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Article

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INTRA EUROPEAN TRADE FACING THE ECONOMIC CRISIS

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Abstract: *Trade is one of the key factors directly linked with development and especially with regional development. We take upon analysis the EU case in order to see how the international financial crisis has affected the mechanism of international exchange of goods and services. We focus mainly on intra-European trade and how the policy framework is correlated with the changes revealed. Although the financial crisis had a major impact upon trade, policymakers can diminish its aftermath by correlating their policy directions and concrete actions.*

Keywords: intra-EU trade, financial crisis, regional development

JEL Classification: F10, F15, O24

1. INTRODUCTION

One of the policy areas of the European Union is External Trade. The defining words for trade in general, as stated by the European Union, are: “Committed to free and fair trade”. The European Union was born under this belief more than 50 years ago and it is still one of the central pylons on which it functions today. Nowadays, the EU is one of the most important actors in the international and regional trade area alike. The EU alone counts for roughly 20% of the international exchange of goods and services.

The general belief regarding trade is that it is a win-win situation. Moreover, free trade is especially seen as the prime factor of world growth. Amongst the benefits of free trade we find:

- a broader range of products for consumers;

- lower prices and better quality of products (all thanks to competition);
- fair competition amongst all participants.

These are only some of the benefits of trade, free trade especially, and the EU knows that better than anyone. The liberalization of markets within the EU had an outstanding benefic effect on the development of the region and its prosperity. The removal of trade barriers and tariffs within the EU was the starter point of growth and development.

Inside the European Union trade is linked with development. This means that the EU's trade policy is closely linked to its development policy (as stated on the official site of the EU). Taking into consideration the trade and development strategy, it seems that the EU is focusing its resources on establishing good trade relations with the developing countries groups. With the major trade partners it seems that the EU is not undergoing such an effort, leaving trade with states like the USA and Japan governed only by WTO regulations.

2. SHIFTING TO A INTRAREGIONAL PERSPECTIVE

The intra regional perspective doesn't differ much from the international one. The only thing that is different is the focus of the analysis, which now is much more specific.

The EU has shown that regional integration affects in a positive way the commercial relations between the states that are part of the union. The successive waves of integration are the perfect example and the willingness of the other european countries to join the EU comes to stress this point of view. The growth in terms of intra regional trade can have further consequences in the field of economic development. The main benefit that arises thru the combination of integration and trade development (Ranchev, 2003) is a high incentive for foreign investors, thus accelerating commercial exchange of goods and services.

Another thing that is worth taking into account is the feedback effect that occurs at a regional level, meaning that an increase in regional income will result in an increase in imports (Armstrong and Taylor, 2001, p. 20). Since these particular imports are another region's exports, this will raise income in other regions, which in turn will increase their own imports. Actually, this feedback effect is translated into an increase in intra and inters regional trade with clear effects in the regional development area.

3. EMPIRICAL FINDINGS ON TRADE

One of the main purposes and targets of the integrationist process is referred to trade, mainly external trade of the countries. Since the european integration, trade flows between member states

has grown in big rates, as a result of an efficient trade policy applied in the union. This is available also for the trade between the European countries (called intra-EU trade) but also the external trade of the EU, as it is mentioned above the total international trade as a sum of the national values rises globally to almost 20% of international trade. This means that EU is the most important actor on stage.

Since the first's steps of integration, the trade level has known a constant and permanent ascending trend. Between 1998 and 2008 the volume of world trade grew at an average annual rate of nearly six percent, twice as fast as world GDP. In 2009 the collapse of global demand brought about by the economic and financial crisis will, according to the WTO, result in a decline in world trade of 10 percent, the largest such contraction since World War Two (Sapir, 2009, p. 89)

It is obvious that we are facing nowadays one of the worst crisis that human society ever faced, one that has implication at multilevel dimensions. In order to give a broad view on the main turning points in the evolution of the economic and financial crisis, we can present you a synthesis made by Agnès Bénassy-Quéré, Benoît Coeuré, Pierre Jacquet and Jean Pisani-Ferry in the article "The crisis: Policy Lessons and Policy Challenges":

