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THE EMERGING COUNTRIES IN THE INTERNATIONAL TRADE OF THE EU

Over the past ten years, the emerging economies, being exporters of manufactured goods, and rentier states, being exporters of commodities, have eroded the dominant position of developed countries in the world market; for the latter, they have also represented opportunities for growth and been partners in the international division of labour. As the EU15 has a fair share in these dynamic markets, its global exports have only slightly receded. Such an achievement, which was mainly made in neighbouring markets, is put at risk by the economic downturn which is affecting European emerging countries and rentier states in particular.

Expanding markets until 2007

Between 1995 and 2007, the volume of world trade grew by an annual average of over 6%, twice as fast as global production. During this period, two categories of countries increased their share in world exports[1] (see box and table 1): "emerging economies", being exporters of manufactured goods and services, which accounted for 27% of the exports of goods in 2007 (+12 points on 1995); "rentier" states, being exporters of commodities, which accounted for 13% of global exports (+4.5 points). These two categories of countries follow different patterns of integration into the international trade. The progress in the export of manufactured goods from emerging countries, among which China is the leader, is attributable to the intense international division of production processes between "rich" and low-wage countries. The strong growth experienced by emerging countries helped to boost world demand and the price of commodities which, in turn, stimulated the increase of rentier state exports (in value more than volume).

Table 1 – Share of the world trade in goods

	Exports		Imports	
	2007 World %	95-07 change % points	2007 World %	95-07 change % points
Rich countries	52.7	-15.4	60.8	-6.8
of which EU15	18.6	-2.4	18.6	+0.8
Emerging countries	27.1	+11.6	23.4	+7.2
of which: neighbouring	4.2	+1.6	6.2	+2.7
Asian	17.1	+8.7	12.4	+4.1
Rentier states	13.1	+4.5	7.5	+1.8
of which: neighbouring	6.6	+2.2	3.8	+0.5
Other countries	7,0	-0.7	8.3	-2.2

Source : CEPII, CHELEM-CIN database, authors' calculations.

This period was characterised by significant trade imbalances between the various parts of the world. As a whole, emerging and rentier exporters were also the most dynamic importers. However, their progress in world imports (+9 points) was significantly lower than progress in exports (+16 points).

The EU15 found itself in a good position to benefit from the expansion of these markets. It had a strong market share which hardly shrank over the period in comparison with the market shares held by the US and Japan. In emerging markets, the market share of the EU15 (23%) was, in 2007, more than twice as big as that of the US or Japan (11% and 9%, respectively). In rentier markets, the EU15 – with a stable market share of around 40% – had an even greater lead over the US and Japan (7% and 5%). As a whole, the dynamic markets (the emerging and rentier countries) occupy a significantly larger place in the EU15 exports than in global exports (44% against 31% in 2007, table 2), which contributed over this period to the relatively good performance of the EU15 in the world market (table 1).

Table 2 – Position of emerging and rentier markets in exports 2007 as a %

Destination / Exporter	Emerging	Rentier	Emerging & Rentier	World
United States	27	5	32	100
Japan	30	5	35	100
UE15	29	15	44	100
Rest of the world	21	6	26	100
World	23	7	31	100

Source: CEPII, CHELEM-CIN database, authors' calculations.

1. All the study's data on the world and European trade, refers to trade outside of the EU15. For more information, please see I. Bensidoun, G. Gaulier, F. Lemoine & D. Ünal (2009), "The EU trade with emerging economies", CEPII working paper, pending publication.

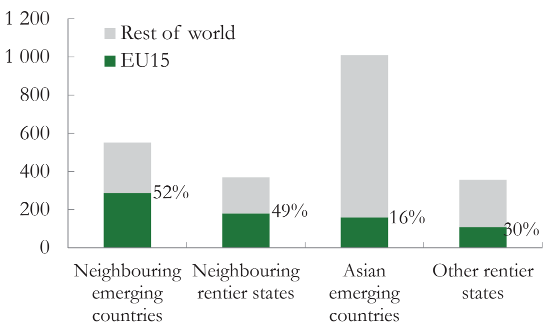
Box – Classification of “emerging” and “rentiers”

• Emerging economies are those whose per capita income is below the threshold set by the World Bank in its definition of rich countries (11,100 dollars in 2006) and which increased their share in global exports of manufactured goods and services by at least 0.05 percentage point between 1995 and 2005. In Europe and the surrounding area (“neighbouring emerging countries”) these are: *Belorussia*, *Bulgaria*, *Croatia*, *Estonia*, *Lebanon*, *Lithuania*, *Morocco*, *Poland*, *Romania*, *Slovakia*, *Turkey*, *Ukraine*; in Asia: *China*, *India*, *Indonesia*, *Pakistan*, *The Philippines*, *Thailand*, *Vietnam*; in America: *Brazil*, *Chile*, *Costa Rica*, *Mexico*, *Peru*; in Africa: *South Africa*. These 25 countries account for 17% of world GDP.

