

EXPORT-IMPORT DYNAMICS WITHIN THE EUROPEAN UNION TRADE POLICY

Gunita Mazure⁺, Dr.oec., assoc. professor, **Sandra Tiltina**, Bc.oec.

Faculty of Economics and Social Development, Latvia University of Agriculture

Abstract. International trade is an essential part of the market economy and provides great opportunities for small countries to support the internal market with sufficient goods and services as well as ensures an opportunity to participate on the external market. The research aim is to explore export-import dynamics in Latvia and the European Union under the EU trade policy. The following research tasks have been advanced to achieve the set aim: 1) to survey the EU trade policy development; and 2) to analyse the export-import dynamics of the EU and Latvia. The European Union is the leader in the world international trade having provided USD 2307 billion of total world export volume in 2013. The major international trading partners are the United States and China; the main export products are machinery and transport equipment, while the main import products are fuel, lubricants, and related materials. The international trade balance of Latvia has remained negative for several years due to continuing high volume of imports and low volume of exports. However, in 2013, export grew to EUR 10.2 million, while import - EUR 12.64 million. The basic export products are agricultural goods, while import is governed by machinery products. The most important cooperation partners are Lithuania, Estonia, Germany, Poland, and Russia. The research is mainly based on the monographic descriptive method as well as the methods of analysis and synthesis are used to study the problem elements and synthesise coherencies or formulate regularities.

Key words: export, import, trade, Latvia, the European Union.

JEL code: F16, F40, F63

Introduction

The European Union as the world's largest economy is also the biggest exporter and importer, the leading investor and recipient of foreign investment and the biggest aid supporter. With just only 7% of the world's population, it accounts for more than one quarter of the world's wealth (Free Trade is, 2014). Therefore, Latvia's accession to the single market in 2004 on the one hand opened a huge potential for the economic growth by

⁺ Corresponding author. Tel.: + 371 29844628; fax: + 371 630 84897
E-mail address: Gunita.Mazure@llu.lv

developing export and offering its products for the entire European market, while on the other hand, Latvia faces the big European countries with historical background and an important position in international trade which means stiff competition. Export with the growth rate of **30.33% in 2010 was Latvia's driver during the global** financial crisis and still it has been nominated as one of the most important economic objectives in the near future; although, the growth of exports is decreasing in recent years (Zinojums par Latvijas, 2014). In the European Union, international trade is a key factor contributing to the overall development of **the market. As stated in Latvia's Stability Programme for 2014- 2017** "in 2011-2012, the growth was largely based on foreign trade because improvements in the global economic environment, which was weakened by the crisis, facilitated increase in demand in the major partner countries of Latvia, despite the Eurozone crisis. This was an important precondition for raising volumes of output in export-oriented sectors and for regaining competitiveness, allowing corresponding to take a larger proportion in the development of the national economy" (Latvijas stabilitates, 2013). Nevertheless, the year 2013 was more favourable for companies serving the local market thanks to private consumption.

The EU trade policy has been viewed by several authors (Albornoz, Calvo Pardo et al., 2012; Benkovskis and Worz, 2012; Brulhart and Matthews, 2007; Sen, 2010; Rugaja, 2006 etc.), while various aspects related with export and import have been discussed by Altintas and Turker (2014), Benkovskis (2012), Priede (2013), Priede and Skapars (2011), Berman et al., (2014), Davidsons and Vitola (2008), Lee (2011), Laskiene and Venckuviene (2014), Pelece (2014), Rybakovas (2009), Pineres and Ferrantino (1997), Saboniene et al. (2013) and others. The mentioned authors generally deal with the problem of competitiveness of national commodities, though their studies lack a detailed EU export-import analysis. Therefore, the **hypothesis** of the present research is that the structure of neither EU nor Latvia export-import has changed during the analysed period. The **research aim** is to explore export-import dynamics in Latvia and the European Union under the EU trade policy. The following **research tasks** have been advanced to achieve the set aim: 1) to survey the EU trade policy development; and 2) to analyse the export-import dynamics of the EU and Latvia.