Figure 1 - Stages in crisis development

Date	Events
2006 – Summer 2007	Localized credit concerns in the US <ul style="list-style-type: none"> • Rising defaults in riskier housing mortgages • Falling prices of lower credit tiers of some credit securities
Summer – Autumn 2007	Initial cracks in confidence and liquidity strains <ul style="list-style-type: none"> • Interbank rates rise sharply • Failure of two large hedge funds • Run on British bank Northern Rock
Autumn 2007 – early Summer 2008	Accumulation of losses and continuation of liquidity strains <ul style="list-style-type: none"> • Severe mark-to-market losses in trading books • Collapse of commercial paper market • Structured Investment Vehicles (SIVs) brought back on bank balance sheets • Worries about liquidity of major financial institutions
Summer 2008	Intensification of losses and liquidity strains <ul style="list-style-type: none"> • Mark-to-market losses and liquidity strains escalate

	<ul style="list-style-type: none"> • US agencies Fannie Mae and Freddy Mac insolvent • Funding problems of UK mortgage banks intensify
Autumn 2008	<p>Massive loss of confidence</p> <ul style="list-style-type: none"> • Bankruptcy of US investment bank Lehman Brothers • Loss of confidence that major institutions are too big to fail • Bankruptcy of Washington Mutual in the US, Bradford and Bingley in the UK, Icelandic banks • Almost total seizure of interbank money markets and short-term funding markets • Rescue of European banks Dexia and Fortis
Spring – Summer 2009	<p>Crisis transmitted to real economy</p> <ul style="list-style-type: none"> • Sharp decline in industrial production and GDP • Series of financial crises in emerging Europe as capital flows suddenly stop • Collapse of world trade • Slow normalization of interbank markets

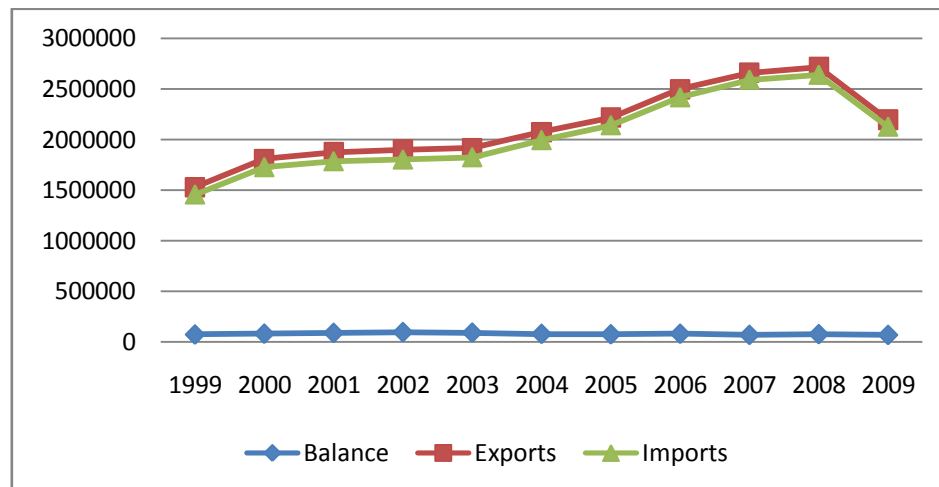
Source: Adapted and updated after Financial Services Authority (2009)

In the inferences of their study, the authors conclude that “there are three different, non-mutually exclusive lines of explanation for the crisis: wrong incentives in the financial sector, unsustainable macroeconomic outcomes, and misunderstood and mismanaged systemic complexity.”

Taking that into consideration it is easily to realize the deep implication of the crisis mainly in the global economic world. So trade has been in constant decline since the beginning of crisis. Of course it is about the entire trade system, taking into consideration the EU case of external trade flows.

In terms of intra trade, facts show a different case. Although as it can be seen in the figures below, the level of dispatches and arrivals is falling down, but not in a very high percentage (Figure 2), and also the percentage that intra-EU trade has in the total value of trade stands at more than 65% (Figure 3).

