

TRADE DEVELOPMENTS OF NEW EU MEMBER COUNTRIES: DEFYING THEORETICAL FUNDAMENTALS OR ADJUSTING TO NEW REALITIES?

The paper deals with the foreign trade performance of the new member countries in their first five years of membership (and, with two years for Bulgaria and Romania). The first part of the statistical survey focuses on trade developments supporting and/or defying some key issues of trade theory. Trade creation vs. trade diversion, trade balance between more and less developed countries of the same free trade area as well as differences in the commodity structure of exports due to different levels of development constitute the main pillars of the analysis. It is found that trade creation can be clearly identified in the dynamic growth of trade among the new member countries. On the contrary, the share of the old member countries experienced a partly dramatic decrease. For several reasons, growing extra-EU export orientation characterized most new members, a key challenge to traditional theories. Trade balance between new and old members points to a diversified picture. However, in case of the more developed new members that could attract substantial amount of foreign capital into their export-oriented industries, foreign trade balance with the EU-15 registers relevant trade surplus, in line with giving priority to getting incorporated into the global division of labour through the international activities of transnational companies (including, of course, of Europe-rooted ones). Mainly for the same countries, neither the commodity pattern of exports seems to support traditional theoretical hypotheses. However, both regarding trade balance and commodity structure, the new member countries of the EU can be classified into rather different groups.

The second part analyzes the impact of the crisis on trade developments with special regard to the Visegrád-4 countries plus Slovenia. Following a statistical survey illustrating short-term trends, special attention is paid to the emerging protectionist efforts in selected countries of the EU-15, as well as to the export-related impact of depreciated national currencies in some Central European member states. Finally, the vulnerability of selected new member states (concerning volume, structure, geographic orientation) characterized by clear and successful export-orientation strategies in the past two decades is addressed, with special reference to the possibility or desirability of any radical change in the catching-up-based and export-oriented growth pattern.
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Introductory remarks

More than five years have passed since the European Union (EU) was enlarged by ten new member countries (NMS-10). In addition, Bulgaria and Romania joined in 2007 (NMS-12). The record of membership, both positive and negative, expected and unexpected experience and lessons can certainly be set up after some years, even if in several areas that require longer adjustment period a more solid evaluation will only be possible after a longer period (e.g. the degree of efficiency of using EU funds, institutional adjustment, active participation in shaping community policies). Also, other areas subject to transitional arrangements (as the free flow of labour, the full-fledged membership in obtaining direct payment to farmers or, for different reasons, accession to the monetary union and introduction of the common currency) need more time for a balanced and sustained assessment.

One field, however, where the results and consequences of accession can obviously be studied, is the development of trade relations of the new members. Five years covered by comparable statistical figures provides a justified basis for overall evaluation as well as cross-country comparison. In addition, such an approach is likely to offer credible answer to several questions raised by trade theories.

This paper is structured in three main sections. Section I examines the validity of relevant trade theory assumptions in the light of development in the „real sphere” of trade. Section II analyzes extra-EU trade developments, a rather neglected area of the consequences of EU membership, however, of growing importance in the context of the unfolding global crisis. Finally, Section III addresses the first visible impacts of global crisis on key trends of external trade of the NMSs.

The statistical material and calculations are based on official Eurostat documents (Eurostat. External and Intra-European Trade, as well as Eurostat. Trend sin European Union and Euro Area Trade). The survey covers six years, starting with 2003, the last full year before accession and including 2008 as the last year for which annual figures have been already available. The countries included in the analysis cover the NMS-10 for the entire period, although sometimes detailed figures for Cyprus and Malta, two acceding countries of 2004 can be considered negligible (nevertheless, composite NMS trade figures include their data as well). Bulgarian and Romanian figures have been added for 2006 (the last year before accession) and 2007-2008 (the first two years of membership). Beyond this general framework, special attention will be paid to the Visegrád countries (V-4). Statistical tables have been referred to in the text but, for editorial considerations, attached to the paper in the Annex.

1. Trade theory and real developments

The most important and short-term impact of regional integration can be identified in the development of trade of the acceding countries. In this context, several interrelations (consequences of membership in the given regional group) have to be taken into account.

First, the effect of trade creation and trade diversion can be examined. Did membership create more intra-EU trade while diverting previous trade relations from third (non-EU) markets and supply sources?

Second, before membership, trade among the new members was free on paper only. There were a number of bilateral frictions and trade barriers, either lasting or temporary ones that were fully and immediately eliminated at the moment of accession, when, on May 1st, 2004 all new members had to automatically transfer national trade policy competences to Brussels (as well as Bulgaria and Romania on January 1st, 2007). To what extent did the new situation affect trade among the new members?

Third, growing market shares (either in total exports or in exports to a given region or market segment) used to be understood as a sign of increasing competitiveness. To what extent do statistical figures reflect the changing (growing or declining) competitiveness of the new members, and how can and should some statistical figures be interpreted?

Fourth, also bilateral trade balances can be used in order to measure relative competitiveness, since large surplus and deficit figures are likely to identify the presence of the lack of competitive strength, provided that bilateral trade is not characterized by the large share of energy or raw materials that could easily distort trade balance. This, however is not the case with the NMS-12, since none of them is an important source of producing such goods, even if some may carry out substantial trade in energy (mainly from Russia to different EU countries). More importantly, trade balances have been frequently related to the different development level of trading partners. Once again excluding energy carriers and raw materials (as well as gold and diamond), the general experience suggests that more developed countries used to have surplus in trading with less developed countries. In fact, the NMS group consists of countries (partly substantially) below the EU average, as indicated by GDP per capita figures. Did this development gap characterize the trade balance between the more developed and the less developed member countries in the first years of membership?

Fifth, and finally, differences in development level should be reflected in the commodity composition of exports of the individual countries as well. In consequence, more developed members are expected to have a more developed (higher technology and skilled labour content) export structure than less developed ones. In addition, bilateral trade flows between more and less developed countries should be characterized more by inter-industry rather than by intra-industry trade. Even if the latter prevails, a basic difference in technology contents and value-added share of imports from and exports to more developed countries can be identified (being exports structurally „less developed” than imports from the given partner country).

1.1. Trade creation vs. trade diversion

Foreign trade of the NMS proved to develop very dynamically between 2003 and 2008. In fact it became the most dynamic element of the total trade of the EU. Exports increased from Euro 172 to Euro 442 bn Euro, while imports grew from Euro 199 to Euro 518 bn.² Taking into account just NMS-8 figures (countries joined in 2004 without Cyprus and Malta), world exports and imports of the acceding group more than doubled (227 vs. 214 per cent, taking 2003 figures as 100). In contrast, total EU trade with the world (including intra-EU trade) only grew by about 50 per cent (45 for exports and 53 for imports). As a result, the share of the new members in EU exports increased from 6.2 per cent in 2003 to 11 per cent in 2008 (including the impact of enlargement by Bulgaria and Romania). Similarly, the share in EU total imports experienced a growth from 7.3 to 12.4 per cent in the same period. In other words, in a few years, NMS, starting from an almost negligible position, became an important factor of EU trade. In spite of the cross-country differences, each NMS revealed a clearly above-average dynamics of exports and imports when compared to EU total trade figures.³

Dynamics were carried both by intra- and extra-EU trade. According to the theory of trade creation, intra-EU trade should have been supposed to reveal higher growth rates. In fact, intra-EU exports of NMS jumped from Euro 140 bn to Euro 342 bn, while imports grew from Euro 137 bn to Euro 366 bn between 2003 and 2008. While total intra-EU trade of the EU-25 between 2003 and 2006 increased by 29 %, NMS intra-exports experienced a growth of 66 per cent. Including Bulgaria and Romania as well, growth between 2006 and 2008 was 28 per cent, as compared to 8.5 per cent of total EU intra-exports. Similar trends can be followed in intra-EU import as well (74 and 31 per cent between 2003 and 2006 and 29 vs. 9 per cent between 2006 and 2008). These figures indicate that membership in the EU did play a positive impact on intra-EU trade and contributed to additional trade creation. However, this can be considered as a nominal trade creation based on higher intra-EU trade growth rates for the NMS than those of the EU average.

The relative trade creation can only be measured if intra- and extra-EU trade figures and dynamics are compared. In this respect, trade diversion occurred. Namely, extra-EU exports of the NMS increased stronger than intra-EU exports. The former more than doubled between 2003 and 2006, and produced an additional growth of 35 per cent between 2006 and 2008 (as compared to 66 and 28 per cent, respectively, of intra-EU export growth). Moreover, extra-EU trade of NMS grew much more intensively than total EU extra-exports (34, vs. 13 per cent, respectively). At the same time, extra-EU imports represent a more contradictory development. In the

² This figure does not include foreign trade of Bulgaria and Romania in 2003, so that the increase involves the impact of enlargement of 2007 as well. However, due to the modest figures, it does not change the overall picture.

³ Bothin exports and imports, two Baltic countries, Latvia and Lithuania, as well as Slovakia and Poland experienced the highest growth (above average of the NMS), while the Czech Republic showed average figures. Total trade dynamism of Slovenia, Estonia and Hungary remained below the NMS average but still clearly above the EU total average (in detail see Annex Table 1).

first half of the period surveyed extra-EU import trends lagged behind extra-EU imports. This trend was reversed in the period between 2006 and 2008, when extra-EU imports gained impetus, while intra-EU imports started to grow less dynamically (see Annex Tables 2 and 3). In other words, enlargement had multiple impacts on trade flows:

- in nominal terms, trade creation continued in intra-trade, as indicated by substantially higher intra-trade growth rates of NMS than those of the EU-25/27,
- in real terms (relative shares), trade diversion prevailed during the whole period in exports and during the second period of imports,
- the old EU countries were able to use additional market chances in the NMS while NMS, as a group (but not necessarily each country, see later) seems to be more successful in making use of additional extra-EU export possibilities.

Nevertheless, the predominant features remained that

- the NMS could gain additional market shares both in total intra- and extra-EU trade,
- NMS can be characterized by stronger intra-EU trade orientation than the average of the EU-25/27.

While in total EU exports, the share of the NMS reached 11 per cent in 2008, their share in intra-EU exports reached 12.7 per cent, as compared to just 7.6 per cent in extra-EU exports. The corresponding import figures were 12.4 in total, 14 in intra-EU and 9.8 per cent in extra-EU relation. Still, extra-EU share doubled in export in the six-year period (from 3.7 to 7.6 per cent), while intra-EU export share grew from 7.4 to 12.7 per cent „only”. In turn, intra-EU imports experienced a higher growth (from 7.7 to 14 per cent) than extra-EU imports did (from 6.7 to 9.8 per cent). (See Annex Tables 4., 5. and 6.).

The above picture is even more interesting if we split EU-related trade of the NMS into trade with EU-15 („old members”) and trade within the NMS group. Since this subject will be investigated in depth by other papers presented to this conference, I will constrain myself to some basic points. The overriding experience is that it was membership in the EU that generated a dramatic trade creation in intra-NMS trade. Both exports and imports grew almost fourfold between 2003 and 2008 (Annex Table 7). In quantitative terms less important Latvian and much more essential Hungarian exports experienced a more than five-fold growth. On the import side, Estonia and Lithuania, and not less importantly, the opening up of the domestic markets of Bulgaria and Romania from 2007 on proved the above average drivers of dynamic intra-NMS flow of good (Annex Table 8).