The research covers the period of 2008-2013 and it is restricted to the analysis of international trade of commodities. The information compiled by central statistical offices, like Eurostat, scientific publications of foreign and local researchers, and other materials have been used for the purpose of the study. The research is mainly based on the monographic descriptive method as well as the methods of analysis and synthesis are used to study the problem elements and synthesise coherencies or formulate regularities.

Research results and discussion

Survey on the EU trade policy development

H. Altintas and O. Turker believe that the export and import functions of any country are crucial for the identification of trade dynamics of this country; and the variables forming

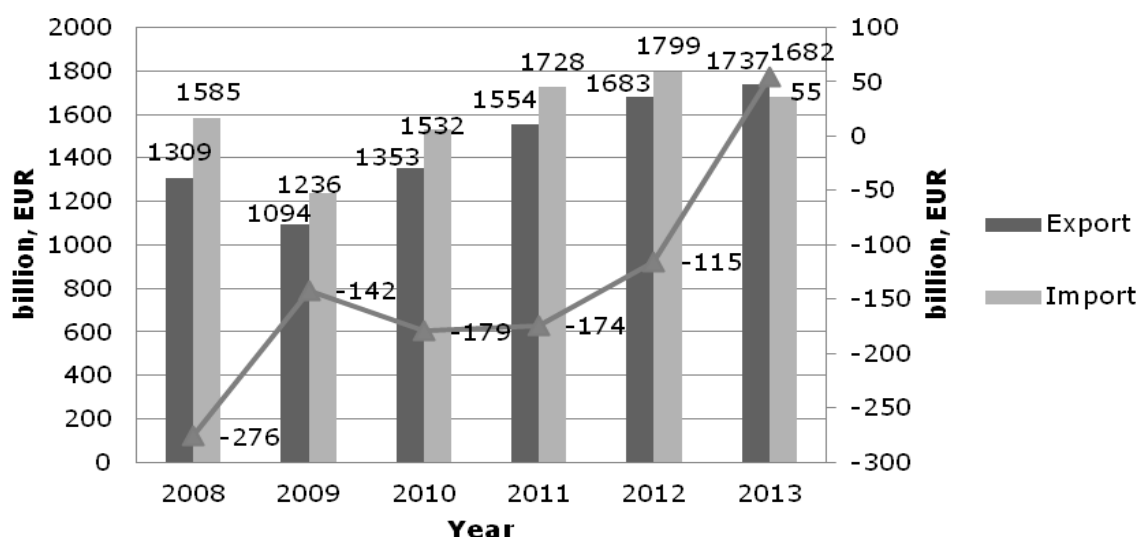
the export function are mainly national income, foreign income, foreign direct investment, real exchange currency, and export and import prices (Altintas, Turker, 2014). The economy theory makers have admitted the importance of increasing the level of national prosperity. **Mercantilists' view was to increase export by minimizing import, and to export ready-made goods instead of raw materials.** Free trade theory, as opposed to the mercantilist policies of protection, was championed by both Smith and Ricardo as a route to achieve production efficiency at a global scale (Sen, 2010). The EU single market being the basis for one of the **EU's pillars** – economic integration of the Member States, is one of the most unique global markets. The joint European Union trade policy is based on a set of uniform rules under the Customs Union and the Common Customs Tariff and governs trade relations of the Member States with the non-Member States. The result of this policy is clearly expressed in reduction of rates in international movement of goods as well as in various aspects related to investment and intellectual property right protection. Eicher et al. (Eicher, Henn, 2008) in their research have proved that the single market establishment and tariff reduction have a positive impact on the EU's trade performance being the basis for its growth. This is also evidenced by a number of facts as the EU single market volumes have sweepingly increased after 20 years of operation: from 345 million consumers in 1992 to over 500 million consumers in 2011 in 27 EU Member States; for trade between EU countries it has grown from EUR 800 billion in 1992 to EUR 2800 billion in 2011 for the value of goods exchanged; for trade between the EU and the rest of the world - from EUR 500 billion in 1992 to EUR 1500 billion in 2011 (20 years ..., 2012). Hanosek J. in his work has analysed factors affecting trade among European countries and he has concluded that infrastructure exhibits larger effect than geography, culture or institutions. He proved that even in a well functioning free trade area of Europe, the key aspect of trade was the efficiency of how goods were transferred across the borders, along with the level of information and communication technology enabling reduction of transaction costs. These results indicate the key importance of trade between the old and new EU members (Hanosek, 2013). However, the EU's policy requires changes after 20 years of successful **operation. According to Mario Monti report to José Manuel Barroso "the development of the single market has stopped following the crisis and a certain "market fatigue" has intervened** reducing confidence in the role of the market. In addition, problems arise in the process of market integration delaying smooth development of **the market" (Monti, 2010). The global financial crisis revealed the current trade policy weaknesses - research, education, employment, and energy sectors. As indicated by Karel De Gucht (Trade Policy ..., 2010), the 21st century marketing is a global engine for growth in the European Union contributing to long-term jobs and providing consumers with lower prices and bigger choice. The Common EU's Europe 2020 strategy focuses on five objectives - employment, innovation, education, poverty reduction, climate, and energy. The strategy says that the key challenge will be given to free trade agreements, so it assumes a greater role for removal of industrial and agricultural**

