5	3.5
- Imports	3.5	-1.5	3.0

Source: [10]

Figure 2 shows year-on-year changes in growth of the EU exports in the individual quarters compared with world exports after the outbreak of the financial crisis in the period 2007-2009.

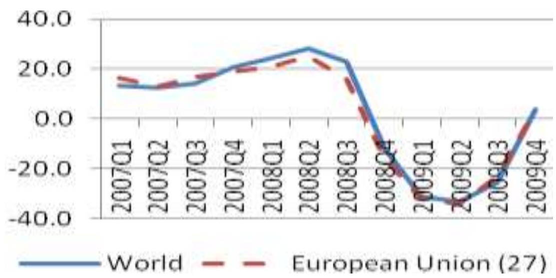

Fig. 2. *World and EU exports: quarterly growth rate in the period 2007-2009 (%)*
Source: Own drafting according to [11]

The growth of both the world and the EU exports has been negative since the last quarter of 2008. While the world growth of export was negative at -11.8% in the fourth quarter of 2007, the EU export fell by 15.8% in the same period. The following month, the negative growth of exports continued and huge declines in exports came in the second quarter of 2009; world exports declined more than 33% and 34% in the EU. The positive growth of exports in both the world and the EU was recorded in the fourth quarter of 2009 at 3.9%.

The position of the leading export partners of the EU in 2008 remained almost unchanged as compared to 2007; only Switzerland declined to the third position after Russia. The United States kept the leading position with 19% share of the total EU exports. Other positions have been taken by Russia, Switzerland, China, Turkey, Norway and Japan. Their shares on the EU exports were in range from 8% to 3%.

A huge year-on-year decline of exports was recorded on the intra-EU market in the period from the last quarter of 2008 to the third quarter of 2009. Extra-EU exports were also negative in this period, but the decline was lower than in the case of intra-EU exports (called correctly “departures”). The EU recorded a positive growth of both the exports in intra-trade and extra-trade in the last quarter of 2009. Year-on-year changes in intra-EU and extra-EU exports for the individual quarters in the period of 2007-2009 are described in Table 2. The data are reported in percentage.

Denomination of the table Table 2

	2007 Q1	**2007 Q2**	**2007 Q3**	**2007 Q4**	**2008 Q1**	**2008 Q2**	**2008 Q3**	**2008 Q4**	**2009 Q1**	**2009 Q2**	**2009 Q3**	**2009 Q4**
Intra-trade [%]	16.5	11.7	16.5	19.7	19.7	25.0	15.1	-18.0	-32.7	-35.6	-23.6	3.8
Extra-trade [%]	16.4	15.4	18.2	17.4	23.2	26.1	17.8	-11.1	-29.7	-30.6	-22.6	4.2

Source: Own drafting according to [11]

Figure 3 points at the percentage of year-on-year changes in growth of EU imports compared with the world imports in the period 2007-2009. The trend in the development of the EU and world imports in the period 2007-2009 was very similar, though the EU recorded a huge decline in imports than the world. Both the imports of the world and of the EU recorded the biggest decline in the second quarter of 2009, compared with the same period of 2008 (world decline of import of 32.9%; the EU import fell to 36.2%). The strong improvement in the growth of imports occurred in the last quarter of 2009, though imports still recorded a negative growth.

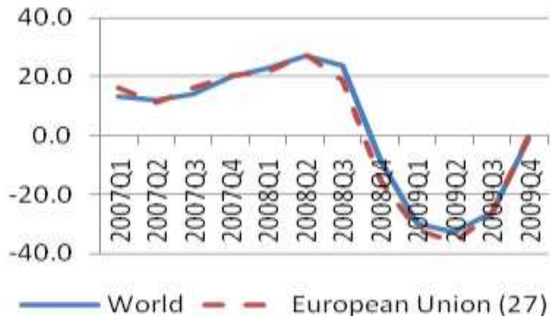

Fig. 3. *World and the EU imports: quarterly growth rate in the period 2007-2009 (%)*
Source: Own drafting according to [11]

The position of the leading import partners of the EU changed only slightly during the period 2007-2008. China is the main import partner with 16% share of the total EU imports in 2008. The second and third positions belong to the United States and Russia with 12% share, respectively more than 11%. The other positions were modestly changed in 2008, but they have always belonged to Norway, Switzerland and Japan. These countries individually shared of the total EU imports from almost 6.0% to 5.0% in 2008.

Table 3 shows year-on-year changes in growth of extra and intra-EU imports. The changes are expressed in percentage. The decline of extra and intra-EU imports was huge in the second quarter of 2009 where imports (arrivals) among EU countries fell to 35.6% and imports from third countries dropped by 37.1%. While growth of the intra-EU imports was 3.8% in the last quarter of 2009, the growth of extra-EU imports was still negative (-6.5 %).

