# The impact of the financial and economic crisis on the EU's position in global trade order

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## ABSTRACT

The financial and economic crisis has changed the landscape of economic policy and nowadays we are facing a period where it can be easily admited that there's no state in the international scene that has not been impacted by the past events. In this regard, the European Union has been certainly suffering from its impact and has been forced to face a new economic reality, one with post-crisis trade restrictive measures and multi-layers of trade rules. This papers seeks to give an overview on the impacts of the global economic crisis on EU's foreign trade and policy responses. To this aim, it will tackle several aspects such as to what extent was the foreign trade of EU affected by the global economic crisis and also how all of this changes impacted the dynamics of the relationships and partnerships with other international actors.

**KEY WORDS: Global crisis, global trade order, policy responses**

## INTRODUCTION

In current economic si financial context, the component of trade has never been more important for the European Union's economy. In today's difficult economic circumstances, trade has become one of the most essential means of achieving the much needed growth and creating jobs without drawing on public finances. Trade can represent an important tool of making the necessary link between Europe and all the global growth centres, and it definitely represents a *sui-generis* source of productivity gains. As the global crisis showed us, the EU must expand its capacity in order to obtain all the benefits from trade, especially that not all the Member States perfom equally well in the global scene. Trade represents an engine for global growth as it contributes to long-term jobs in the EU and around the world. So it becomes clear that the challenge in a constantly developing world is for the EU to maintain and boost its position on the global scene, and to maximize the benefits of trade in order to facilitate economic growth.

## THE PAST AND THE CURRENT SITUATION

Nowadays we face changes in the global economic and financial order that had become as significant for the world economy and international relation as the last period of the Cold War. Global economic integration is now motivated by fast growing trade and capital flows, considerable cuts in transportation costs and also a massive reconfiguration of the information and communications technology. All this changes create remarkable ooportunities for growth and development. If in the second half of the $20^{th}$ Century, Europe, United States and Japan were the ones that drove the global economic, today several other power and expanding economies are joining this list such China and India, but nevertheless also Brazil and others. Currently we are facing an economic reality where China is the 3rd largest exporter and it's likely to become the second largest national economy in the near future. Going on with the predictions, with a similar span of time, India may become the $6^{th}$ largest.

Going back on the timeline, the world economy in 2008-2009 experienced one of the most severe financial shock since the Great Depression, leading with one of the deepest economic decline. In terms of trade, for the whole year of 2009, world trade declined in real terms by almost 12.2%. By the third quarter of 2009 as the global economic recovery began, there was a rapid bounce-back in trade; this followed the basic historical pattern of most of the other steep declines which were followed by a steep recovery as well.

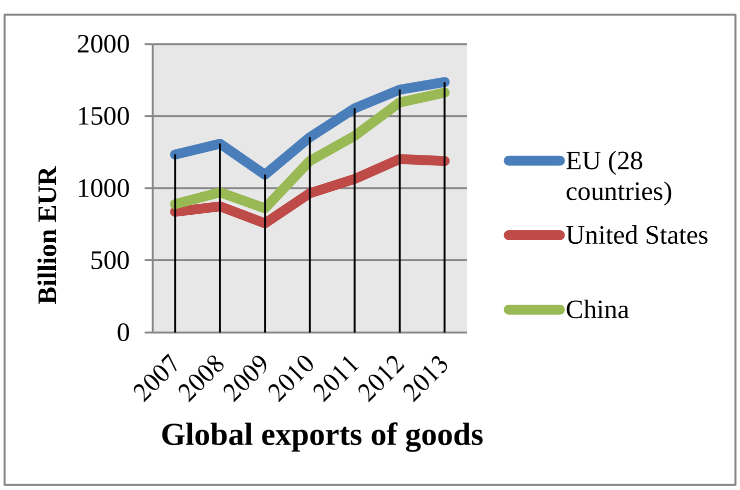
In 2002 and 2003 the level of exports of goods was fairly stable, followed by a period of rapid increase between 2004 and the third quarter of 2008. From the fourth quarter of 2008 to the end of the second quarter of 2009 there was a sharp decrease in the value of exports of goods. Following this decline the value of exports of goods began to increase again until the beginning of 2011, when it had returned to the level seen before the decrease at the end of 2008. From 2011 onwards the level has been relatively stable. In 2013 just over 62 % of the total value of goods (intra-EU and extra-EU trade combined) exported from EU Member States were to other Member States. This proportion has declined since 2002 by just over 6 percentage points, falling gradually since 2008. In 2007, China overtook the United States to become the second largest exporter of goods among the G20 members, behind the EU-28.