goods rates as well as increase of market access to services and investment, intellectual property rights and competition (Trade, Growth ..., 2010).

Analysis of the export-import dynamics of the EU and Latvia

According to M. Brulhart and A. Matthews, the external trade policy of the EU impinges on nearly one fifth of the world trade (Brulhart, Matthews, 2007). In 2013, the European Union took a leader position as the world's largest exporter of goods - achieving a record mark of exports volume of USD 2307 billion and a market share of 15.3%. The next largest exporters in the world are China and the USA with USD 2209 billion and USD 1,580 billion export volumes respectively and the corresponding market shares of 14.7% and 10.5%. The World Trade Organisation has identified the largest world importers, which are the same as export Top 3 leaders - the USA with USD 2329 billion (15.4%), the European Union with USD 2235 billion (14.8%), and China (12.9%). In 2013, total export volume equalled USD 15047 billion, which is 18% less than in 2012, when the total world export reached USD 18401 billion. Total import, in turn, evidenced the figure of USD 15121 billion being 19% less compared with USD 18601 billion in 2012 (International Trade ..., 2014).

The EU-28 Member States provide around 1/6 of the global trade volume. The EU export volume has continued to increase every year reaching EUR 1737 billion in 2013, thus, exceeding the 2008 level by EUR 428 billion or 33% (Figure 1).