• Rentier states are those countries which export mainly commodities (over 40% of their total exports in 2005) and which increased their share in global exports of commodities by at least 0.05 percentage points between 1995 and 2005. In Europe and the surrounding area (“neighbouring rentier states”) these are: *Algeria*, *Azerbaijan*, *Kazakhstan*, *Libya*, *Norway*, *Russia*, *Turkmenistan*; in the Gulf and sub-Saharan Africa: *Angola*, *Saudi Arabia*, *Congo*, *United Arab Emirates*, *Equatorial Guinea*, *Iraq*, *Iran*, *Kuwait*, *Nigeria*, *Oman*, *Qatar*, *Sudan*, *Chad*, *Yemen*; in Latin America: *Venezuela*; in Asia: *Myanmar*. These 23 countries account for 6% of world GDP.

Geographic proximity plays an essential role in the dynamic of international trade[2]. In the case of the EU15, this role was enhanced through the regional integration process within the EU’s enlargement and neighbourhood policies. The market share of the EU15 in 2007 was therefore far greater in countries within Europe or bordering Europe than in countries which are further away. The ranking of the EU15 markets was therefore very different from the global ranking (graph 1). In 2007, neighbouring emerging countries offered European manufacturers markets almost twice as big as Asian emerging countries did; neighbouring rentier states offered outlets 70% larger than rentier states which are further away.

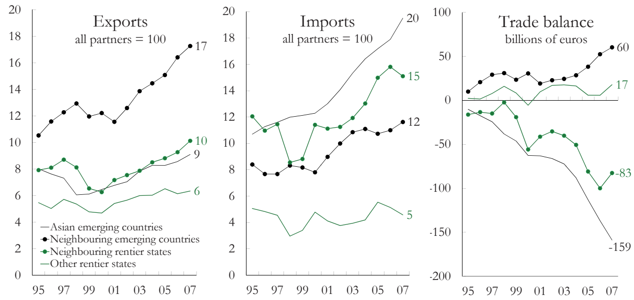
Graph 1 – Imports of emerging and rentier countries from the world and the EU15 – 2007, billions of dollars



Note: The percentage shown corresponds to the share of the EU15 in each market.
Source: CEPII, CHELEM-CIN database, authors’ calculations.

Turning to the EU15 imports, Asian emerging countries, as suppliers to the EU15, have achieved a considerable lead over neighbouring emerging countries; the EU15’s trade surplus with neighbouring emerging countries has partly made up for its soaring deficit with Asian emerging countries (graph 2). The sharp rise in imports from neighbouring rentier states, under the effect of rising oil and raw material prices, is the EU15’s other source of deficit.

Graph 2 – EU15 trade with emerging and rentier countries by zone, 1995-2007



Source: Eurostat, database, authors’ calculations.

Markets with different patterns of demand

The EU15 exports to emerging and rentier countries have a structure which reflects the specialisation of the EU in world trade. The EU15’s main export sectors are, first, machinery followed by chemicals and then transport equipment. The fourth most important export sector, electronics, experienced the most sustained increase towards these dynamic partners between 1995 and 2007. Nevertheless, the products differ according to the destination zone. This is shown in the breakdown of exports by production stage, technological level and quality range.

✦ *Production stages*

The EU15 mostly exports finished goods (59%) to rentier states; in these markets, the EU15 found outlets which, overtook, in 2007, those offered by neighbouring and Asian emerging countries for the sale of its capital and consumer goods (table 3). Asian

Table 3 – Place of emerging and rentier countries in the exports, of the EU15 listed by stage – 2007, as a %

	Semi-finished products	Parts and components	Finished goods: Consumer	Finished goods: Capital	Total manufactured goods
Neighbouring emerging countries	19	16	14	17	16
Asian emerging countries	7	12	3	11	9
Neighbouring rentier states	8	7	12	12	10
Other rentier states	6	7	5	9	6
Emerging & Rentier	40	41	35	49	42
World	100	100	100	100	100

Source: Eurostat, COMEXT database, authors’ calculations.

2. Banque mondiale (2008), *World Development Report 2009: Reshaping Economic Geography*.

emerging countries, with their low level of income[3] and high savings rate, represent a particularly limited outlet for the EU15's consumer goods (only 3% of exports of these goods).