Despite the strong growth in Chinese exports, the EU-28's exports of goods in 2012 remained higher (see chart 1).

By contrast, Chinese imports of goods were notably lower than imports into either the EU-28 or the United States. Together, the EU-27, China and the United States accounted for 39.3 % of global exports of goods in 2011 and 43.8 % of global imports.

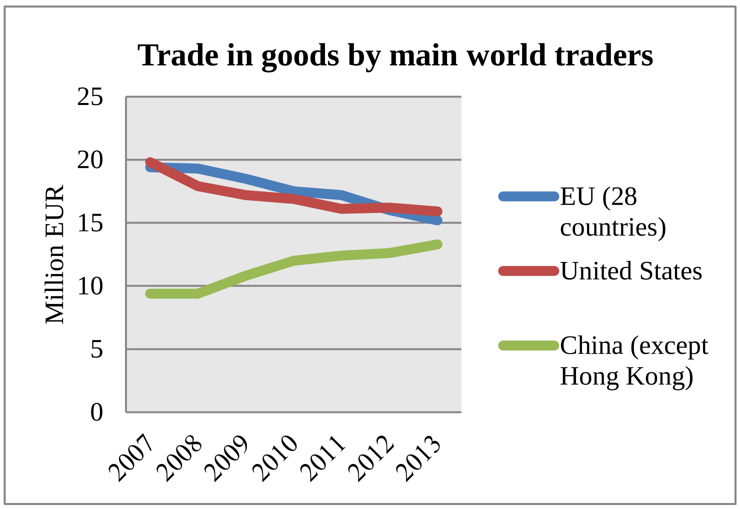

Having been disrupted by the global financial and economic crisis in 2009, there was a return to progressively more trade integration for the EU-28 between 2010 and 2012, before this fell back in 2013. The crisis had a considerable impact on the international exchange of goods in 2009. However, this was relatively short-lived and the level of trade integration for goods bounced back in 2010 to a level that was above that recorded in 2008. For services, the EU-28's trade integration was stable in 2009 before continuing its upwards path thereafter.

The average value of EU-28 credits and debits, relative to gross domestic product (GDP) corresponded to 12.9 % of GDP in 2013 for goods, up from a relative low of 9.8 % in 2009. The level of trade integration for services was less pronounced (than for goods). Nevertheless, for services the average value of credits and debits rose to 4.6 % of GDP in 2013, up from 3.2 % in 2003. The latest data for 2013 show that the relative importance of trade integration for both goods and services within the EU-28's economy was at or close to its highest level; these figures confirm that the recovery from the crisis was generally more rapid for international trade than for GDP. The EU-28 trade surplus for goods and services was equivalent to 1.5 % of GDP in 2013, compared with deficits of 0.7 % in Japan and 3.6 % in the United States. The EU-28's surplus in 2013 was composed of a surplus for both services (1.3 % of GDP) and goods (0.2 %).




The combined trade balance for goods and services in 2013 was positive in 21 of the EU Member States, which could be compared with 17 Member States recording a positive trade balance in 2012.