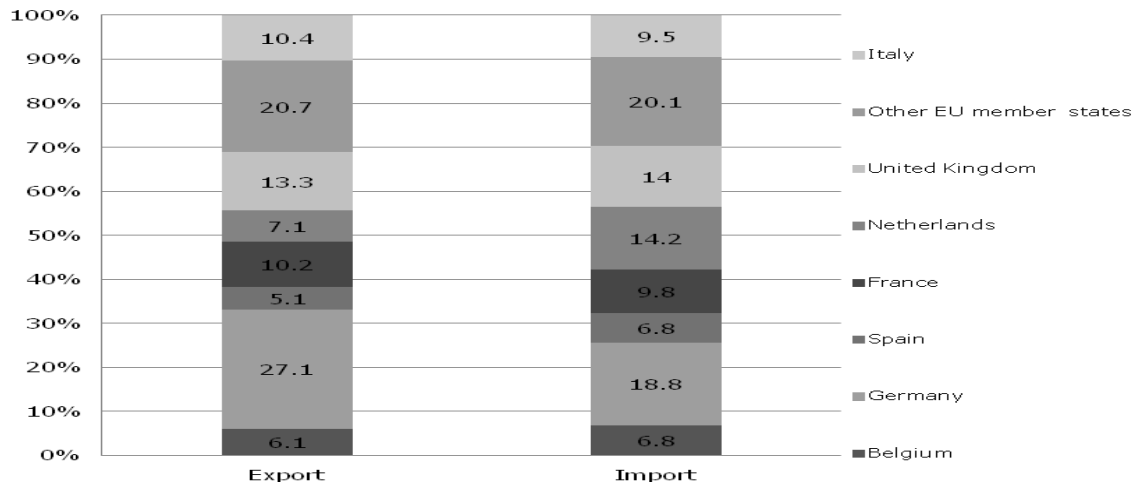


Source: authors' construction based on Eurostat, 2014

Fig. 1. Export-import in the European Union for the period of 2008-2013, billion EUR

As shown in Figure 1, total imports of the EU Member States during the period of 2008-2012 have exceeded the volume of exports, thus, resulting in a negative trade balance. However, in 2013 a record high level of export was reached totalling EUR 1737.02 billion, while the level of import decreased by EUR 116.19 billion compared with 2012. This is the first time when the trade balance is positive thanks to the successful implementation of trade policy.

The EU is one of the most open economies in the world owing to its common trade policy and evidenced by the number of trading partners. In 2012, the EU was the largest trading partner for 59 countries, while China and the USA was a trading partner for 36 and 24 countries, respectively. **European goods and services account for 35% of the EU's GDP** - about 5 percentage points more than the USA (Free Trade is, 2014). During the period from 2008 to 2013, the main exporting and importing countries have not changed their positions; Germany is the European leader in international trade both in export and import (Figure 2).



Source: authors' construction based on Eurostat, 2014

Fig. 2. **Export-import structure in the European Union in 2013, per cent**

In 2013, Germany retained the leading position in the field of foreign trade with exported goods amounting to 27.1% of goods export to the third countries and imported goods accounting for almost one-fifth (18.8%) of the EU-28 Member States imports volume. Germany is the third largest exporter and importer in the world. Much of Germany's export focuses on industrially produced goods and services, in particular, German mechanical engineering products, vehicles, and chemicals are highly valued across the globe. Export of goods and services have also made up about 52% of its GDP. Significantly, the EU integration has greatly intensified intra-European trade, with about 69% of German export shipped to European countries and 58.2% delivered to the EU Member States (Germany . . . , 2013).

According to M. Brulhart and A. Matthews, about 46% of extra-EU trade is directed towards developed countries. Within the developed countries group, the United States is the largest trading partner (Table 1) and both M. Brulhart and A. Matthews state that if intra-EU trade is added to extra-EU trade with developed countries, more than four fifths of the Union's trade is with countries of broadly similar income levels. This is a familiar empirical phenomenon world-wide but it runs counter to the expectation that trade flows should be greatest between countries that are most different in economic structure. It has given rise to new approaches to the theoretical modelling of the causes of trade (Brulhart, Matthews, 2007).

Table 1

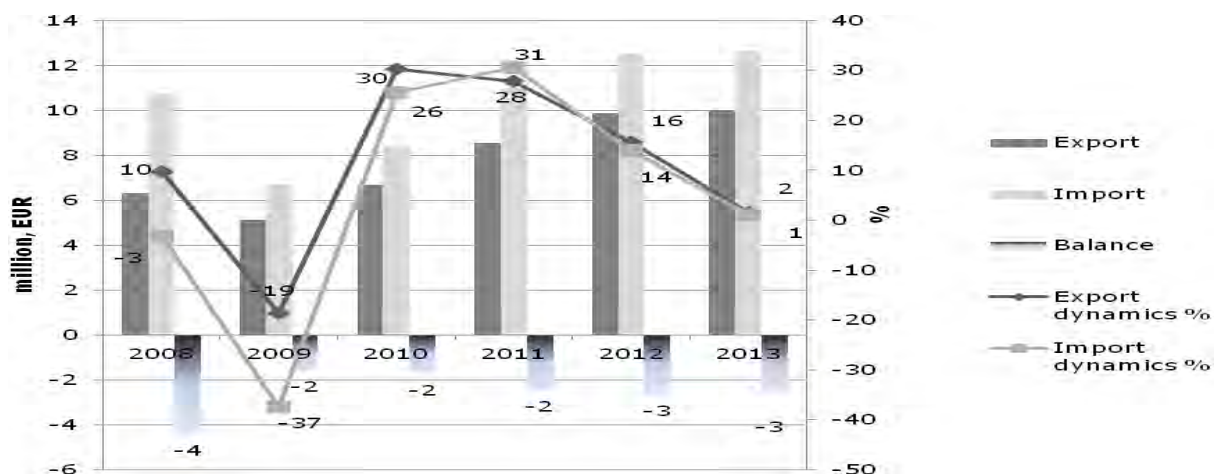
The main trade partners of the European Union in 2008-2013 (in million EUR)