If the trade creation impact of intra-NMS trade following membership is not considered, trade diversion from old EU members both towards new members and to

extra-EU markets is even more pronounced. Shifts in basic market shares are illustrated in table 1.

Table 1
Main geographic areas of NMS trade between 2003 and 2008
(in per cent, being total exports and imports, respectively, 100)

Country	Intra-EU exports	EU-15 exports	NMS-12 exports	Extra-EU exports	Intra-EU imports	EU-15 imports	NMS-12 imports	Extra-EU imports
NMS 2003	81.2	67.6	13.6	18.8	68.6	57.5	11.1	31.4
2008	77.4	57.3	20.1	22.6	70.7	54.4	16.3	29.3
Bulgaria 2008	60.2	46.6	13.6	39.8	56.6	41.9	14.7	43.4
Czech R.								
2003	86.3	69.8	16.5	13.7	71.0	58.9	12.1	29.0
2008	84.9	63.3	21.6	15.1	76.9	59.8	17.1	23.1
Cyprus 2008	68.3	63.6	4.7	31.7	67.7	62.7	5.0	32.3
Estonia								
2003	82.5	68.4	14.1	17.5	64.8	53.5	11.3	35.2
2008	70.1	51.1	19.0	29.9	79.7	54.9	24.8	20.3
Latvia								
2003	79.3	62.0	17.3	20.7	75.4	51.0	24.4	24.6
2008	68.4	33.9	34.5	31.6	75.3	40.7	34.6	24.7
Lithuania								
2003	62.5	43.1	19.4	37.5	55.8	44.2	11.6	44.2
2008	60.3	35.5	24.8	39.7	57.3	35.8	21.5	42.7
Hungary								
2003	81.2	73.7	7.5	18.8	63.1	55.0	8.1	36.9
2008	78.0	57.1	20.9	22.0	67.9	53.3	14.6	32.1
Malta 2008	45.5	43.9	1.6	54.5	73.1	71.4	1.7	26.9
Poland								
2003	80.8	68.8	12.0	19.2	69.1	61.1	8.0	30.9
2008	77.5	61.4	16.1	22.5	71.2	61.2	10.0	28.8
Romania 2008	70.5	55.3	15.2	29.5	69.2	51.4	17.8	30.8
Slovenia								
2003	66.9	58.4	8.5	33.1	75.7	67.4	8.3	24.3
2008	68.1	53.9	16.2	31.9	71.2	61.3	9.9	28.8
Slovakia								
2003	84.7	60.8	23.9	15.3	74.0	51.6	22.4	26.0
2008	85.3	55.4	29.9	14.7	72.8	41.3	31.5	27.2
For comparison: EU-27, 2008	67.4			32.6	62.8			37.2

The share of intra-EU exports in total exports of the NMS declined by 38. percentage points between 2003 and 2008. The sharpest decline could be observed in two Baltic countries, Estonia and Latvia, while modest relative loss could be registered for Lithuania, Hungary, Poland and the Czech Republic. Interestingly, two new members, Slovakia and Slovenia experienced trade creation impacts (higher intra-EU shares). However, if the trade creation impact of intra-NMS trade is

excluded, trade diversion from the EU-15 is evident in each case. In total, the share of EU-15 in total exports of NMS fell by 10 percentage points (!) in the first half-decade of membership, from 67.6 to 57.3 per cent. On the NMS group level, this could only partly be compensated by the dramatic increase of intra-NMS exports from 13.6 to more than 20 per cent. Each NMS can be incorporated into this general trend, with the special remark, that higher intra-NMS export shares could fully compensate (overcompensate) the loss of EU-15 shares in case of Slovakia and Slovenia. The share of EU-15 in total exports of Latvia fell from 62 to 34 %, and from 68 to 50 per cent in case of Estonia. More surprisingly, one of the „heavy-weight” exporters of the NMS, Hungary, also reported a decrease of the share of EU-15 from 73.7 to 57.1 per cent, or by 16.6 percentage points (similar, but much less dramatic trends can be observed in the Czech Republic and Poland, with a decrease of EU-15 share in total exports by 6.5 and 7.4 percentage points, respectively). At the same time, intra-NMS exports experienced an unprecedented growth in Hungary (from 7.5 to 20.9 per cent), followed by Latvia (doubling the share of intra-NMS exports, predominantly due to intra-Baltic country trade) and Slovenia (from 8.5 to 16.2 per cent). More modest but obvious shifts in the same direction can be observed in the geographic orientation of exports of the Czech Republic, Estonia, Lithuania, Poland and Slovakia as well.

It has to be underlined, that despite export diversion - in some cases with a particularly strong reorientation from EU-15 to other markets - the anchor position of the EU did not fundamentally change. Still, in 2008 heavy, in several cases almost unilateral dependence on EU markets can be identified. Slovakia and the Czech Republic (despite different export orientation trends in the first years of membership) allocate about 85 per cent of their total exports in the EU, while Hungary's and Poland's figures are still above three-quarters of total exports. More importantly, these figures reflect an above average reliance on EU markets, since the share of intra-exports in total exports of the EU-27 only reaches 67.4 per cent. Slovenia, as well as Latvia and Estonia fit into the EU average (together with Cyprus and Romania), while Lithuania and Bulgaria (let alone Malta, the only country with less than half of exports going to the EU-27) have relatively important extra-EU export markets but without questioning the predominant position of the EU.

In contrast to exports, import developments were characterized by slow but continuous trade creation. The share of intra-imports in total imports of the NMS grew from 68.6 to 70.7 per cent in the survey period, with modest increases for most countries, excepting Estonia, with a dramatic shift towards the EU and a contrary trend in Slovenia and Slovakia. Imports from NMS experienced to the largest extent the trade creation impacts of membership, for the share of new members in total imports grew from 11.1 to 16.3 per cent (with the biggest shifts in all Baltic countries and Slovakia). However, without taking into account the unprecedented trade creation due to intra-NMS imports, the share of imports from EU-15 decreased in most countries, with dramatic fall to one-third of total imports in Lithuania and to 40 per cent in Latvia. Modest relative loss could be observed in Hungary, stabilization in Poland and slight further increase in the Czech Republic. Contrary to exports, growing intra-NMS import shares could overcompensate the falling EU-15 shares (excepting Slovakia and Slovenia), or, in some cases, such as the Czech

Republic, Estonia and Poland, growing EU-15 and intra-NMS import shares added to an even more considerable share of intra-EU imports (double trade creation). However, similar to exports, the NMS keep relying more heavily on intra-EU imports than the EU-27 average (70.7 per cent as compared to 62.8 per cent). In other words, their orientation towards extra-EU sources is relatively lower than that of the EU average (and, logically, even lower than that of the EU-15 countries, on average). This may surprise at the first glance, since it is well known that most of them are to a large extent (or exclusively) dependent on non-EU energy deliveries (predominantly from Russia).

Free trade with the EU and membership have had an undisputable positive impact on exports that can be identified in growing market shares in total, intra- and extra-EU exports as well. In total EU exports, the share increased from 6.2 to 11 per cent between 2003 and 2008. Most dynamic market share growth characterized the Czech Republic, Hungary, Poland and Slovakia, while Estonia, Latvia, Lithuania and Slovenia revealed more modest increases. Both intra- and extra-EU exports follow the overall trend, although some countries indicated more dynamic market share increase in intra-, while others in extra-EU exports. Market share gains can be the result of several factors, not just increasing (and, even more, sustainable) competitiveness. In intra-EU trade, the dismantling of obstacles in itself can be an important component of higher market share. Similar impacts can be generated in extra-EU trade, if, as a member of the EU, the NMS started to enjoy the benefits of preferential (or even free) trade agreements signed by the EU with a number of third countries and groups of countries. In addition, changing pattern of demand (including private consumption) in major export markets used to influence changes in market shares. Not less importantly, changes in the price of leading commodities affect the overall picture. However, even without a detailed econometric analysis, it can be pointed out that EU membership did contribute to gaining additional market shares, at least partly due to higher level of competitiveness (particularly in NMS with a „more developed” production and export structure).

1.2. Trade balance: confirming or rejecting conventional theory?

A more elaborated survey of the trade balance of the NMS is instructive from two aspects. First, it indicates to what extent traditional trade theory is justified concerning free trade between differently developed countries (or groups of countries). Second, balance positions in general, and export/import coverage ratios in particular, can be considered as a proxy to international competitiveness (provided that raw materials, energy carriers and gold and diamond do not figure among the most important export items).

In general, the trade balance of the NMS seems to justify theoretical assumptions. In fact, NMS external trade is characterized by obvious imbalance, with total

accumulated trade deficit of Euro 243 bn between 2003 and 2008, or with an annual average of Euro 40 bn.⁴

Table 2
Trade balance and coverage ratios of NMS (total, intra-EU and extra-EU)
(a) Trade balance in Euro bn

Country	Total 2003- 2006*	Trade 2007**	2008	Intra-EU 2003- 2006*	Trade 2007**	2008	Extra-EU 2003- 2006*	Trade 2007**	2008
Bulgaria	.	- 8.40	-10.06	.	- 4.63	- 5.14	.	- 3.77	- 4.92
Czech R.	- 0.87	+ 3.16	+ 3.24	+ 14.38	+ 7.16	+ 10.47	- 15.25	- 4.01	- 7.23
Cyprus			- 6.11			- 4.13			- 1.98
Estonia	- 8.44	- 3.30	- 2.48	- 5.53	- 3.25	- 2.78	- 2.91	- 0.05	+ 0.31
Latvia	- 11.58	- 5.12	- 4.04	- 8.73	- 4.27	- 3.51	- 2.85	- 0.85	- 0.52
Lithuania	- 12.00	- 5.30	- 4.96	- 5.92	- 4.07	- 2.36	- 6.08	- 1.23	- 2.59
Hungary	- 13.03	- 0.12	- 0.14	+ 12.64	+ 6.52	+ 7.27	- 25.67	- 6.64	- 7.41
Malta			- 1.22			- 1.42			+ 0.20
Poland	- 46.33	-18.65	-24.64	- 18.89	- 7.95	-10.45	- 27.44	- 10.70	-14.19
Romania	.	- 21.58	-22.66	.	- 15.12	- 15.26	.	- 6.46	- 7.40
Slovenia	- 3.63	- 1.06	- 1.95	- 9.49	- 1.76	- 2.12	+ 5.86	+ 0.69	+ 0.17
Slovakia	- 8.26	- 1.49	- 1.57	+ 2.54	+ 4.21	+ 4.87	- 10.80	- 5.70	- 6.45
NMS *	- 104.14	- 61.86	-76.58	- 19.00	- 23.16	- 24.56	- 85.14	- 38.72	- 52.02

Note eventual differences of total trade = intra-trade+extra-trade due to roundings

(b) coverage (export/import in per cent)