Positive balances exceeded 10.0 % of GDP only in the Netherlands (10.6 %), Ireland (23.4 %) and Luxembourg (38.6 %); in the case of the Netherlands and Ireland this was due to surpluses for goods, while for Luxembourg it was due to a surplus for services. Among the EU Member States, there were three which recorded trade deficits for goods and services that were in excess of 1.0 % of GDP, they were France (-1.2 % of GDP), Latvia (-1.9 %) and the United Kingdom (-2.1 %); in all three cases the deficit was driven by a deficit for goods, as each of these Member States recorded a surplus for their trade in services. So that shows that the impacts of the crisis on trade have not been experienced in the same way throughout the Union. The hardest hit of EU member states in the first four months of 2009 was Finland, whose exports fell by 40% compared to the same period of 2008. Bulgaria, Hungary and Lithuania were all heavily impacted with losses of over 30%. Ireland and Cyprus were the only twomember states which experienced export growth, although in the former this was against a fall in 2008 trade levels, a rarity amongst the EU members. Overall, 2008 was not a catastrophic year for most EU exporters, in spite of the slowdown in the second half of the year as the crisis started to bite. Growth rates for the full year were fairly healthy, though down.




In 2012, the EU had a deficit in trade in goods reaching EUR 105 billion. In 2012, the EU was the world's largest exporter of goods with 14.7 % of total exports (EUR 1 686.8 billion), ahead of China with 13.9 % and the United States with 10.5 %. The EU was also the world's second biggest importer of goods with 15.4 % of total imports valued at EUR 1 791.7 billion, after the United States (15.6 %) but ahead of China with 12.2 %. Japan followed in fourth position with 5.9 % of total world imports Currently according to Eurostat, EU 28 remains a trading power, being the second-largest importer after the US (€ 1.680,5 bn EUR in 2014), the second-largest exporter after China (1.702,9 bn EUR in 2014)and having 14,8% of world trade in goods for the same period of time analyzed.

Despite the economic and financial crisis, the EU is still an attractive place to invest being in fact the largest recipient of international investment projects, creating and preserving jobs. Europe attracted 29% of those investment projects in 2011. Despite the same trade policy, the same external conditions and, for many of them, the same currency, the trade performances of Member States are extremely diverse. Expressing trade relative to the size of the national economy demonstrates the extent to which countries are import- or export-oriented. Smaller countries tend to trade more than larger countries.The percentage of GDP attributable to imports and exports varies widely, ranging from 28 % in Norway to 143 % in Luxembourg for imports, and ranging from 27 % in France to 176 % in Luxembourg for exports.

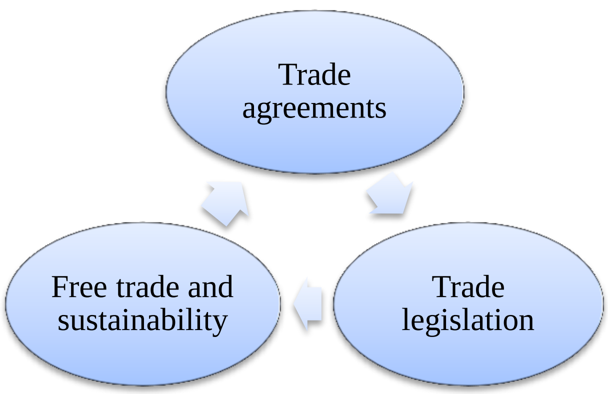
Some Member States have quickly lost market share in world trade while others have never been as strong as today. Competitiveness must therefore begin with the right policies at home. The difference between Member States' performances implies a competitiveness problem in those countries that are not doing as well, rather than a problem with trade policy. On average, trade with other EU Member States, not with third countries, explains more than two-thirds of the rise in the deficit of the weaker countries. To address it they must therefore step up their capacity to compete within the Single Market. The mix of price and non-price reasons for this loss of competitiveness is analysed, country by country, by the Commission in the excessive imbalances procedure and taken up in the country specific recommendations. The solution often lies in domestic reforms in education, labour market, innovation, and more broadly all policies that influence the business environment. This is the aim of the Europe 2020 strategy, an aim that can certainly be achieved: those countries that have undertaken structural reforms have already seen a rebalancing of their current account.