Export	2008	2009	2010	2011	2012	2013	Changes, 2013/2008 (%)
EU-28	1309147	1093962	1353195	1554252	1683088	1737022	32.68
USA	248057	203756	242672	264055	292815	288239	16.20
China	78301	82421	113454	136415	144012	148269	89.60
Russia	104970	65697	86308	108587	123401	119775	14.20
Switzerland	100623	88797	110475	142098	133509	169591	68.54
Norway	43719	37492	41933	46820	49915	50178	14.77
Turkey	54476	44486	61831	73275	75385	77750	42.72
Japan	42390	35978	43984	49075	55581	54040	27.48
Import	2008	2009	2010	2011	2012	2013	Changes, 2013/2008 (%)
EU-28	1585231	1235636	1532089	1728314	1798576	1682390	6.13
USA	182780	155250	173403	191977	206491	195989	7.23
China	249102	215274	283598	294835	291620	280055	12.43
Russia	180446	119569	162075	201327	215118	206478	14.43
Switzerland	82650	80909	85487	93486	105924	94266	14.05
Norway	95945	68918	79024	93851	101049	90008	-6.19
Turkey	46288	36446	42837	48387	48268	50383	8.85
Japan	76474	58440	67448	70755	64742	56530	-26.08

Source: authors' construction based on Eurostat, 2014

In 2013, the USA, Switzerland and China are the major EU co-partners. Export to Switzerland (up to 27%) has increased most, which is mainly related with the trade volume growth of chemicals and medical products, machinery, instruments, and watches. Though, exports to Turkey and China have shown a smaller increase (only 3.1% and 3.0%, respectively), which can be explained by short-term cyclical changes in demand. In 2013, export volumes showed a declining tendency with Russia and Japan - by 3% and 2.7% respectively compared with 2012. The same refers to a decrease in the import volume for the recent years. In 2013, the largest slow down was observed for Japan (-12.68%), Switzerland (-11.01%), and Norway (-10.93%) compared with 2012. In 2013, the largest importer of the EU's goods has been China; although, the import volume has declined by 4% between 2012 and 2013. The slowdown is mainly due to increasing concerns about the Eurozone stability and the possibility for the EU economy to fall back to the recession caused by the financial crisis.

In 2013, the performance of Latvia's exports has been moderate which according to D. Pelece, an expert from the Bank of Latvia, is a result of difficult situation on global markets, problems in the Eurozone and total decrease in demand (Pelece, 2014). Figure 5 shows Latvian export and import dynamics and the trade balance for the period of 2008-2013, which proves an overall upward trend in foreign trade, yet, simultaneously signalling for the high dependence on related markets, thus, affecting the overall foreign trade growth rates.