Country	Total 2003- 2006*	Trade 2007**	2008	Intra-EU 2003- 2006*	Trade 2007**	2008	Extra- EU 2003- 2006*	Trade 2007**	2008
Bulgaria	.	61.6	60.3	.	63.8	64.1	.	58.5	55.3
Czech R.	99.6	103.7	103.4	107.7	110.4	114.2	70.1	76.7	67.5
Cyprus			15.1			15.3			14.8
Estonia	72.7	70.8	77.2	75.3	63.4	67.9	65.7	98.0	114.0
Latvia	56.1	54.2	63.0	56.2	50.8	57.2	55.8	66.3	80.5
Lithuania	74.1	70.2	76.4	78.9	66.6	80.4	66.8	78.2	71.1
Hungary	93.7	99.8	99.8	109.3	113.4	114.6	63.0	68.8	68.5
Malta			61.0			37.9			123.7
Poland	85.2	84.6	82.3	91.7	91.0	89.4	67.9	66.9	64.5
Romania	.	57.7	59.7	.	58.3	60.8	.	56.1	57.3
Slovenia	94.2	95.4	92.2	80.4	89.6	88.2	142.8	111.4	102.3
Slovakia	92.4	96.6	96.8	103.1	112.9	113.4	58.1	49.7	52.4
NMS	89.9	86.5	85.2	97.5	93.1	93.3	69.4	68.4	65.7

* member countries of 2004, excepting Cyprus and Malta

** member countries of 2004 and of 2007, excepting Cyprus and Malta

However, only less than Euro 67 bn (Euro 11 bn annually) or a bit more than one-quarter of the total deficit originates in intra-EU trade. Almost three-quarters can be explained by deficit in extra-EU trade (Euro 176 bn in total, or Euro 29 bn as the annual average). By far the largest deficits are reported by Poland (almost Euro 90

⁴ This figure includes trade deficit of the new members of 2004 between 2003 and 2006 (excluding Cyprus and Malta), as well as the deficit of all NM sin 2007 and 2008 (including both islands and Bulgaria+Romania).

bn during the six-year period) as well as, measured on the size of the country and its total foreign trade, by the Baltic countries (Euro 57 bn for the three countries altogether). Moreover, both new members of 2007 register huge trade deficits both in their total, as well as intra- and extra-EU trade (Euro 44 bn for Romania and Euro 18 bn for Bulgaria in the first two years of membership). In contrast, the Czech Republic is the only new member that has a positive trade balance both globally and intra-EU. The last years have created a substantial trade surplus for the Czech Republic (above Euro 3 bn both in 2007 and 2008), as well as a balanced overall trade for Hungary (with slight deficits of Euro 120 and 140 mn, respectively).

Table 3
Balance of intra-NMS-12 trade as compared to the balance of intra-EU trade, 2008

Country	Total intra-EU trade balance Euro mn	NMS-12 balance Euro mn	Non-NMS-12 intra-EU trade balance Euro mn	NMS-12 balance in per cent of total intra-EU trade balance In per cent
Bulgaria	- 5.140	- 1.648	- 3.492	(-) 32.1
Czech Republic	+ 10.468	+ 5.030	+ 5,438	(+) 48.1
Cyprus	- 4.127	- 310	- 3.817	(-) 7.5
Estonia	- 2.784	- 1.102	- 1.682	(-) 39.6
Latvia	- 3.513	- 1.408	- 2.105	(-) 40.1
Lithuania	- 2.364	- 526	- 1.838	(-) 22.3
Hungary	+ 7.268	+ 4.548	+ 2.720	(+) 62.6
Malta	- 1.415	- 24	- 1.391	(-) 1.7
Poland	- 10.449	+ 4.559	- 15.008	*
Romania	- 15.261	- 4.893	- 10.368	(-) 32.1
Slovenia	- 2.115	+ 1.279	- 3.394	*
Slovakia	+ 4.871	- 1.258	+ 6.129	**

* intra-EU trade deficit is partly compensated by surplus in NMS-12 trade

** intra-EU trade surplus finances intra-NMS-12 trade deficit

There can be identified further sharp differences when looking at the intra-EU trade balance. The NMS group can be clearly divided into two sub-groups. The Czech Republic, Hungary and Slovakia report continuous trade surplus, while all other countries have – sometimes serious – deficits. Therefore, the generalized theoretical hypothesis does not apply to some new members. Despite free trade and lower level of development, they were able to achieve remarkable surplus in their trade with the EU. This is mainly due to the structural changes that had been taking place in all three countries (although with different timing, speed and „depth” of the changes), fundamentally driven by foreign investments in the manufacturing sector. In an increasingly globalized economy, national economic performance is essentially influenced by the width, depth and structure of getting incorporated into the international division of labour in general, and into the global production (and service) network of transnational companies, in particular. The fact that also these three Visegrád countries reveal high deficits in their extra-EU trade is to a large extent based on participation in global production structures. Competitive imports from non-EU sources (mainly Asia, and increasingly China) have created the basis of export surplus towards the EU. This pattern, however, did not develop in other NMS. Some of them register heavy deficits both in intra- and extra-EU relations,

while some others could achieve balanced or even slightly positive balance in extra-EU trade, due to their increasing orientation towards (mainly traditional) non-EU markets (Slovenia and Estonia). However, this modest surplus could not play a meaningful role in reducing deficits in intra-EU trade (and, consequently, in their total trade either).

Further special features are provided by comparing intra-EU trade balance with intra-NMS trade balance.

Based on 2008 figures (that represent a reliable continuation of previous trends) NMS can be classified into four different groups (see Annex Table 10):

- countries with trade surplus both with EU-15 (old members) and NMS (Czech Republic and Hungary),
- countries with trade surplus in intra-NMS trade but with deficits in trade with EU-15, being the latter much more sizeable than the former (Poland and Slovenia),
- one country characterized by intra-NMS trade deficit but significant surplus in EU-15 relation (Slovakia),
- finally, all other countries with substantial „twin deficits”, both in intra-NMS and in EU-15 trade (Baltics, Bulgaria, Romania, but also Cyprus and Malta).

1.3. Inter- or intra-industry trade?

Differences reflected in the trade balance do not only point to different levels of competitiveness of the individual NMSs, but raise the justified question concerning the structure of exports, since this (both its commodity composition and the level of technology and skilled labour-content) can help explain structural and trade balance-related differences.

Once again going back to trade theory hypotheses, theoretical assumptions have to be confronted with statistically confirmed reality. In this context, the commodity pattern of exports of the NMSs requires adequate analysis. The limited space available to this article does not allow to go into an in-depth survey concerning the micro-structure of exports (to say, at four-digit SITC level) and the main factors of output, with special regard to the value added created in the respective NMS exports. However, even the one-digit SITC level offers useful insights.

Already the aggregate NMS level seems to challenge the traditional trade theory, because the share of machinery and transport equipment, generally considered to consist of (more) high-tech products than any other one-digit SITC commodity group, is higher in the NMS group than in comparable total exports of the EU-27. Even more importantly, the difference in favour of NMS is particularly manifest in intra-EU exports. While machinery and transport equipment account for 38 per cent

in total intra-EU-27 exports, its share reaches 47 per cent in the NMS group. Concerning extra-EU trade, the share of this commodity group is similar in EU-27 and NMS-12.

On the NMS-12 level, some further interesting figures can be mentioned in comparison to the EU-27 average data. One is the higher share of agricultural products in EU-27 average (and, logically, even more in EU-15 average) than in the case of NMS-12. This can evidently be attributed to higher productivity, more developed technology, modern ownership structures but also to the (still distorting or biased) impact of the Common Agricultural Policy in the old EU members. Another relevant difference manifests itself in the share of chemicals (including pharmaceutical products), where the share in total NMS-12 exports is just half of that of the EU-27. Finally, commodity groups 6 (semi-manufactured industrial goods) and 8 (miscellaneous manufactured products) approximate more to the traditional trade theory, because the share of these products is generally higher in NMS-12 than in EU-27 total, intra- and extraregional exports (excepting SITC 8 in the last case).

However, if we go down to the new member country level, sometimes striking differences can be identified, with strong explanatory arguments concerning production and export structures, trade deficit and competitiveness. Hungary represents the first group, with more than 60 per cent of machinery and transport equipment share in total exports (both to the EU and to extra-EU markets). The second group includes the Czech Republic and Slovakia with the share of the same commodity group above 50 per cent (53-54 %). Slovenia and Poland establish the next group, with a share slightly over 40 per cent. Finally, the Baltic countries as well as Bulgaria and Romania represent the fourth group, indicating a share in total exports of machinery and transport equipment between 29 and 34 per cent.⁵

Figures of the table indicate that there is a clear difference between NMS average figures (that, on the survece, comply with EU export structure figures on the one-digit level) and those characterizing the commodity structure of exports of the respective member countries. Different NMS have different specialization patterns and, consequently, different levels of sustainable competitiveness and trade equilibrium. The table offers a number of interesting insights, therefore just some of them will be picked out here:

- two-digit share of energy carriers in the exports of Bulgaria, Estonia and Lithuania, mainly directed to extra-EU markets (being the most important one-digit commodity group of extra-EU exports for Bulgaria and Estonia),
- heavy reliance on agricultural exports (two digit shares in each of the three Baltic countries and almost 10 per cent for Poland, but with a different and more competitive export pattern,

⁵ Just one reason, among many others, while Latvia and Hungary should not be put into the same basket.

- classical trade-theory-conform inter-industry specialization (agricultural, goods, raw materials and energy) in some countries (around or above 35 per cent of total export sin Latvia and Lithuania, and around 30 per cent in Bulgaria and Estonia), as compared to less than 10 per cent in the Czech Republic and Slovenia,
- also traditional trade pattern represented by the high share of material- and low skilled labour-intensive commodities (SITC 6+8) in total exports of Bulgaria (47 per cent), Romania (44 per cent). Also in several other new members this figure is higher than 35 per cent, although partly containing highly competitive products (Poland, Slovenia). At the other end of the „specialization spectrum” Hungary is placed with less than 18 per cent share of these commodity groups in total exports.

Finally, differences between intra-EU and extra-EU trade patterns have to be underlined. The Czech Republic, Hungary and Poland indicate a highly homogeneous structure, without any major structural differences between intra- and extra-EU trade. Other countries, however, reveal some structural „imbalances”, with different market orientation in selected product groups. Some of the most evident examples have been selected from Table 4:

- (cheap) labour-intensive manufactured goods (overwhelmingly clothing and shoes) are heavily concentrated on EU markets in the exports of Bulgaria, Romania, but also of Estonia and Lithuania,
- agricultural exports of Estonia and Latvia are more concentrated on extra-EU markets than intra-EU markets,
- Latvia’s raw material exports are mainly sold in the EU, while in Romania’s exports of the same product group extra-EU markets play a relevant role,
- as already mentioned, energy exports of some NMS are heavily biased towards extra-EU markets (Bulgaria, Estonia, Romania),
- also in the exports of chemicals, the relative importance of extra-EU markets prevails (Bulgaria, Hungary, Poland, Slovenia, being Lithuania the contrary case),
- finally, machinery exports, the key commodity sector of total NMS exports to the world (and to the EU), reveals a diverse picture. Strong „cohesion” between intra- and extra-EU shares can be found in the Czech Republic, Hungary and Poland, the key exporters of machinery and transport equipment of the NMS group. On the contrary, strong bias in favour of the EU appears in Estonian and Slovenian exports, while similarly strong bias can be detected towards extra-EU exports in the case of Lithuania and Slovakia. It is unclear to what extent, when at all, this difference can be explained by the different role of transnational companies located (or not located) in this sector in different new member countries. One could presume that a modern machinery and transport equipment

sector owned and managed by international firms considers in its general selling and export strategy more the possibilities of global marketing (i.e. higher share of extra-EU exports) than the same sector without strong foreign ownership and management.