Emerging countries are those which receive the most intermediate goods. Among these goods, parts and components saw a significant increase due to the international division of labour along the production processes in electronic industry and in transport equipment.

✦ Techonological level

The products exported by the EU15 also differ according to their technological level In comparison with their share in the EU15's total exports (14%), high-tech products are over-represented in sales to emerging countries in Asia (19%) and under-represented in sales to neighbouring emerging countries (9%)[4]. In the transport equipment sector, this is mainly due to the fact that sales to Asia mostly include aeronautic equipment, which is categorised as high-tech, while sales to neighbouring emerging countries mostly comprise automotive products which are not high-tech. In general, this discrepancy corroborates the fact that the transfer of technology to neighbouring countries tends to occur through direct investments (which the EU15 has done on a massive scale in Eastern Europe) while with regard to distant countries, the transfer of technology has been incorporated into the goods exported as distance increases production relocation costs[5].

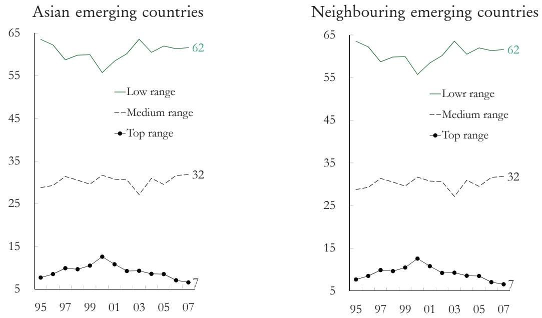
✦ Price/quality ranges

Finally, the EU15 also exports more top-of-the-range products[6] to Asian emerging countries (37% in 2007) than to neighbouring emerging countries (28%), which goes against the usual assumption that the demand for quality rises in line with the importer's level of income[7]. Distance and entry costs in far-off markets have clearly meant that the best European exports and exporters have been cherry-picked[8]. Above all, imported intermediate products are mostly top-of-the-range as they are chiefly incorporated into products which are exported to rich countries. In the case of consumer goods, European exports of top-of-the-range goods target domestic demand from those with the highest incomes.

EU imports reflect the changes in emerging countries' manufacturing industry

EU15 trade with rentier states is based on the most traditional complementarity (commodities for manufactured goods) with one-way trade (inter-industry trade) remaining predominant. With emerging countries, two-way trade (intra-industry trade) has gained in importance; furthermore, two-way trade of products of the same quality (horizontal differentiation) is on the increase with neighbouring emerging countries while it is almost non-existent with Asian emerging countries. The EU15 imports reflect the changes in the emerging zones' industrial supply which has developed significantly due to the regional integration process both in Asia and in Europe. Transport equipment exported by the EU15's emerging neighbours is now the EU15's most important import category, following the incorporation of these countries into the production networks of West European companies. The EU15 imports parts and components as well as finished vehicles from its emerging neighbours thanks to the vertical division of labour[9]. Two other trends are noticeable. On the one hand, the improvement in the technological level of the products imported by the EU15 from these countries: the share of low technology products[10] fell from 54% to 31% between 1995 and 2007 (particularly due to the fall in textile products), on the other hand, the rise in the price/quality range: the share of low price products dropped (from 55% to 45%) while that of top-of-the-range products rose (from 14% to 19%) (graph 3).

Graph 3 – Breakdown by range of manufactured imports of the EU15 from the two large emerging country zones 1995-2007, as a %



Source: Eurostat, database COMEXT, authors' calculations.

