# Implications of the Eu Enlargement on the Foreign Trade Activity of the Eastern and Central European Countries which Recently Joined the Union


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***Abstract**: The EU-27 is by far the largest exporter of goods worldwide: in 2007, goods worth EUR 1 240 billion were exported, against EUR 848 billion by the United States and EUR 889 billion by China. The United States imported slightly more than the EU-27 (EUR 1 472 billion and EUR 1 426billion respectively), more than double the value of total imports registered by China (EUR 698 billion).*

*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.*

*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%).*

*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 on some measures of logistics performance, and all rank in the top 50 with the exception of Lithuania (ranked 58th).*



***Key words:** exports, imports, accession**,** integration share.*


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.

In 2007, the European Union continues to be the most important exporter at world level and the second importer, just behind the United States. Goods with a total value of EUR 1 240 billion were dispatched outside the EU-27, against imported products worth EUR 1 425 billion.

Accordingly, the European Union's trade balance was in deficit by EUR 185 billion, slightly reduced compared to a year earlier (EUR 193 billion) but substantially more than in 2005, when the deficit amounted to EUR 127 billion. The main factor that made the deficit grow compared to the latter year is the value of energy imports.

Germany confirmed again its reputation as exporting nation with a share of over one quarter (27.4%) of all EU exports in 2007. 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% in 2007, and corresponding to a value of EUR 261.7 billion, 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 No.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).

**Table No. 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.

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.

**Table No. 2.** Central and Eastern European (CEE) countries, which recently joined the European Union, contribution to Intra- and Extra-EU-27 trade in 2007

| **Ţara** | **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 No. 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

- 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.

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 No.1).

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**Table No. 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