Table 4
Share of major one-digit SITC commodity groups in the export structure of NMS
(2007, in per cent, being total, intra-EU and extra-EU exports = 100)*

Country	0+1+4	2	3	5	6	7	8
Bulgaria							
-total	7.7	6.7	14.8	7.4	29.4	15.0	18.0
-intra	7.9	5.8	6.8	4.8	31.4	16.7	26.3
-extra	7.3	8.0	27.1	11.5	26.3	12.4	5.3
Czech R.							
-total	3.6	2.5	2.7	5.6	20.2	54.2	10.8
-intra	3.8	2.7	3.1	5.2	20.1	53.7	10.9
-extra	2.1	1.4	0.5	7.7	20.6	56.7	10.3
Estonia							
-total	8.5	9.5	12.5	5.7	18.3	29.3	16.0
-intra	7.4	9.9	5.4	5.1	19.9	34.3	17.7
-extra	11.3	8.6	29.2	7.0	14.4	17.5	11.8
Latvia							
-total	13.5	18.5	3.7	5.7	25.4	19.4	11.3
-intra	12.2	22.9	3.4	5.1	27.1	15.8	11.1
-extra	16.2	7.1	4.4	7.0	20.8	28.8	11.6
Lithuania							
-total	16.2	5.6	13.4	13.5	11.9	23.2	16.2
-intra	16.5	6.9	14.0	15.4	12.7	16.3	18.2
-extra	15.6	3.1	12.4	9.9	10.5	35.9	12.5
Hungary							
-total	6.3	1.7	2.8	8.0	9.6	61.9	8.0
-intra	6.5	1.9	2.1	7.2	10.2	61.6	8.7
-extra	5.3	0.8	5.4	11.2	7.1	63.2	5.3
Poland							
-total	9.4	2.3	3.8	7.3	23.2	40.9	13.0
-intra	9.7	2.6	4.3	6.3	22.8	40.7	13.5
-extra	8.6	1.2	2.0	11.1	24.5	41.5	11.1
Romania							
-total	3.1	5.3	7.6	5.8	21.8	33.9	22.2
-intra	3.3	2.9	3.8	4.3	20.8	35.6	29.1
-extra	2.6	11.5	17.3	9.4	24.4	29.5	4.6
Slovenia							
-total	4.0	3.2	2.0	12.7	23.6	41.5	13.0
-intra	4.0	2.9	1.7	9.1	24.6	45.2	12.6
-extra	4.2	3.8	2.6	20.9	21.5	33.0	13.9
Slovakia							
-total	3.5	2.1	4.8	4.8	20.9	53.6	9.4
-intra	3.8	2.2	5.5	4.8	21.2	52.0	9.5
-extra	1.2	1.3	0.3	4.8	18.8	64.4	8.7
NMS-12							
-total	6.4	3.1	4.5	7.2	19.5	46.5	12.2
-intra	6.4	3.1	3.9	6.2	19.6	47.0	13.1
-extra	6.1	3.2	6.7	10.6	19.0	44.5	9.1
As compared to EU-27							
-total	7.6	2.8	5.5	15.3	16.5	39.8	10.7
-intra	8.7	3.0	5.7	14.9	17.6	37.9	10.7
-extra	6.1	2.2	5.1	15.9	14.2	43.8	10.8

* difference to 100 due to the omission of SITC 9

In sum, on the one-digit level, NMS exports structure does not differ from that of the EU-27. Consequently, at first glance it does not confirm the traditional trade theory hypothesis of inter-industry specialization between more and less developed countries of a free trade zone. Obviously, a more differentiated picture may be obtained as a result of a deeper structural analysis, pointing to relevant differences in intra-industry trade within the same product category, including differences in the technological level, labour productivity and, last but not least, the value added represented in the global or European production chain. Nevertheless, the dominant role of the Visegrad countries has to be highlighted. In 2007, the V-4 accounted for almost 85 per cent of total machinery exports of the NMS-12 (86 per cent of intra- and 77 per cent of extra-EU machinery and transport equipment sales). Also in most other one-digit commodity groups, the share of the V-4 is decisive (for more details see Annex Table 9).

2. Some specific features of extra-EU trade of the NMSs

Based on the detailed statistical figures, one question should be raised and tried to be explained. How can the growing extra-EU export orientation of most of the NMS be explained, since it raises not only geographic but also competitiveness-related issues.

One reasonable explication is that the NMS had implemented free trade covering almost 100 per cent of total exports (excepting some agricultural goods) several years before membership (at least as of 2001). Consequently, most trade-creation impacts had been working prior to membership, practically over a period of more than one decade (from the entering in force of the trade section of the association agreement between 1992 and the mid-1990s). As a result, the opportunities have been used before membership and may have been largely „exhausted” at the moment of accession. Another argument can be linked to the low growth rate of traditional EU markets as compared to other ones, driving NMS countries with dynamic growth towards non-EU outlets. This development may have been strengthened by the impact of globalization that opened up new market opportunities in rapidly growing non-EU countries, particularly in Asia but also in Eastern and Southeastern Europe. Moreover, to some extent EU support can also be taken into account, particularly in the context of agricultural exports, once, as full members, NMS started to enjoy the export-subsidy mechanism of the EU. This may have had a positive impact on agricultural exports to neighbouring countries, mainly Russia (it is not by chance that Poland could accumulate the highest agricultural-export surplus among the NMS in the last years). Nevertheless, the most plausible positive explanation seems to be that transnational companies located in different NMS several years before institutionalized membership, started to make full use of the enlargement by having the legal, institutional and also political support derived automatically from the fact of accession. In this case, we should speak of a special trade diversion, since, to a large extent, the main driver of such a development were EU-located transnational companies that included the newly „discovered” and internationally competitive production locations in Central and Eastern Europe into their extra-EU trade networks. In statistics registering the geographic orientation of trade, we have to do with trade diversion. However, if we place this trade into the

global activities of European transnational companies, it would more convenient to qualify it as „firm-level trade creation” that contributed to the global expansion of European companies.

We should not ignore that there is also a negative argument related to trade diversion. Namely, following accession, some NMS companies may have discovered that, despite of better market access but, at the same time, sharper competition, they are not able to make (full) use of integration. In consequence, they tried to find new markets for their products outside the EU, particularly in neighbouring markets. As a protective but understandable step, they answered increasing crowding out impacts in intra-EU export markets by refreshing or revitalizing their traditional trading network. Of course, EU membership in itself could be supportive to strengthen economic relations with non-EU neighbouring countries, due to special EU-level bilateral trade agreements and by getting involved into EU financial support schemes provided to Eastern and Southeastern European countries. It is difficult to differentiate between the positive (additional market-gaining) and negative (crowding out of EU markets) impacts why extra-EU trade grew more dynamically than intra-EU trade.

However, a distinction in geographic orientation between transnational companies and domestic small- and medium-sized enterprises (SMEs) can be made. Since the latter generally have a limited geographic circle of activities, if EU accession happened to lead to crowding-out effects, it could only affect the geographic orientation of SME export on the one hand, and neighbouring non-EU markets, on the other (Eastern Europe and the Western Balkans). Large (mainly transnational) companies that generate the lion’s share of exports to (and imports from) more remote countries or regions did not experience any crowding-out impact, excepting, of course, the case when the restructuring of global production affected their subsidiaries in different NMSs as well.

It is another question, how sustainable extra-EU export endeavours will prove. To a large extent, the result depends on the character of these target markets. If they are liberalized towards all parts of the world, and export reorientation took place in an internationally competitive environment, sustainability mainly depends on the competitive edge and innovation capacity of the exporting companies. If, however, the extra-EU target markets are protected and the reorientation of exports (or fleeing from EU markets) took place in order to keep on enjoying a protective environment, the well-known problem of „captive markets” may emerge. In this case, easier conditions can only be used until the target market will not be opened to other countries or regions of the world. Evidently, common trade policy of the EU limits the potential negative impacts, since the NMS are not allowed to sign any special bilateral trade agreement with any non-EU country or group of countries, but are fully integrated into the global network of EU-level trade agreements. This situation provides a sufficient level of competition for „outcrowded firms” on selected extra-EU markets. The situation can, however, change if market access conditions among

the Eastern or Western Balkan countries will be further eased⁶ and, in addition, other global players such as the USA, China, India or Russia (just to mention a few of them) will get similar conditions of market access.

Looking at the main extra-EU partners of the NMSs, the outstanding feature is the heavy concentration of exports and imports on some neighbouring countries or regions.

Table 5

Main extra-EU trading partners of NMS-12 (2008)

Partner countries	Total EU-27 exports in Euro mn	NMS-12 exports in Euro mn	NMS share in EU-27 in %	Total EU-27 imports in Euro mn	NMS-12 imports in Euro mn	NMS share in EU-27 in %
Norway	43.680	3.841	8.8	92.010	2.201	2.4
Switzerland	97.659	4.343	4.4	80.071	3.764	4.7
Turkey	54.267	7.308	13.5	45.875	7.508	16.4
Russia	105.174	20.104	19.1	173.322	47.362	27.3
USA	249.417	8.257	3.3	186.336	6.870	3.7
China	78.424	3.104	4.0	247.616	23.986	9.7
Japan	42.379	1.432	3.4	74.790	6.513	8.7
WBC *	33.019	11.600	35.1	13.922	4.356	31.3
ACP	67.907	2.936	4.3	75.890	1.492	2.0
Latin Am.	79.741	2.974	3.7	96.615	3.884	4.0
EU-27 total Extra exports	1.308.750	99.820	7.6	1.551.700	151.830	9.8

* Western Balkan countries

As compared to 7.6 per cent of participation of the NMS in total extra-EU exports, its share is more than one-third in the Western Balkan countries, almost one-fifth in Russia and one-seventh in Turkey. In contrast, the region is clearly underrepresented in more remote regions. The same picture emerges from import figures, with one difference: the share of China (and Japan) is near to the share of NMS in total extra-EU imports. Both reflect the relatively heavy reliance of the region in general and of some NMS in particular on imports from Asia as part of their export-oriented production structure, with the main target markets in the EU.

Table 6

Selected extra-EU export markets of the V-4 plus Slovenia (2008, in Euro mn)

	Russia	Ukraine	WBC	USA	China	Total
Czech R	2.895	1.062	990	1.757	547	14.990
Hungary	2.670	1.518	2.874	1.691	767	16.140
Poland	6.052	4.345	844	1.687	867	25.740
Slovakia	1.118	667	633	815	419	7.090
Slovenia	1.813	227	4.110	281	121	7.410
NMS-12	20.104	9.600	11.600	8.257	3.104	99.820

⁶ In fact, on paper there is a free trade agreement among all Western Balkan countries. It is another issue, to what extent the favourable conditions can be used, both due to supply-side bottlenecks, problems of transportation and non-trade barriers.