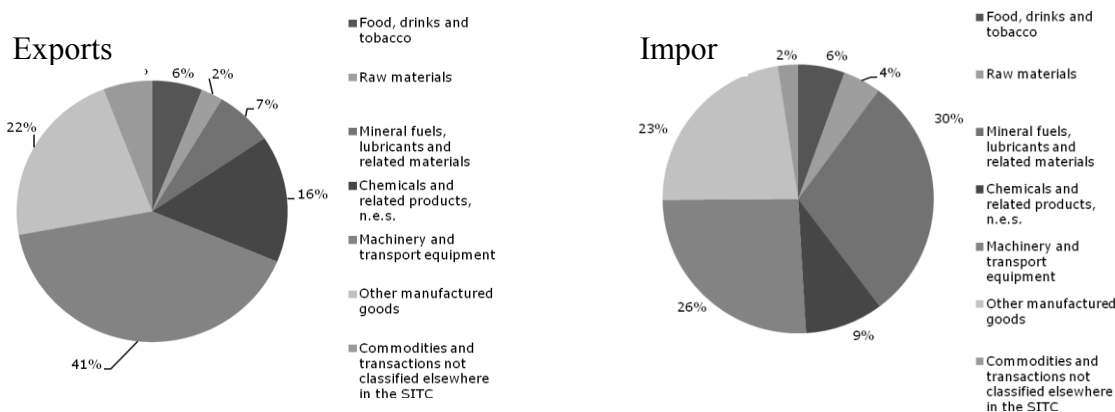


Source: authors' construction based on the CSB data, 2014

Fig. 3. **Export-import dynamics and growth of commodities in Latvia in 2008-2013**

As shown in Figure 3 Latvia's export growth rates have strongly changed for the recent years. Facing the financial crisis in 2009 with a sharp decline in demand both on domestic and foreign markets, volumes of exports and imports radically decreased – import by 37% and export by 19%. The trade balance fell to a negative figure (- EUR 2 million) already showing the signs of recovery from the lowest peak of the crisis. In 2010, the import volumes increased by 26%, thus, evidencing, a recovery of domestic demand; while the export growth rate amounted to +30%, thus, providing the export volume of EUR 6.68 million. Import growth rate in 2010 shows that the volume of imports has increased during the crisis, though, the growth is slower compared with the volume of exports. In 2012, imports have gone up by 30.57% compared with 2011, while exports produce a less growth (27.77%), again signalling on the domestic demand recovery. In 2013, the export growth rate is much lower, though, it is still positive at 1.52%.

Machinery and transport equipment are the most valuable products exported by the EU Member States. In 2013, they accounting for EUR 709160 million or 41% of total export volumes. Although, their export volumes have increased only slightly, i.e. by 0.6% in the mentioned year, they are still major export products. Other manufactured goods take the second position forming EUR 383034 million or 22% of the export volume and they have increased by 1% compared with 2011. The most significant increase has been observed in the group of food, drinks and tobacco, its value has reached a record value of EUR 104.3 billion and the increase is 5.34% compared with 2012 (Figure 4).