3. In 2007, the average per capita income on the basis of purchasing power parity in emerging Asia was a twelfth of that of the EU15 (3,800 dollars); in emerging neighbouring countries it was a third (10,100 dollars) and in rentier states it was a quarter (7,700 dollars).
4. *High-tech* products are those products which contain a high level of R&D and which are selected within sectors that are defined as high-tech. See G. Gaulier *et al.* (2005), "China's Integration in East Asia, Production Sharing, FDI & *High-Tech* Trade", *CEPII working paper*, no. 2005-09, June, Appendix 3 page 48.
5. W. Keller & S. Yeaple (2009), "The limits to offshoring", VOX 17 March.
6. The COMEXT database provides data on traded goods in value and quantity, which makes it possible to calculate the unit value of the products traded. The three "ranges" are defined, for each of the NC8 nomenclature categories, on the basis of the distribution of unit values calculated for each basic flow. Each of the three ranges includes one third of the product category's total trade.
7. L. Fontagné *et al.* (2008), "Specialisation across Varieties and North-South Competition", *Economic Policy*, CEPR, CES, MSH, vol. 23.
8. R. Baldwin & J. Harrigan (2007), "Zeros, Quality and Space: Trade Theory and Trade Evidence", *NBER Working Paper* no. 13214, July; M. Crozet, I. Méjean & S. Zignago (2008), "Plus grandes, plus fortes, plus loin... Performances relatives des firmes exportatrices françaises" (Bigger, stronger, further... Relative performance of French exporters), *CEPII working paper*, n° 2008-26, November.
9. L. Fontagné & G. Gaulier (2008), "Performances à l'exportation de la France et de l'Allemagne" (Export performance of France and Germany), *CAE report* n° 81, December; F. Sachwald (2005), "La localisation des productions eu Europe : impact de l'élargissement et de la mondialisation" (Locating manufacturing in Europe: the impact of enlargement and globalisation), *L'industrie en France et la mondialisation* (Industry in France and globalisation), Ministère de l'Economie, des Finances et de l'Industrie, SESSI. (Ministry for the economy, finance and industry)
10. Here we are referring to the classification of the main sectors into four technological levels. See G. Gaulier *et al.* (2005), *op. cit.*.

This change particularly concerned parts and components whose bottom-end range fell from 72% to 47% while the top-end rose from 11% to 22%. This quality upgrading testifies to the transformation of the manufacturing fabric under the influence of investments and outsourcing strategies of West European companies, particularly in favour of countries which have become members of the EU. The dynamics of regional integration has made the EU15 more competitive in certain sectors and it has opened up profitable markets which are close at hand, thanks to the convergence of income within an enlarged Europe.

EU15 imports from Asian emerging countries have developed under an intense regional division of labour (IDL) with China as a hub[11]. Electronics is at the core of this IDL, and has become the key driver of the EU15 imports from this zone. The technological complexity of the imported products has increased but this has not been reflected in a rise in the price/quality range. The EU15 imports still remain concentrated (at over 60%) in bottom-end products (graph 3). This is mainly attributable to China which is still making the most of price competitiveness. This country retains its comparative advantages in the area of mass production and is finding it hard to move towards higher value added products[12]. High-tech exports from emerging Asia indeed contain a growing share of medium range products (28% in 2007 vs. 16% in 1995) but, in 2007, they still comprise mostly (up to 61%) bottom-end products.

Effects of the downturn

The economic downturn is having a big impact on those economies which have been the most dynamic markets for the EU15 over recent years[13]. Rentier states are suffering from the collapse in hydrocarbon and raw material prices which has placed certain countries (like Russia) in a very difficult financial situation. The downturn is affecting emerging economies in Europe and on its borders, especially those which were heavily dependent on external funding (Baltic States, Romania, Bulgaria)[14]. Up until 2007, the EU15 and its emerging neighbours enjoyed a trade dynamics which was driven by regional integration and the intermeshing of their manufacturing fabric[15]. Such trade flows would not be easily switched to far-off markets. The EU and its neighbours must join their forces to get out of the downturn just as they did in the past period of growth. Thanks to China and India, emerging Asia is withstanding the global economic downturn better than others. For the EU, the emerging Asian market, compared to neighbouring markets, still remains a selective and relatively limited market due in particular to the geographic distance and the differences in income levels. Nevertheless, the EU has a fair share in the Chinese domestic market[16] and may benefit from the country's policy to boost internal demand. In the first quarter of 2009, Chinese imports from the EU (-15%) performed better than those from Asia (-31%)[17].

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11. G. Gaulier, F. Lemoine & D. Ünal-Kesenci (2006), "China's Emergence and the Reorganisation of Trade Flows in Asia", *CEPII working paper*, n° 2006-05.
12. F. Lemoine & D. Ünal-Kesenci (2008), "Rise of China and India in International Trade: From textiles to New Technology", *China & World Economy*, vol. 16, n° 5, September-October; M. Zeng, P. J. Williamson (2007), *"Dragons at Your Door, How Chinese Cost Innovation Is Disrupting Global Competition"*, Harvard Business School Press.
13. World bank (2009), *Global Economic Prospects 2009*, Forecast Update, March 30.
14. World Bank (2009), "Swimming Against the Tide: How Developing Countries Are Coping with Global Crisis", Paper n° 7780, 14 March.
15. T. Mayer (2008), "Market potential and development", *CEPR Discussion Paper*, n° 6798, April.
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17. Source: *China's customs statistics*, series no 235, 2009 (3).

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