Considering the Visegrad countries (plus Slovenia), the importance of direct neighbourhood is even more striking. Poland's orientation on Russia and the Ukraine, as well as Hungary's trade preference to the Western Balkans and the Ukraine can be particularly highlighted.

Poland is the largest NMS exporter to extra-EU markets. It may be surprising that Hungary ranks second, ahead of the Czech Republic that, in total exports, is higher placed than Hungary. Excepting Russia, in all other selected main markets listed in the above table, Hungary has the second place (until 2007 it was the leading regional exporter to China).

Largely similar geographic pattern characterizes extra-EU imports of the NMS-12 in general, and of the V-4 (plus Slovenia), in particular.⁷

Table 7
Selected extra-EU import sources of the V-4 plus Slovenia (2008. in Euro mn)

	Russia	Ukraine	WBC	USA	China	Japan	Total
Czech R	5.921	687	222	1.166	4.720	2.045	22.230
Hungary	6.651	938	653	1.044	5.581	1.850	23.540
Poland	13.708	1.561	244	2.026	6.268	1.246	39.930
Slovakia	5.267	536	205	315	2.077	472	13.540
Slovenia	396	28	2.033	428	616	104	7.240
NMS-12	47.362	6.766	4.356	6.870	23.986	6.513	151.830

Again, Poland is the leading importer from Russia, the Ukraine, but also from the USA and China. Hungary is placed second in all selected relations, excepting USA. It is interesting and certainly inked to the pattern of production and incorporation into the global division of labour that both the Czech Republic and Hungary are major importers from Japan than Poland. It deserves special mention that imports from China rank second to Russia for all Visegrad countries (also for Slovenia, following imports from the Western Balkan countries) and have been growing very dynamically in the last years, particularly following accession to the EU.

3. Impacts of the global crisis: short-term trade developments and longer-term policy implications

After five years of full-fledged membership in the EU, the European integration, as part of the global economic structure, experiences the worst of its crises after its foundation in the fifties. More importantly, this crisis started in the developed part of the world, namely the USA, and spread overwhelmingly to other developed regions of the world, not least Europe. Another feature of the current crisis is that it hits exports much more than any other factor of GDP, despite the fact that open trade protectionism did not (as of yet) become part of short-sighted crisis management. In the last decades, foreign trade became one of the key engines of sustainable growth, as international trade used to grow twice as rapidly as world GDP. Understandably,

⁷ A further feature of the importance of geographic neighbourhood is that Romania and Bulgaria are important exporters to and importers from Turkey. In addition, half of the NMS-12 exports to Norway and two-thirds of imports are carried out by Poland.

the main beneficiaries were outward-oriented countries that could achieve high growth rates due to even higher expansion rate of trade (and, in most cases, of international investments). At present, economic recession amounting to 2 to 6 per cent of negative growth is accompanied by the virtual collapse of global trade that has been declining in recent months by 20 to 40 per cent on an annual comparable basis. More importantly, also economies generally considered to be highly competitive, belong to the victims of the crisis. The highest rate of collapse has been registered in such countries as Japan, Singapore, or Germany in Europe. On the surface the entire model of development based on export-led growth seems to be questioned. Central and Eastern European member countries of the EU joined this pattern following their unprecedented political and socio-economic transformation, both due to the overall impact of liberal economics and, not less importantly, considering the alternative ways of the catching-up process, a public desire of „returning to Europe”. In addition, based on their potential and constraints of sustainable development it was obvious that they had to build their economic catching-up strategy on liberalization of trade and capital flows resulting in a rapidly increasing incorporation in global and European production, marketing and distribution structures. The accession process and, at its end, accession to the EU was the key factor of sustaining this pattern of growth.

The evolving and further deepening crisis is an excellent (although hardly wanted) test of the European integration in general, and of the performance, flexibility and competitiveness of the NMS, in particular. Obviously, longer-term consequences cannot be drawn from the developments in the last months. However, some interesting features (whether longer terms or transitory phenomena) can already be identified. Thus, this section focuses on the statistical evidence of the impact of crisis on NMS trade, once again recalling the previously analyzed theoretical assumptions. Did the crisis change the main findings made in the previous chapter concerning trade orientation and balance. Unfortunately, potential impact on trade structure cannot yet be measured due to the lack of data and the shortage of time. Also, trade (and production) structure used to be less flexible (or more resistant) than overall trade figures that immediately react to the crisis, or even geographic orientation of trade.

First the statistical evidence of the impact of the crisis will be examined. Second, some remarks will be made on the trade-related reactions in some EU member countries. Third, the correlation between export performance and exchange rate of three Visegrad countries (Czech Republic, Hungary and Poland) will be shortly addressed. Finally, some economic strategy-related issues concerning the model of export-oriented development will be raised.

3.1. Impact of the crisis on trade developments of V-4 plus Slovenia

Tables 8 and 9 illustrate the impact of global crisis on exports and imports of the EU and of selected NMSs.

Table 8

Impact of the global crisis on exports of selected NMSs (January-March 2009)

	Total X Euro bn	Change*	Intra-EU X Euro bn	Change *	Extra-EU X Euro bn	Change*
EU-27	791.54	- 21.8	537.86	- 22.8	253.68	- 19.8
Czech R	19.29	- 23.9	16.42	- 24.4	2.87	- 20.7
Hungary	13.91	- 26.3	11.12	- 23.6	2.79	- 35.6
Poland	22.05	- 23.3	17.73	- 22.6	4.32	- 26.1
Romania	6.55	- 19.4	4.92	- 15.1	1.64	- 30.1
Slovakia	9.22	- 21.5	8.09	- 19.6	1.12	- 33.1
Slovenia	4.56	- 22.0	3.22	- 22.0	1.34	- 22.0

* as compared to January-March 2008

Table 9

Impact of the global crisis on imports of selected NMSs (January-March 2009)

	Total M Euro bn	Change*	Intra-EU MEuro bn	Change*	Extra-EU M Euro bn	Change*
EU-27	820.75	- 21.6	518.95	- 22.2	301.80	- 20.4
Czech R	17.81	- 25.4	13.56	- 27.3	4.25	- 18.8
Hungary	13.26	- 28.7	9.02	- 29.0	4.25	- 28.1
Poland	23.90	- 29.8	16.85	- 31.6	7.05	- 25.2
Romania	8.54	- 35.4	6.30	- 32.8	2.24	- 41.6
Slovakia	9.38	- 21.8	7.04	- 19.4	2.34	- 28.3
Slovenia	4.55	- 26.3	3.11	- 30.0	1.44	- 16.8

* as compared to January-March 2008

In the first quarter of 2009 EU-27 exports declined by almost 22 per cent, an unprecedented fall in the history of European integration. All NMS followed this trend, with the highest negative impact in Hungary (decline of total exports by 26 per cent) and the lowest in Romania (19 per cent). Although any conclusion would be premature and weakly founded, it seems to be clear that countries more and deeper involved in international trade were hit harder than those less involved. Moreover, export decline in three Visegrad countries was higher than the EU average (with similar decline in Slovakia) that points to the higher than average level of involvement into global and European trade. Difference between EU-27 and selected NMS was much more pronounced in imports, where EU-27 import decline by 21.6 per cent was accompanied by 25 to 30 per cent of decline in most NMSs. Depending on the structure of imports, this can be due to two different factors. On the one hand, deep linkage between exports and imports has to be mentioned, since rapidly falling exports do not need continuous delivery of inputs for export-oriented production. Also, in times of collapsing exports, imports used to collapse even more because the previously delivered and stored inputs will be used for production, while, as a result, imports have to fall even more sharply.⁸ On the other hand, developments in domestic consumption can be „blamed”. Imports of consumer goods may suffer a twofold negative impact. First, as a reaction to crisis (both on the level of economic policy and on personal behaviour) domestic consumption has to

⁸ In periods of recovery, this trend is supposed to be reversed, because export-oriented production needs immediate imports that cannot be covered from storage previously used for – sharply declined – exports.

fall, with direct implication on the purchase of imports (as well). Second, if an importing country experiences a substantial depreciation (not official devaluation!) of its currency, part of the higher-priced imports used to be replaced by lower-priced domestic production (exchange-rate driven crowding-out). These are just assumptions, for it is impossible to measure the real impact of different factors on the basis of available very short-term and fragmented statistics.

Comparing intra- and extra-EU trade, some interesting developments have emerged in the last months, again without enabling the author to draw any meaningful conclusion for the future of geographic (re)orientation of trade, let alone, any kind of policy recommendation. The mere facts can be summarized as:

- EU-27 intra-exports suffered a larger setback than extra-exports. In other words, non-EU markets proved to be more resilient to the evolving crisis than EU markets (in fact, several major extra-EU markets did „only” experience a decline in growth but remaining still in the positive spectrum),
- With the exception of the Czech Republic that followed the above indicated EU-27 trend, all other NMS included in the tables registered much larger decline of extra-EU exports than of intra-EU exports. In other words, despite the unprecedented fall of exports, EU markets seemed to be relative stabilizers as compared to non-EU markets. Being aware of the fact that the predominant part of exports is carried out by transnational companies, the reasons have to be looked for mainly in the strategy of these companies confronting the global crisis and probably less in the domestic socio-economic environment. As a result, the general trend of „trade diversion” seems to experience now a transitory (?) correction back towards EU markets.
- Developments in intra- and extra-EU imports offer a contradictory picture. While intra-EU-27 imports fell more than extra-EU imports (resulting in somewhat growing extra-EU orientation of imports), selected NMS indicate different figures. In line with overall EU-27 figures, Czech, Polish, Slovene (and to some extent Hungarian) figures indicate less decline of extra-EU imports than of intra-EU imports, while Romania and Slovakia provide examples of a contrary development. However, while during the first five years of membership the NMS were characterized by growing intra-EU share of total imports, the first months of the crisis indicate a (temporary?) reversal of this process, at least in some new member countries.

The crisis initiated some new – perhaps only short-term – developments in the trade balance of the NMS.

Surplus position of total trade for the Czech Republic and Hungary was reconfirmed and further strengthened, while Slovenia could reach a balanced foreign trade. Also the deficit of Poland started to shrink considerably. More importantly, excepting Romania, all V-4 countries plus Slovenia reached a surplus in intra EU trade, including, for the first time following accession, Poland and Slovenia). This points to the fact that NMS intra-EU exports fell less than intra-EU imports. Whether it is

an early sign of sufficient (relative) competitiveness on EU markets or an evidence of deepening recession in domestic production accompanied by huge declines in import demand, cannot be clarified at the moment.