## WHAT HAS TO BE DONE FURTHER?

The European economy is still suffering from the financial and economic crisis and trying to return to the growth path. The EU institutions together with the EU member states, have to find responses to the challenges of economic stagnation and high unemployment rates. Accordingly to World Trade Organization source, if we look at the share of trade in good in total GDP, the export and import of goods is currently increasing its contribution to the total EU economy, raising from 31.7% of the GDP in 1960 to up to 64.5% in 2010, becoming far more dependent on international trade even than US. The priority is to pursue the path of economic and political reform, a part of the solution being obvious. International trade represents an important growth-driver and should be a central element in the EU strategy to overcome the current crisis situation. The situation is far from perfect. In many aspects, the EU external economic policy needs reorientation and more ambitious objectives in line with the principles of openness and transparency. If we look closer we observe couple of shortcomings such as the no end perspective in the near future of the WTO Doha Round, a long awainted modernisation of the EU trade defence mechanism and instruments and also stalled trade talks with India, MERCOSUR and African countries. The EU should acknowledge the importance of imports and for the European economy, protectionism being the wrong police choice in this situation. Many economic sectors are trade-oriented and increasingly dependent on business partners outside the internal market. Protectionism at the EU borders will automatically trigger retaliation and close export and investment markets. Limiting imports would also lead to raised business costs and lower competitiveness for European companies. Consumers would have to pay higher prices, while limited in their choices. In order to face the current economic reality, three main directions are proposed when it comes to trade.

**Trade agreements**

Trade agreements are powerful instruments to foster growth and create employment. But we should not misinterpret the impact of a free trade agreement. Strong emphasis has to be given to finalising negotiations for ambitious free trade agreements, especially with emerging markets such as Vietnam, India and Thailand.




The EU should also seek to progress in inter-regional talks with ASEAN as well as with the US. Against the background of limited resources, the EU should redirect manpower from stalled negotiation processes to more important and relevant agreements. Finally, there is a need for strong implementation tools to enable economic operators to fully benefit from concluded agreements. Another important aspect is to bring relations with China to a higher level.

The trade sector is fully supportive of the on-going negotiations for an EU-China investment agreement. To further ease trade with China, the EU's second largest economic partner, a feasibility assessment for a free trade agreement should be carried out, taking into consideration experiences from Switzerland and Iceland. In recent years, despite difficulties in moving forward in the multilateral context, we have not stood still in the face of rapid changes in the global economy. We have developed a trade policy agenda of an unprecedented scale: while less than a quarter of EU trade was covered by Free Trade Agreements (FTAs) before 2006, concluding on-going negotiations would bring this figure up to half of our trade and we are now accelerating and deepening this agenda with the opening of negotiations for an agreement on a far bigger scale with Japan and the possibility of going down the same road in the near future with the US. Completing this agenda

would bring the coverage of our trade by FTAs to two-thirds of EU external trade. This is by far the most ambitious trade agenda in the world today.
These negotiations could boost EU GDP by more than 2% or €250bn equivalent to the size of the Austrian or Danish economy and support an increase of more than 2 million jobs related to trade across the EU. Most of these benefits would occur in the medium term, with the progressive implementation of agreements. Yet pursuing this agenda is crucial in the short term, as it would send a strong signal that the EU is serious about reforming at home and securing markets abroad. This would have an immediate impact on investors' confidence. This focus on an ambitious bilateral trade agenda has already produced results with the successful implementation of a new-generation FTA with Korea and the conclusion of similar agreements with Colombia, Peru, Central America, Ukraine and most recently, Singapore. Negotiations with Canada are also close to finalisation. The EU-Korea FTA is a prime example of our policy of ambitious and reciprocal agreements while the importance of our FTAs with Canada and Singapore go beyond the agreements themselves: Singapore is also a gateway for the rest of Asean and Canada could set an important precedent for any agreement with the US. In Canada, being able to compete with US exporters on a more level playing field also offers clear gains for EU operators, not to mention the fact that our agreement with Canada will actually go beyond NAFTA, for example on government procurement. All this shows that even in difficult times, we are able to deliver ambitious trade deals that provide concrete benefits for the European economy.