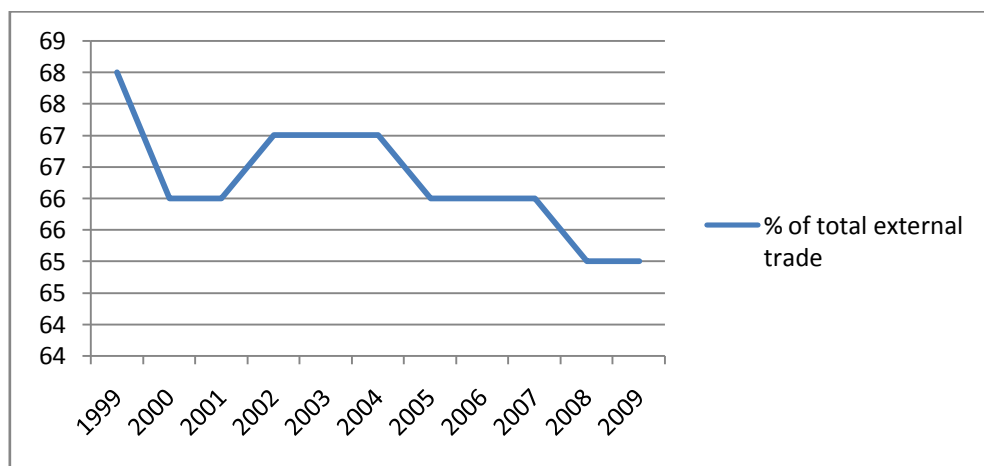
Figure 2 - Intra-EU27 trade (million EURO)



Source:EUROSTAT,<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tet00039>

The overall balance remains positive, which shows a healthy environment in the european space, aspects concerning the application of anti-crisis measures are really taken into consideration.

Figure 3 - Intra-EU trade



Source:EUROSTAT,<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=tgigs350>

Comparing the two evolutions, external and internal trading system, we can notice first of all that the intra-regional trade system in the EU didn't face major interference, so the evolution in the crisis period isn't that much affected. That means we find in Europe a custom union that has strong pylons at its base, with efficient policies applied. We can suppose that negative evolution of intra trade can stand on conjectural factors, and although crisis affected really serious many of the

European countries, their collaboration at regional level wasn't disturbed in high percentages. The European Custom Union is carrying on its main tasks of trade liberalization, even though on local level. The extra trade faces in this crisis period the same structural changes that appeared in most of the economic activity. This is because national states are affected by crisis in different ways. Some of them, countries like Germany or France, have strong and healthy economies and balance the other ones that are facing real decrease.

4. CONCLUSIONS

From the data presented above it is clear that the upward trend that trade followed was broken in 2008. This takes us to the first challenge, the economic and financial crisis (Sapir, 2009, p. 90). Even though economic growth will be present, the unemployment figures will put high pressure on legislatures, that translating inevitably in protectionist measures. That being the case, the next period will uncertainly be a testing time for the trade policy of the EU.

Another challenge that is strictly related to the intra-regional trade framework is the EUs domestic organisation. When protectionist measures will surface and influence the trade system, the benefits of free trade will be countered. In this scenario, the protectionist measures will surely benefit some and unfortunately will raise the costs of others. Like in most cases, the costs will be supported by consumers, applying to the existing social pressures.

Until the Lisbon Treaty, the EU trade policy has been in the hands of the Commission and the Council, conducted through a process, that most of the times, was not transparent enough. Since the Lisbon Treaty (1st of December 2009), the European Parliament has gained enough power in order to influence the way in which the trade policy related measures are implemented. This will surely increase the transparency.

To face these challenges, EU needs to work closely with all trade partners and international organizations alike by trying to keep the protectionist inclinations to a minimum, although social pressure will be high. An important measure in this direction would be the finalization of Doha Round.

Finally, the implication of the European Parliament in the trade policy area will surely bring more transparency and such an effort should be supported by the Commission and the Council. Furthermore, a correlation amongst these three institutions must be achieved related to the trade policy aims. Efforts must be directed to preserve and promote the free market and free trade. Strong commitment in this direction is more important in the case of the EU than in any other situation because of their trade policy motto: "Committed to free and fair trade".

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