Table 10
Impact of the global crisis on the trade balance of selected NMSs (January-March, 2009, in Euro bn)

	Total trade	Intra-EU trade	Extra-EU trade
EU-27	- 29.21	.	- 48.12
Czech Rep.	+ 1.47	+ 2.85	- 1.38
Hungary	+ 0.65	+ 2.10	- 1.46
Poland	- 1.85	+ 0.88	- 2.73
Romania	- 1.98	- 1.38	- 0.60
Slovakia	- 0.16	+ 1.06	- 1.22
Slovenia	+ 0.01	+ 0.11	- 0.10

The first impacts of the crisis have been statistically analyzed in three additional directions (for statistical details see Appendix Tables 10-12).⁹

First, the export performance of the V-4 plus Slovenia was examined in selected leading EU member country markets (Germany, France, Italy, Netherlands, United Kingdom and Austria). In January-February 2009, first of all Czech and also Hungarian exports to the EU fell more rapidly than the overall decline of EU-27 imports. Among the main EU markets, German imports showed the relatively lowest fall (16.3 %), while UK imports collapsed by 32.4 %, and French, Italian, Dutch and Austrian ones in the range of 20 to 24 per cent. All Central European new members (particularly Hungary) suffered a larger decline of their exports to Germany than total German imports fell – an important and negative impact on their overall trade performance and macroeconomic growth prospects. There is no plausible reason for this „bias”, excepting some unknown or unmeasured short-term phenomena (disruption of Russian gas deliveries at the beginning of 2009, activity of German firms in Central Europe, declining German import needs in some leading export sectors of the V-4 and Slovenia, all of them provided with question-mark). On the contrary, in most other relations export decline of the Central European countries proved to be more modest than the overall import decline of other major trading partners in the EU, with the notable and uniquely negative exception of the Czech Republic (in this case, exports to all major EU markets suffered a bigger decline than total imports of the respective countries).

Second, the impact of the global crisis on intra-NMS exports, a clear success story of trade creation after accession to the EU has been surveyed. As a clear evidence, the process of sustainable trade creation has come to a (preliminary?) stop. In several cases, intra-NMS exports experienced a higher loss than that registered in total intra-EU exports. This development is particularly evident in trade among the

⁹ All figures have to be handled with extreme caution, because, as these data demonstrate, substantial differences may emerge even within a period of one or two months. For example, figures covering the first quarter of 2009 may reveal relevant differences as compared to the analysis of data available just for the first two months of the year.

V-4 countries, that have been the leading intra-NMS trade countries. Most probably, this picture calls repeated attention to the crucial importance of transnational companies in intra-V-4 trade, both in periods of representing the engine of intraregional trade and in periods of crisis, with an opposite sign.¹⁰

Third, several non-EU countries (Russia, Switzerland, Turkey, Ukraine, USA, China and the Western Balkans) have been involved in a comparative table of extra-EU export performance on the V-4 and Slovenia. Statistics covering the first quarter of 2009 provide mainly similar negative impacts of the crisis. In most bilateral relations exports fell between 10 and 30 per cent. Exports to the Russian, USA, Western Balkan and Turkish markets indicate the most negative figures, certainly in line with the deep recession (or dramatic decline of growth) in these countries or regions. Also, based on the sometimes rather low export figures, any change in per cent is not very much telling (even excluding the obvious impact of the crisis). Still, some major findings can be summarized:

- exports to Russia experienced a very rapid decline, due to the deep crisis in this country (exports fell about or more than 30 per cent, excepting Slovakia with a drop of exports by 17 per cent),
- exports to Switzerland, an important export market for the V-4, fell much less (by about 10 to 15 per cent), and both Slovakia and Slovenia could increase its exports to this market,
- recession in the USA affected V-4 exports heavily, causing a 62 % decline of Slovak export sas compared to the more resilient Polish performance (-11 per cent „only”),
- the unfolding (delayed) recession in the Western Balkans (before some weeks still considered a resistant region to the crisis due to low level of international economic interdependence) did above average damage to the Czech Republic and Hungary, but also Polish and Slovenian exports suffered a lot. The only exception is Slovakia that, despite the crisis, could increase its sales to the region,
- finally, China, still with substantial – although reduced – growth rate could have offered additional opportunities for reorienting part of exports to this economy. However, both for geographic and production structure-related reasons, this potential chance could not be used by any of the V-4 and Slovenia. The modest fall of exports to China by Hungary (- 9 %) and Poland (-11.2%) can be considered as a relative success, when compared with dramatic export losses in most other, both EU and extra-EU markets.

¹⁰ The only bilateral relation that indicated a positive growth in the first two months of 2009 was Slovenian exports to Slovakia (24 % or Euro 97 mn, a negligible amount of intra-Central European exports).

3.2. Non trade-related protectionist endeavours in the European Union

One of the differences of the current crisis as compared to the global recession of 1929-33 has been – at least till the present – that no country in crisis introduced direct protectionist instruments in its trade relations. The reasons can not only be found in the collective memory of disastrous consequences of 1929-33 but also in the extremely interdependent character of international economic relations. Any such protectionist instrument would immediately generate not only direct retaliatory actions in the area of trade, but much more in global capital flows and the financing of huge current account deficits, a key issue of sustainable economic structure and, hopefully, of economic recovery (not without unmeasurable consequences for the next years in general, and for the next generation, in particular). Evidently, the very essence of the European integration is free trade. Thus, member-country instruments to bloc intra-EU trade cannot be seriously considered without the imminent collapse of the entire architecture of integration. But the EU did not resort to directly restrictive trade policy measures to third countries either.¹¹

Nevertheless, the deepening economic and financial crisis as well as the fear of massive unemployment have already produced protectionist efforts beyond the area of trade. Until now, some of them could be withdrawn, while others have already caused damage in intra-EU economic relations or can be assessed in a rather ambiguous way.

First, the financial crisis with which the NMS have practically nothing to do, caused serious problems of liquidity in most new member countries. The banking sector of the NMS has been largely privatized to foreign, predominantly to European banks. In the pre-crisis period, these banks reached very high profits as compared to their performance in the mother country or in other EU member countries. One of the first steps to face the liquidity crisis, most of them started to withdraw their liquidities generated and held in various NMSs in order to strengthen the immediate (short-term) financial position of the mother banks, irrespective of the future of profit-making opportunities in the financial markets of the new members. As a result, the Western European-owned banking sector in several new member countries threatened to dry out and remain without any liquidity, with clear and immediate adverse consequences for macroeconomic stability, business and foreign trade. One can only expect that the latest regulations on the EU level will help remedy the current situation and contribute to the stabilization of the financial markets in the NMSs.

Second, (populist) political statements could be heard of relocating production and service activities previously brought to the new members from companies located in EU-15 in order to ease the labour market tensions and counteract threatening higher unemployment in some Western European economies. Such a direct violation of the basic functioning of the internal market could still be avoided. However, different national recovery (or crisis-mitigating) plans do create serious distortions in the

¹¹ Repeated prohibition of different kinds of (mainly) Chinese exports have been explained by not considering EU-level or international consumer, health or technical safety requirements.

internal market, because some members, for whatever reason, do not dispose of the huge amount of money with which different large-scale bailing-out plans have to be financed. The short-term rescue of otherwise uncompetitive Western European jobs does not support either intra-EU division of labour, more effective EU-level economic coordination or the future global competitiveness of Europe in the post-crisis period. Fortunately, in many cases, the final decision does not lie directly in the hands of the national administration of EU member countries. It is less the Commission and more the decision of the respective transnational companies that will shape general developments. The evaluation of advantages and disadvantages of continuing or stopping (reducing) production in one or another subsidiary of a transnational company may follow two different paths. In case of founding the decision on economic rationality, production (both capacities and labour) has to be cut in those subsidiaries that used to produce at the relatively highest costs and/or with less competitive (outdated) technology. In this case, most subsidiaries in the V-4 will keep on producing. If, however, the company decision will give priority to the short-term advantages offered by rescue plans of the respective national governments, and will ignore the requirements of longer-term competitiveness, not only several EU-subsidiaries in Central and Eastern Europe may become the victim. More importantly, the entire export-oriented catching-up strategy may be seriously endangered – without offering any other reasonable exit strategy.

Third, the impacts of the crisis on the labour market in most EU-15 member countries have to be underlined. The accession treaty includes a transitional period of seven years for opening up the EU-15 labour markets to the potential employees coming from the new member countries. As of present, most countries have substantially (although not fully) liberalized their national labour markets (excepting two primary target countries, Austria and Germany). However, the deepening economic crisis is already forcing even the more liberal countries to apply restrictions to additional flow of manpower from the new to some of the old member country labour markets. In addition, the current level of employment cannot any more be maintained. No doubt that immigrants from the new member countries (particularly from Bulgaria, Latvia, Lithuania, Poland and Romania) will be less protected against massive firing than domestic employees. Low level of skill, the type of working contract, the missing membership in local trade unions and the rather weak political leverage enhance the likelihood of belonging to the first victims of the crisis.¹² As a result, the internal market of the EU, one of the main achievements of the integration, would not only remain but become even more fragmented. Moreover, considering the short- and medium-term economic prospects, it is by far not guaranteed that the transitional measures will be really abolished in 2011, as stipulated in the accession treaties.

¹² It is not the right place to deal with the potential serious consequences of massive re-migration for the labour markets of the sending countries as well as for the current account balance due to rapidly falling remittances.

In all areas mentioned above, national patriotic policy measures may seriously threaten the functioning of the internal market and can lead to the breakdown of EU level solidarity, a main pillar of sustainable integration in Europe.¹³

3.3. Can exchange-rate-based competitiveness be used in mitigating sharp GDP and export decline?

Mainly as a consequence of the global financial crisis, national currencies of some NMSs started to depreciate in the last half a year. Of course, two countries, already members of the Eurozone, Slovenia (2007) and Slovakia (2009) are not part of this circle.¹⁴ Neither can such an effect be identified in those countries that have previously created a currency board with fixed and until now sustained exchange rate. On the contrary, countries with flexible or freely floating exchange rates (among them three of the Visegrad group, the Czech Republic, Hungary and Poland, as well as Romania) experienced a sharp depreciation of their national currencies, without respecting their different macroeconomic performance and growth prospects.¹⁵

The Czech koruna, the Polish zloty and the Hungarian forint went through a process of rapid depreciation that resulted in a loss of 20 to 30 per cent of their value as compared to the pre-crisis „hard currency” status. In theory, this situation could be used to enhance exports and counteract the dramatic collapse due to global recession and serious international financial tensions. Economic theories on devaluation used to emphasize the (at least short-term) positive impact of additional export-creation (either through building new, export-oriented capacities or reorienting part of the production and services from the domestic to international markets). In the last decades, several countries built their economic strategy on devaluation or artificially devalued national currencies in critical stages of export-oriented development. Evidently, the record of such an approach has been far from uniform and successful or sustainable in many cases. But combined this element with a number of other policy instruments – and based on favourable and sustainable external economic environment – we could witness a number of success stories as well.

Can Central European economies with devalued currencies withstand the overall collapse of international trade and use exchange-rate-based advantages to foster their position in a rapidly shrinking global and European market? Not less importantly,

¹³ For a more detailed analysis see Katinka Barysch, In the name of EU solidarity. Centre for European Reform, London, Issue 65. April-May 2009.

¹⁴ Both of them enjoy the financial stability provided by the Eurozone and do not have to deal with potential financial vulnerability. However, their structural vulnerability remains, or may even be exacerbated by Eurozone membership (see more about vulnerability in the last subchapter).

¹⁵ It has to be added that the current and extremely volatile situation can easily change current advantages or disadvantages. In these conditions, the sustainability much more depends on microeconomic fundamentals and non-economic factors than on some macroeconomic indicators (very much in line with the discussion about real and nominal convergence to the Maastricht criteria and Eurozone membership).

due to the fact that particularly the Czech Republic and Hungary, but to a lesser extent Poland (and Romania) as well are highly sensitive to foreign trade (both in exports and in imports), the development of GDP largely depends on their export performance. In theory, several areas can offer opportunities to make use of this advantage.