In parallel, EU is enhacing its engagement with the neighbourhood, where economic gains can be expected from deep integration and regulatory convergence. Deep and comprehensive FTA negotiations are on-going or soon to be launched with Georgia, Moldova and Armenia, as well as with Egypt, Jordan, Morocco and Tunisia. The targeted level of integration is remarkable, and the EU's neighbourhood policy builds on the strong relation and synergy between trade policy and foreign policy, thus contributing to an area of peace and prosperity.

## Trade legislation

Parts of the EU trade legislation are outdated and not adapted to the profound and accelerated transformation of world commerce. Therefore, an overhaul of EU trade law is needed. Legislation should facilitate trade, not hamper it. Serious change needs to be introduced to the current EU anti-dumping system which manifestly lacks transparency and predictability. Procedures often seem to be 'politicised' as the recent solar panels case demonstrated. The EU should introduce the principles of the so-called 'APO' (Administrative Protection Order) system, successfully adopted in the USA for more than 30 years. This system gives parties that are involved in anti-dumping investigations full access to files. The economic reality of global supply chains, condensed in the formula 'made in the world', should lead to a net simplification of EU rules of origin. Handling the current system, which is characterised by a high level of complexity, is burdensome and time-consuming. To drastically ease customs declarations and reduce costs, the systematic use of non-preferential rules of origin, where the last substantial transformation would be decisive, is recommended. The new Union Customs Code will become applicable in June 2016. To make it an effective instrument, the Implementing Act should take up business needs. Dropping the current 'first sales principle' for imposing custom duties on royalties and licence fees would significantly hurt all companies relying on imports and exports. Furthermore, the Union Customs Code is still not providing major improvements to the concept of 'Authorised Economic Operator' (AEO) which lacks added-value. More generally, the EU should seek the integration of the European Free Trade Association (EFTA) into the Customs Union to allow the free circulation of third country goods between the EU and EFTA. Because of its market size, the EU indirectly imposes its system of standards, rules and technical procedures to many of its trade partners. But little attention is given to the external face of EU legislation such as when the chemical regulation REACH was discussed no profound assessment was made regarding its effect on global supply chains. The EU should avoid building-up new technical barriers to importing to Europe but, in contrast, aim at a high level of harmonisation of standards and rules at the multilateral level.

**Free trade and sustainability**

Sustainability is increasingly important to the competitiveness of companies – European retailers have lived up to this philosophy for many years. At the same time, it is worth repeating that sustainability can only happen where trade exists. Calls for binding responsibility measures and strict conditionality clauses are ill-considered. Trade policy plays a pivotal role in the EU's overall strategy of shaping globalisation and promoting democracy, human rights and sustainable development. For some years, there has been a clear tendency – especially in the European Parliament – to put more emphasis on 'non-trade' topics such as social affairs, labour rights and environment than on genuine trade objectives. Whilst European trade policy should continue to promote dialogue so as to increase acceptance of sustainability goals in third countries, the EU should not lose sight of the fact that trade policy is mainly about facilitating trade and generating added-value for companies. It goes without saying that business-led sustainability programmes by themselves are not sufficient to stimulate international development, even though this argument is sometimes made.

The trade sector does believe, however, that free and intensified trade in combination with social compliance programmes play an important role in fostering growth and alleviating poverty in developing countries. The EU should therefore promote existing programmes and help improving the perception of what European companies do with regard to CSR.

## CONCLUSIONS

Since 2010 the global landscape of trade policy has changed. The pace of conclusion of bilateral and regional free trade agreements has increased all over the world, in Asia in particular. There is also new dynamism within and around the World Trade Organisation. The EU's trade policy has also changed. EU has launched major new bilateral negotiations for a Transatlantic Trade and Investment Partnership between the EU and the United States (TTIP) and a free trade agreement (FTA) with Japan. Moreover, trade negotiations cover today a broader range of issues compared than before, addressing head-on the relationship between trade and regulation, which has thrown up many complex technical and political questions. EU trade policy receives much more political attention than in 2010. This is partly due to recognition of trade's potential to boost growth and jobs. It is also, however, due to concerns expressed in the contentious debate around the TTIP negotiations. Any new trade strategy will need to find ways to address those concerns.

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