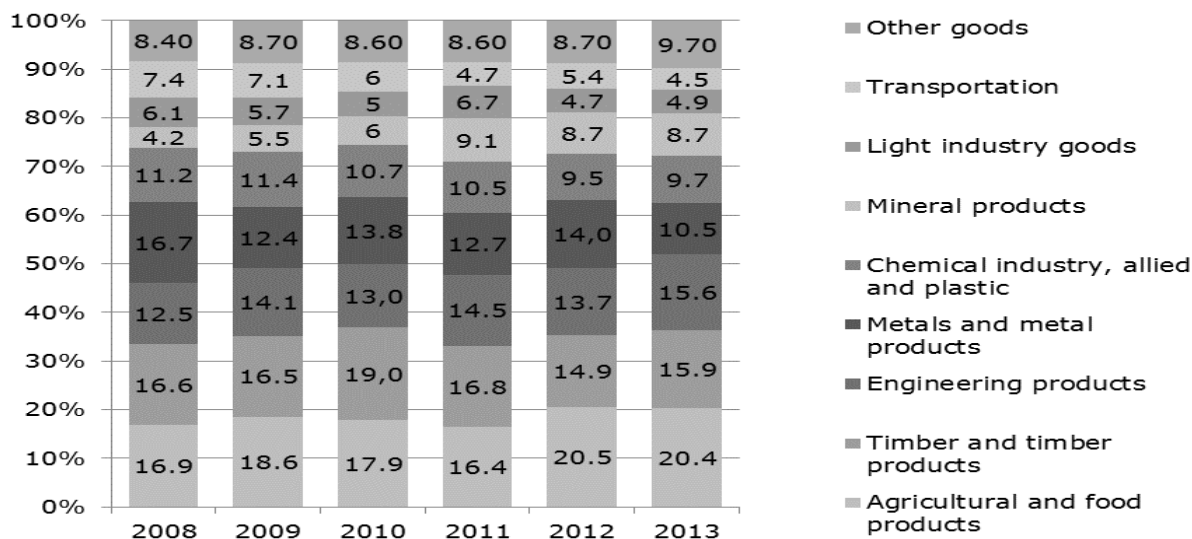


Source: authors' construction based on Eurostat, 2014

Fig. 4. The EU export and import structure by products in 2013, %

Raw materials, intermediates and various components required by manufacturers constitute the majority of imports. Therefore, the largest proportion of the import volume is composed of mineral fuels, lubricants and related materials. Although, in 2013, the volume of imports has decreased by 9.08% compared with 2012, it still reached EUR 498.6 billion in the analysed year.

It is widely discussed that the driver of Latvia's economy is export; meanwhile the statistics shows that the volume of imports still significantly exceeds the volume of exports and the trade balance remains negative over the analysed period. This means that Latvia's economy cannot provide for its internal market, and obviously there is a demand for goods not produced locally or significantly cheaper ones. As shown by Figure 5, the main Latvian export commodity groups are simple items manufactured less high value added.



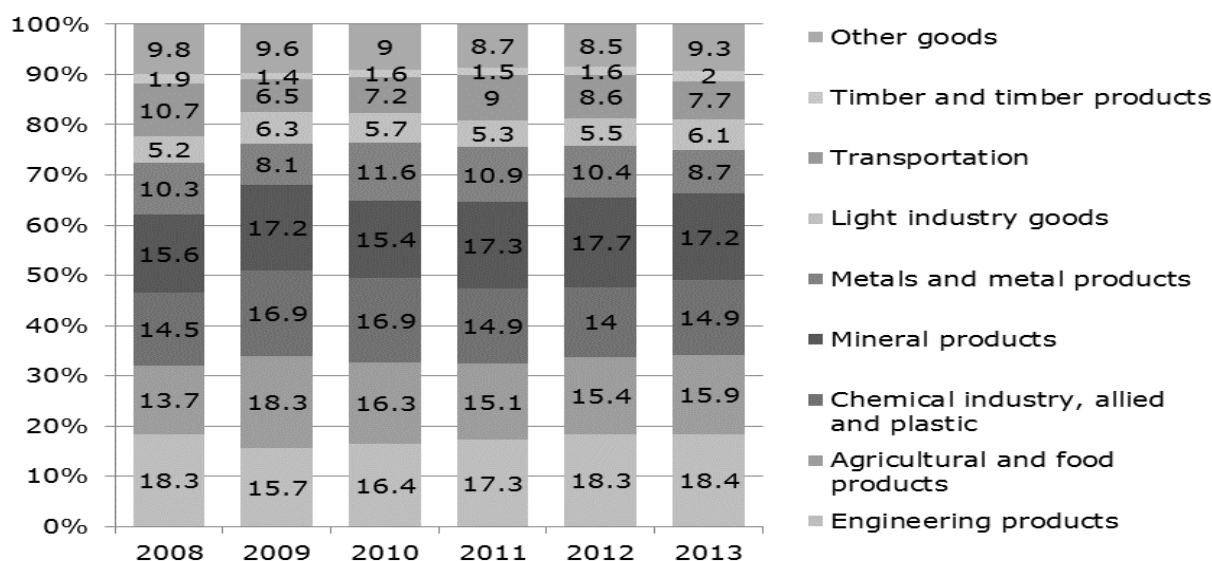
Source: authors' construction based on Zinojums par Latvijas..., 2014