First, export chances have to be improved in markets of each Eurozone member country. It can be expected that Czech, Hungarian and Polish exports will suffer less from overall recession and will decline less than the overall import demand of the respective Eurozone countries.

Second, exchange-rate-based competitiveness is increasing in all third-country markets against Eurozone producers. This impact can be the strongest in neighbouring markets, in markets with large domestic demand and countries with already important market presence of the Central European countries.

Third, further improvement of competitiveness can be expected in markets that had previously introduced currency boards and fixed their national currency to the Euro (Baltics, Bulgaria, part of the Western Balkans).

Fourth, the conditions of import-substituting export-orientation will be improved, since transnational companies located in Central Europe and producing for exports may consider to replace higher-priced imported inputs by lower-priced domestic ones. Here, the exchange-rate impact would not only generate a healthier trade balance but could also create new jobs in the domestic economy and strengthen the incorporation of domestic or domestic-market-located foreign firms, mainly small- and medium-sized companies, into the international production and service network of transnational firms.

Fifth, depreciated national currencies can stop or mitigate the process of crowding out of domestic firms of the domestic market due to fierce international (import) competition. In this way, a many times heard (sometimes justified, sometimes unjustified) complaint of the domestic business sector and part of the society could be remedied, by regaining several segments of the domestic market from foreign producers and exporters.

However, in order to make adequate use of the potential advantages rooted in depreciated currencies, several barriers have to be overcome. Large part of the domestic production is obviously not as flexible as to make immediate or short-term use of the available possibilities. Export commodities with (very) high import content (and low share of domestic value added) will hardly perceive the advantages of depreciation, since their production and export prices are predominantly determined by higher-priced imports. In addition, technological, human capital-related or economies-of-scale problems may prevent companies from exploiting the theoretically granted chances both concerning direct exports and by replacing imported inputs by competitive domestic production. Moreover, the volatility of the exchange rate can be considered as a major deterring factor of taking longer-term decisions on changing the supplier network or heavily investing in new market

segments. To some extent also the coming entry into the ERM-2 may act as an obstacle, because it would reduce or abolish the current advantages (although the free floating within margins of +/- 15 per cent could provide sufficient manoeuvring room, particularly if the exchange rate is rightly fixed at the moment of beginning the transitional period towards taking over the Euro). However, at the moment the most important deficiency that seems to raise the largest barrier is the lack of a consistent, reliable and sustainable export-oriented strategy in the Central European countries.

Comparing potential advantages with real trade developments in the last months, there is no clear sign that any of the Central European countries with depreciated currency would have been able to use the exchange-rate-related advantage. Maybe, the time available was too short. Maybe, the deepness of the crisis and the intensity of the collapse of international trade did not leave any room for export-stabilizing (let alone export-increasing) actions, either on the macroeconomic or on the company level. We still need more time to be able to observe to what extent the individual countries could live up to the opportunities that can clearly be identified on paper – and should become part of a comprehensive export-led economic policy (including export-oriented import substitution). However, one has to admit that it would not be easy to get through with this initiative not only due to the lack of available resources for this purpose but also because of the growing but (largely unjustified) dilemmas about the viability of export-oriented growth strategies during the crisis and in the post-crisis environment.

3.4. High-level vulnerability: how to manage it – and what next?

The global financial and macroeconomic crisis generated similar external impacts but with highly differentiated intensity. The primary victims have been export-oriented economies, sectors and firms. The economic¹⁶ vulnerability can be identified in three basic levels.

First, countries based on (and in the last decade largely benefitting from) liberalizing trade and opening up to international capital happen to be today in a more delicate situation than those relying on (sufficiently) large domestic market. The higher the share of exports (and imports) in GDP, the higher is the degree of vulnerability. Both the Czech Republic and Hungary (but also Slovakia) export about three-quarter of its total GDP (and import more or less the same share). Although with a clear export-oriented development in the last years, Poland is much less open and can count with a relatively large domestic market.

Second, three of the V-4 (with the partial exception of Poland) started to specialize themselves on some rapidly-growing and technology-intensive sectors (machinery, electronics, telecommunication instruments, durable consumer goods and, last but

¹⁶ We are also facing financial and, more importantly, a threatening social or mental vulnerability as well. Regrettably, addressing these highly relevant issues remains beyond the framework of this paper.

not least, car manufacturing). The current crisis hits just these sectors above average, since demand elasticity is the highest in these commodity groups. In a period of global (and European) recession, purchase of cars, electronic products, durable consumer goods can and will be postponed, the previous replacement rate will be prolonged and declining purchasing power will be more concentrated on the satisfaction of basic needs and the fulfilling of previously made obligations (e.g. repayment of consumer credits). As a result, car sales suffer a much larger decline than, for instance, the turnover of basic food or rather inflexible public utilities.

Third, export-oriented and modern technology-led catching up processes did create a certain duality in Central European economies. Thus, modern, internationally competitive sectors and companies coexist with underfinanced, underperforming, uncompetitive micro-, small and medium sized firms exclusively oriented towards the domestic market (and frequently looking for subsidies, special treatments and tax evasion loopholes). Although the interconnection between international and domestic enterprises made sizeable progress in the last decade and the „interface” structure had been strengthened in all countries, structural and performance duality remains relevant.

Since the crisis started to hit exports, export-oriented structures and companies, critical voices about the export-oriented development strategy multiplied, became ever stronger and started to attract the attention of several politicians, while nourishing dangerous populist ideas. Some „analysts” go as far as to deny the entire progress made in two decades of transformation and would like to return to the (collapsed and once buried) fundamentals of 1989-1990. The main argument is that only an (more) „independent” economic strategy, decoupling from global economic networks, restricting or even forbidding foreign capital, unlimited support to be provided to „domestic” small and medium-sized enterprises, as well as, even opting out of the European Union can offer remedy to the current situation. Such „economic policy proposals” seem to get increasing support by some (and more and more numerous) segments of the society. And almost nobody is ready or willing to point out the absurdity of this approach.

Without denying the high costs of the crisis and those open economies have to pay at the moment, as well as some distortions of two decades of development (most of them produced by mistaken economic policy measures and not by „extreme dependence on external factors”), some issues have to be clarified.

First: which other development pattern could have been followed after the collapse of communism and the „reunification” of Europe that would have been able to provide similar catching up on the macroeconomic level, keep social stability and promote the accession process to international organizations, as the NATO and the EU?

Second: would it have been any other healthier structural specialization than that attracting medium- and high-tech production essentially based on export-orientation? Could, for example, specialization of low-cost labour-intensive products, such as textiles, clothing, footwear, plastics, toys, etc. (all of them

produced by much lower-wage countries with plenty of unskilled labour and exported globally) have been a realistic alternative both for achieving and sustaining international competitiveness and, at the same time, rapidly increasing salaries and living standard of the population in Central Europe?

Third: to what extent could have domestic entrepreneurs offer a realistic alternative, without the necessary financial resources, lacking basic marketing and management experience, missing competitive technologies (and the power of marketing them), mainly without any clear idea how the global market functions (but certainly overcompensated by „patriotic” feeling and innovative tax evasion practices)?

At present, countries with lower level of openness, without high-tech industries suffering big market losses and with practically no export-oriented transnational companies seem to be more resistant to the crisis than the Central European economies. However, any comparison, let alone the recommendation of substantially different (or even opposing) „development strategy” is absolutely mistaken. On the one hand, the past years of economic development offered several benefits to large part of the society (not least to those people who are regularly inclined to ignore them). As compared to closed or semi-opened economies (see the best examples in the Western Balkans in Europe, and discounting the costs of wars), the structural and economic progress as well as the improvement of the living standard of the V-4 is undeniable and the income (and partly mentality) gap between Central Europe and once envied ex-Yugoslavia is more than striking. On the other hand, and despite the hardships of the current crisis, at least for small and open economies, there is no realistic alternative to strengthening international cooperation and dedeveloping a coherent strategy of gradual upgrading. If somebody offers another „easy dream” of getting more „independent”, he or she has to add the costs of his or her proposal. „Independent approaches” would rapidly replace the catching-up process by a dramatically accelerating „catching-down” process. Then, the basic question would not be any more how to gradually approximate the living standard of more developed EU member countries, but how to deal with the problems of traveling towards non-Europe.

Annex Table 1

Growth rate of total exports and imports of NMSs between 2003 and 2008,
as compared to the EU (2003 = 100)

Country	World exports	World imports
Czech Republic	230,9	210,4
Estonia	210,6	189,5
Latvia	268,0	235,4
Lithuania	260,8	246,5
Hungary	192,2	173,6
Poland	240,4	230,1
Slovenia	205,6	205,4
Slovakia	250,0	250,2
NMS – 8	226,6	213,8
European Union	145,2	152,9

Annex Table 2

Growth of intra-EU exports and imports of NMS between 2003 and 2008 as compared to EU-25 and EU-27

Country	Exports to EU-25 (2003-2006, 2003 = 100)	Exports to EU-27 (2006-2008, 2006 = 100)	Imports from EU-25 (2003-2006, 2003 = 100)	Imports from EU-27 (2006-2008, 2006 = 100)
Bulgaria	.	128.9	.	152.0
Czech Republic	171.2	130.3	182.9	123.8
Estonia	149.8	116.4	201.9	108.8
Latvia	172.4	132.2	196.6	116.6
Lithuania	184.4	135.1	201.7	124.5
Hungary	142.0	120.3	153.5	113.8
Poland	176.1	127.0	171.1	134.0
Romania	.	130.2	.	150.8
Slovenia	163.7	124.8	159.0	119.7
Slovakia	173.0	142.1	185.8	135.0
NMS *	165.7	128.2	173.8	128.5
Total intra-EU *	129.3	108.5	131.2	109.0

Based on EU-25 between 2003 and 2006 and on EU-27 between 2006 and 2008. In consequence, the enlargement effects are not reflected in the figures.

Annex Table 3

Growth of extra-EU exports and imports of NMS between 2003 and 2008 as compared to EU-25 and EU-27

Country	Extra-exports based on EU-25 (2003-2006 (2003=100))	Extra-exports based on EU-27 (2006-2008 (2006=100))	Extra-imports based on EU-25 (2003-2006 (2003=100))	Extra-imports based on EU-27 (2006-2008 (2006=100))
Bulgaria	.	131.8	.	183.7
Czech Republic	205.9	138.6	111.9	149.9
Estonia	367.1	94.4	136.1	80.1
Latvia	256.6	160.5	190.4	124.0
Lithuania	179.2	155.7	.	155.3
Hungary	214.9	129.5	130.6	115.5
Poland	218.4	138.7	150.6	142.4
Romania	.	129.1	.	116.0
Slovenia	165.1	126.6	150.3	161.6
Slovakia	167.6	162.6	176.1	148.4
NMS *	205.6	135.2	140.0	140.9
Total extra-EU *	133.6	113.2	143.7	115.0

Based on EU-25 between 2003 and 2006 and on EU-27 between 2006 and 2008. In consequence, the enlargement effects are not reflected in the figures.