Intra and extra-EU imports: quarterly growth rate in the period 2007-2009 Table 3

	2007 Q1	**2007 Q2**	**2007 Q3**	**2007 Q4**	**2008 Q1**	**2008 Q2**	**2008 Q3**	**2008 Q4**	**2009 Q1**	**2009 Q2**	**2009 Q3**	**2009 Q4**
Intra-trade [%]	16.5	11.7	16.5	19.7	19.7	25.0	15.1	-18.0	-32.7	-35.6	-23.6	3.8
Extra-trade [%]	15.4	10.8	15.5	21.3	25.1	32.6	25.4	-10.0	-30.8	-37.1	-31.4	-6.5

Source: Own drafting according to [11]

According to the data which were published by Eurostat, nineteen EU countries from EU27 recorded still positive growth of exports/departures and imports/arrivals in 2008. On the export side, eight countries recorded export growth of more than 10%, fourteen countries achieved the annual growth of the export in range from 0.1% to 9.99% and five countries recorded a decline in export. On the import side, fourteen countries achieved growth in exports of more than 10%, six countries recorded export growth in range from 0.01% to 9.99% and seven countries recorded a decline of their imports in 2008. The largest decline in trade was recorded in Malta in 2008 (-15.3% or -10.2%). The largest growth of exports/dispatches (28.4%) and also imports/arrivals (18.0%) was recorded in Lithuania in 2008. In the first quarter of 2009, all countries (excluded Ireland departures) recorded a negative growth on the export side, as well as on the import side. The data about annual variation of exports/dispatches and imports/arrivals in the individual EU countries are showed in Table 4.

World trade by the EU member state Table 4

	Exports/Dispatches annual variation [%]		**Imports/Arrivals annual variation [%]**	
	2008	**2009 (Jan-Apr)**	**2008**	**2009 (Jan-Apr)**
Belgium	2.44	-22.67	5.81	-23.67
Bulgaria	13.06	-23.96	15.88	-25.58
Czechia	11.30	-25.45	11.57	-27.07
Denmark	5.94	-17.66	4.76	-15.33

Germany	3.09	-23.22	6.32	-17.23
Estonia	5.37	-28.9	-4.74	-35.74
Ireland	-4.79	0.41	-7.44	-21.94
Greece	-0.26	-17.23	-3.40	-23.14
Spain	-1.29	-19.50	-3.93	-30.41
France	2.21	-22.96	6.13	-19.43
Italy	0.29	-24.41	1.05	-24.34
Cyprus	6.89	-18.60	14.83	-19.88
Latvia	13.71	-27.05	-1.91	-38.00
Lithuania	28.44	-29.30	18.03	-44.09
Luxembourg	5.09	-17.78	6.57	-9.39
Hungary	5.20	-27.08	5.21	-30.38
Malta	-15.32	-28.64	-10.22	-19.82
Netherlands	7.09	-21.55	8.42	-21.16
Austria	3.05	-24.63	4.84	-19.48
Poland	11.72	-25.16	14.86	-31.8
Portugal	0.99	-28.04	7.21	-29.12
Romania	13.67	-20.29	9.62	-36.47
Slovenia	5.57	-23.34	9.15	-27.42
Slovania	13.66	-20.49	13.56	-23.97
Finland	-0.17	-35.87	4.67	-34.14
Sweden	1.16	-32.08	2.07	-31.60
UnitedKingdom	-2.57	-24.50	-5.42	-24.75

Source: [5]

Figure 4 points out the trade development of the EU (excluding intra-EU trade) in 2009. The values of exports and imports are recorded in percentages and reveal year-on-year changes that happened in the individual months of 2009. The largest decline in the EU exports was recorded in January at -25% to 75.7 billion Euros; on the import side, a huge decline was recorded in July at -31% to 100.5 billion Euros.

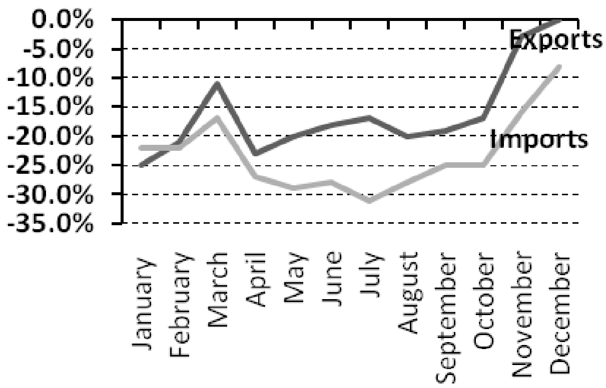

Fig. 4. *Year-on year changes in the EU exports and imports in 2009*
Source: Own drafting according to [3]

Although exports recorded a lower negative growth than imports, the value of the imported goods exceeded the value of exports, so that the trade balance of the EU was negative, amounting to 105.5 billion Euros in 2009. [3] The trade balance of the EU was negative also in the previous years: -258.5 billion Euros in 2008; -192.5 billion Euros in 2007 etc. In 2008, a positive trade balance was achieved by eight countries; the Czech Republic was the only one from the new accessing countries. The biggest trade surplus was achieved by Germany in the amount of more than 175 billion Euros in 2008. The impact of the economic crisis on the trade of the individual EU countries was influenced, above all, by the openness rate of their economies, which is considerably different. While Belgium, the Czech Republic, Hungary, Slovakia recorded an openness rate of the economy of about 70% and more, the United Kingdom, France, Spain etc. recorded about 20 %. [6]

4. EU Trade Policy Measures in Time of the Economic Crisis

The trade policy of the EU has been officially called the Common Commercial Policy (CCP); it belongs to the oldest area of the common interest of the EU member countries. The word "common" means that supranational institutions of the EU manage trade area by exclusive competencies. The main principles of the CCP are created on behalf of all member countries and they are used purely in extra-EU trade.