Fig. 5. Latvian export of goods by main commodity groups in 2008-2013

Hence, the main export commodity groups are constituted by agricultural and food products with a total share of 20% in total export volumes. Timber and timber products (16%) take the second position, while engineering products (15.6%) - the third one. The analysed period did not reflect significant changes in the proportion of manufactured goods but it should

be noted that the suspension of SIA Liepajas Metalurgs operation depicts in the decrease of the export volumes in the group of metal and metal products by 3.5 percentage points in 2013. Majority of the exported and imported goods are intermediate goods – 58% of exports, while consumption and capital goods account for only 24% and 10% respectively. For example, the group of agricultural and food products is represented by fish, milk and dairy products mainly exported to Russia, Lithuania, Estonia, and the USA. The group of timber and timber products, in turn, mainly is represented by firewood, timber and wood products exported to the UK, Sweden, and the Netherlands (Central Statistical Bureau, 2014). G. Davidsons has noted that structural transformation is one of the economic growth processes envisaging the transition from production of simpler goods with lower value added to the output of more complex products. The economic development of country is associated with the level of export complexity (Davidsons, Vitola, 2008). Therefore, export should be encouraged by increasing the production of value added goods and exporting of finished products instead of raw materials.

Latvia's import structure is formed mainly of intermediate goods, which form 59% of the import volume. Consumption goods compose 24% ensuring consumers with wide range of products. Figure 6 shows the structure of imports between 2008 and 2013 and it leads to the conclusions that intermediate goods are mainly required for the production of final goods, such as metal, automotive, and chemical industry products.



Source: authors' construction based on Zinojums par Latvijas ..., 2014

Fig. 6. Latvia's import of goods by main commodity groups in 2008-2013

The analysis of Latvia's imports reveals that the most important goods include engineering products - 18% on average, the second position is taken by agricultural and food products – 16% on average, while the third position – by the chemical and plastic products. It is interesting that the import of metal and metal products has also decreased in 2013 by 1.7 percentage points, which could mean that the suspension of SIA Liepajas Metalurgs operation has also affected the decline of imports as various machinery and mechanical appliances,

electrical machinery and equipment are imported in the group of engineering products. Imports in the group of agricultural and food products mostly refer to fresh chilled or frozen poultry meat, cream, and milk products, while imports in the group of chemical industry go to pharmaceutical products and plastic semi finished products. The main agricultural goods importing countries are the Netherlands, Lithuania, and Denmark. Chemical industry products are imported from Poland and Denmark, where raw materials have obviously lower prices. Metal products are imported from the Netherlands, Finland, and Germany.

Conclusions, proposals, recommendations

1. The European Union as the world's largest economy and international trader assumes a greater role for contributing to long-term jobs and providing consumers with lower prices and bigger choice.
2. The global financial crisis has resulted in overall trade policies set as new directions of development - more market liberalisation, market access to services and investment promotion, elimination of industrial and agricultural goods tariff rates, unlimited supply of raw materials and energy, and protection of intellectual property rights.
3. During the period of 2008-2012 the EU's trade balance remained negative, indicating the excess of imports but the implementation of a targeted EU's common trade policy in 2013 resulted in the increase of exports over imports forming a positive trade balance.
4. In 2013, the USA, Switzerland and China were the major EU co-partners mostly importing machinery and transportation equipment from the EU, while China, Russia and the USA exported intermediate goods like fuel and lubricants, equipment, transportation facilities and other manufactured goods needed for final production.
5. The main Latvian export commodity groups are constituted by agricultural and food products, timber and timber products, and engineering products, while also engineering products, agricultural and food products and chemical products are the main import commodity groups. The main cooperation countries for Latvia are Lithuania, Estonia, Germany, Poland, and Russia.
6. The Ministries of Finance and Economics of Latvia should facilitate the granting of aid to sectors promoted in the total EU exports within the common trade policy.
7. In order to develop the competitiveness of Latvian exports, the Ministries of Finance and Economics of Latvia should provide financial support in addition to tax incentives or other bonuses for companies that engage in foreign trade with high added value products.

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