The EU is the important player in the world economy and member of the G20 group. In the G20 meeting in Washington in 2008, and consequently on summits in London and Pittsburgh in 2009, countries have bind to avoid protectionism and national isolationism in the time of the global crisis. They obliged to provide 250 billion dollars for trade finance and to reach an ambitious and balanced conclusion to the Doha Development Round in the WTO. The countries confirmed the opinion of the general director of the WTO P. Lamy that "*global crisis requires global solution*". It was supposed that the conclusion the Doha round could bring in tariff cuts of at least 150 billion dollars per annum, which could directly benefit consumers. [12]

But on the other side, the European Commission presented the European Economic Recovery Plan at the end of 2008, which included two pillars:

– The first pillar presented a major injection of purchasing power into the economy, to boost demand and stimulate confidence. The commission proposed an immediate budgetary impulse amounting to 200 billion Euros (1.5% of GDP), made up of a budgetary expansion by Member States of 170 billion Euros (around 1.2% of EU GDP), and EU funding in support of immediate actions of the order of 30 billion Euros (around 0.3% of EU GDP).
– The second pillar rests on the need to direct short-term action to reinforce Europe's competitiveness in the long term. The plan sets out a comprehensive program to direct action to "smart" investment, such as investment in energy efficiency, investing in clean technologies and investing in infrastructure. [4]

According to the report of the WTO, the new trade restricting or distorting measures that were introduced by WTO members from October 2008 to October 2009, have covered collectively, at a maximum, 1% of the world merchandise trade. They have been concentrated in particular on agricultural, iron and steel products, followed at some distance by consumer electronics and textiles, clothing and footwear. [9] In the case of the EU, the use of these measures was recorded in the period from October 2008 to October 2009:

- initiations of 19 cases of the anti-dumping investigations and 5 countervailing duty investigations,
- implement economic stimulus packages and financial rescue packages in aggregate value at 8 trillion dollars. The major share of these public sector interventions has been in financial rescue packages. These represented, for example, 28% of GDP in the United Kingdom and around 19% of GDP in both Germany and France, compared with fiscal stimulus packages announced in 2009 of around 1 to 1.5% of GDP in France and the United Kingdom, and 2.8% of GDP in Germany.

The huge financial and fiscal stimulus programs that were introduced to tackle the crisis have undoubtedly had important trade effects. Whether they brought more positive or negative effects, more in-depth analysis is requested on the trade effects of these stimulus programs in individual countries. In the case of the EU, the common position and measures of the Common Commercial Policy helped protect the EU trade interests against unfair practices of the third countries. But in the internal market, the principle of the free market was disturbed by state aid which is generally forbidden in the EU. The statement presented by French president Nicolas Sarkozy that the production of French cars should be taken back from the Czech Republic to France, is also visual evidence that not even the existence of the EU internal market prevents some protectionist moods among the EU countries in the time of the economic crisis.

5. Conclusions

The main objective of the paper was to show implications of the financial and economic crisis on the EU trade development in the period 2007-2009 and to specify some trade measures which were received by the EU or its member countries during the previous two years. The data about the growth of the world trade have revealed that the decline of the EU trade was higher than the average decline of trade in the world in 2007 and 2008. But all the time, the EU has kept the leading position in the world trade with a share of the world exports and imports of goods of 15.9%, respectively 18.3% in 2008. While the growth of the EU trade was hit by the economic crisis, the structure of the EU trade partners continued unchanged. The leading positions in trade relations of the EU belong to the United States (on the export side) and China (on the import side). The EU has also recorded trade deficit before, as well as during the economic crisis, which shows a long term problem in the structure of the EU imports rather than a short-term unbalance. In an effort to support export and economic growth, the European Commission has been taking different trade and other economic measures in the last two years. Some member countries called out protectionist moods to protect domestic job positions. It is possible to suppose that the increasing protection and state aid can bring revival on the short time, but from a long time view, these measures have had a negative effect on trade relations with the other countries, and also burdened the public finance.

Although economic crisis has had more negative influence on the dynamics of the intra-EU exports than extra-EU exports, in the area of imports it was contradictory – the intra-EU imports declined less than the extra-EU imports in 2008-2009. On the whole, there was a confirmation that the long term tendency is that the intra-EU trade plays a more important role than the extra-EU trade in the trade relations of the member countries. But it is necessary to point out that the share of the intra-EU trade on the total trade of the individual countries varied, reflecting historical, geographical and other factors. Regarding the intra-EU trade that achieved in amount a doubled value than the extra-EU trade, it confirms that, although some protectionist tendencies were recorded, in both of the extra and intra-EU trade in the time of the economic crisis, the trade provided among member countries on the EU internal market is always the most important part of the total EU trade.

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