Annex Table 4

Share of the individual NMSs in total trade of the EU
(in per cent of the EU's total exports and imports)

Country	2003*	2006	Exports 2007	2008	2003*	2006	Imports 2007	2008
Bulgaria	.	0.32	0.35	0.38	.	0.41	0.55	0.61
Czech Republic	1.56	2.07	2.30	2.48	1.68	1.98	2.16	2.31
Cyprus	.	0.03	0.03	0.03	.	0.15	0.16	0.17
Estonia	0.14	0.21	0.21	0.21	0.21	0.29	0.28	0.26
Latvia	0.09	0.13	0.16	0.17	0.17	0.25	0.28	0.26
Lithuania	0.22	0.31	0.32	0.40	0.31	0.41	0.45	0.50
Hungary	1.38	1.65	1.79	1.83	1.55	1.66	1.74	1.76
Malta	.	0.06	0.05	0.05	.	0.08	0.08	0.07
Poland	1.72	2.42	2.63	2.85	2.21	2.69	3.02	3.33
Romania	.	0.71	0.76	0.84	.	1.09	1.28	1.35
Slovenia	0.41	0.51	0.57	0.58	0.45	0.51	0.58	0.60
Slovakia	0.70	0.91	1.09	1.20	0.73	0.95	1.10	1.19
NMS-12	6.23	9.34	10.25	11.01	7.31	10.46	11.67	12.42
EU total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

* NMS – 8 in EU-25, otherwise always NMS-12 in EU-27

Annex Table 5

Share of the individual NMSs in total intra-trade of the EU
(in per cent of intra-exports and –imports of the EU)

Country	2003*	Intra 2006	Exports 2007	2008	2003*	Intra 2006	Imports 2007	2008
Bulgaria	.	0.29	0.31	0.34	.	0.39	0.50	0.55
Czech Republic	1.98	2.60	2.88	3.13	1.82	2.48	2.69	2.82
Cyprus	.	0.03	0.03	0.03	.	0.16	0.17	0.19
Estonia	0.18	0.20	0.21	0.22	0.21	0.33	0.35	0.33
Latvia	0.11	0.14	0.17	0.17	0.20	0.29	0.34	0.31
Lithuania	0.21	0.29	0.31	0.36	0.27	0.40	0.47	0.46
Hungary	1.65	1.91	2.08	2.11	1.49	1.82	1.88	1.90
Malta	.	0.04	0.04	0.03	.	0.09	0.09	0.09
Poland	2.05	2.80	3.05	3.28	2.33	3.07	3.45	3.77
Romania	.	0.73	0.80	0.88	.	1.07	1.41	1.48
Slovenia	0.40	0.51	0.58	0.58	0.52	0.62	0.66	0.68
Slovakia	0.87	1.16	1.39	1.52	0.82	1.12	1.27	1.38
NMS	7.43	10.71	11.83	12.65	7.65	11.85	13.26	13.97
Total EU	100.0	100.0	100.00	100.00	100.00	100.00	100.00	100.00

* excluding Cyprus and Malta in 2003, and including Bulgaria and Romania as of 2006

Annex Table 6

Share of the individual NMSs in total extra-EU trade
(in per cent of total extra-EU exports and imports)

Country	2003*	Extra 2006	Exports 2007	2008	2003*	Extra 2006	Imports 2007	2008
Bulgaria	.	0.40	0.42	0.47	.	0.44	0.64	0.71
Czech Republic	0.67	0.94	1.06	1.15	1.41	1.07	1.20	1.43
Cyprus	.	0.03	0.02	0.03	.	0.13	0.14	0.15
Estonia	0.08	0.23	0.19	0.19	0.21	0.20	0.17	0.14
Latvia	0.06	0.12	0.13	0.17	0.12	0.16	0.18	0.17
Lithuania	0.26	0.35	0.36	0.49	0.40	0.43	0.40	0.58
Hungary	0.81	1.08	1.18	1.23	1.66	1.38	1.49	1.52
Malta	.	0.09	0.09	0.08	.	0.08	0.06	0.05
Poland	1.03	1.61	1.74	1.97	1.98	2.03	2.27	2.58
Romania	.	0.66	0.67	0.76	.	1.11	1.03	1.12
Slovenia	0.42	0.51	0.54	0.57	0.32	0.32	0.42	0.47
Slovakia	0.34	0.38	0.45	0.54	0.55	0.65	0.79	0.87
NMS	3.67	6.39	6.86	7.63	6.65	7.99	8.79	9.79
Total EU	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* excluding Cyprus and Malta in 2003, and including Bulgaria and Romania as of 2006

Annex Table 7

Annual and cumulative growth rates of intra-NMS trade

Year	Exports (previous year = 100)	Exports (2003 = 100)	Imports (previous year = 100)	Imports (2003 = 100)
2003 *	100.0	100.0	100.0	100.0
2004*	130.1	130.1	139.4	139.4
2005*	127.0	165.1	122.4	170.5
2006*	131.1	216.5	128.4	219.0
2006 **	159.3***	263.1***	154.5***	263.5***
2007**	124.6	327.8	127.4	335.7
2008**	115.3	378.0	114.0	382.6

* NMS-10

** NMS-12

*** double impact of trade expansion and enlargement by two new member countries

Annex Table 8

Dynamics of intra-NMS trade

Country	2003-2006 (2003=100)*	Exports 2006-2008 (2006=100)**	2003-2008 (2003=100)***	2003-2006 (2003=100)*	Imports 2006-2008 (2006=100)**	2003-2008 (2003=100)***
Bulgaria		173.7		.	204.5	
Czech Republic	196.3	142.1	303.5	219.1	135.8	297.5
Cyprus	.	130.8		.	221.5	
Estonia	238.9	117.8	283.1	304.9	136.6	416.7
Latvia	337.6	156.7	532.7	258.1	129.3	333.9
Lithuania	237.0	138.4	333.2	323.0	141.7	457.8
Hungary	271.1	142.5	531.8	254.0	123.8	314.6
Malta	.	53.6		.	158.8	
Poland	213.0	136.1	322.3	204.4	139.6	285.5
Romania	.	159.9		.	219.4	
Slovenia	201.5	166.9	393.7	182.7	133.1	243.2
Slovakia	199.7	147.1	313.1	243.1	144.5	351.3
NMS	216.2	143.7	378.0	218.5	145.2	382.6

* NMS-10 joined in 2004

** NMS-12

*** NMS-10, including impacts of enlargement in 2007

Annex Table 9

Relative share of main one-digit-level commodity exports of the individual NMSs, 2007 (total, intra-EU and extra-EU NMS-12 exports = 100)

(a) world exports of NMS

Country	0+1+4	2	3	5	6	7	8
Bulgaria	4.1	7.2	11.0	3.5	5.1	1.1	5.0
Czech R.	12.6	18.2	13.5	17.4	23.3	26.1	19.8
Estonia	2.7	6.1	5.5	1.6	1.9	1.3	2.6
Latvia	3.2	9.0	1.2	1.8	2.0	0.6	1.4
Lithuania	8.0	5.6	9.3	5.9	1.9	1.6	4.2
Hungary	17.2	9.2	10.8	19.5	8.6	23.3	11.4
Poland	38.2	18.9	21.6	26.3	30.6	22.6	27.3
Romania	3.6	12.5	12.3	5.9	8.3	5.4	13.4
Slovenia	3.5	5.6	2.4	9.8	6.7	4.9	5.9
Slovakia	5.8	7.1	11.3	7.2	11.4	12.3	8.2
NMS-12*	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(b) intra-EU exports of NMS

Bulgaria	3.2	4.9	4.5	2.0	4.2	0.9	5.2
Czech R.	14.5	21.5	19.2	20.3	25.0	27.8	20.2
Estonia	2.1	5.7	2.5	1.5	1.8	1.3	2.4
Latvia	2.7	10.3	1.2	1.7	1.9	0.5	1.2
Lithuania	6.7	5.7	9.2	6.4	1.7	0.9	3.6
Hungary	17.8	10.7	9.4	20.2	9.2	23.0	11.6
Poland	38.9	21.5	28.1	26.1	30.0	22.3	26.6
Romania	3.5	6.2	6.5	4.7	7.2	5.1	15.0
Slovenia	3.0	4.6	2.1	7.1	6.1	4.7	4.7
Slovakia	7.0	8.4	16.4	9.1	12.7	13.0	8.5
NMS-12*	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(c) extra-EU exports of NMS

Bulgaria	7.4	15.5	25.2	6.7	8.6	1.7	3.6
Czech R.	5.4	6.5	1.1	11.2	16.7	19.7	17.5
Estonia	5.1	7.5	12.2	1.8	2.1	1.1	3.6
Latvia	5.2	4.3	1.3	2.0	2.1	1.3	2.5
Lithuania	13.2	5.0	9.5	4.8	2.9	4.2	7.1
Hungary	14.9	4.2	13.8	18.1	6.4	24.4	10.0
Poland	35.3	9.6	7.5	26.5	32.8	23.6	30.8
Romania	4.1	34.6	25.1	8.6	12.5	6.4	4.9
Slovenia	5.4	9.4	3.0	15.5	9.0	5.9	12.1
Slovakia	1.3	2.6	0.3	3.0	6.6	9.6	6.3
NMS-12*	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* difference due to the corresponding figures for Cyprus and Malta

Annex Table 10

Impact of the global crisis on exports of selected NMSs to their main trading partners in the EU (January-February 2009, in Euro mn and per cent change as compared to the same period of 2008)

	Total intra-EU	DE	FR	IT	NL	UK	AT
Czech Republic	10.166 - 29.0	3.931 - 24.2	662 - 27.6	547 - 37.0	479 - 30.0	556 - 35.6	553 - 28.3
Hungary	7.056 - 27.2	2.320 - 30.1	492 - 19.9	521 - 20.6	327 - 5.1	464 - 21.9	416 - 28.6
Poland	11.598 - 23.9	3.773 - 22.8	1.031 - 17.3	984 - 17.6	673 - 14.0	940 - 16.8	286 - 18.1
Slovakia	5.124 - 23.5	1.235 - 25.0	488 - 5.8	390 - 19.2	236 - 14.7	291 - 18.2	325 - 23.0
Slovenia	2.080 - 23.8	590 - 23.2	221 - 6.6	328 - 27.3	55 - 13.2	54 - 45.1	206 - 25.6
EU-27 imports	349.200 - 24.6	72.740 - 16.3	44.340 - 20.2	25.360 - 23.5	25.320 - 21.7	27.550 - 32.4	12.620 - 20.2

Annex Table 11

Impact of the global crisis on intra-NMS exports of selected NMSs (January-February 2009, in Euro mn and per cent change as compared to the same period of 2008)

	Total intra X	Czech Republic	Hungary	Poland	Slovakia	Slovenia
Czech R.	10.166 - 29.0		302 - 36.0	667 - 32.9	1.031 - 26.6	68 - 29.1
Hungary	7.056 - 27.2	273 - 46.2		355 - 34.1	414 - 14.8	112 - 11.7
Poland	11.598 - 23.9	911 - 23.2	355 - 36.0		306 - 25.4	51 - 33.8
Slovakia	5.124 - 23.5	724 - 25.7	365 - 25.3	409 - 15.3		49 - 15.6
Slovenia	2.080 - 23.8	85 - 24.1	103 - 35.9	97 - 34.1	97 + 24.1	

Note: total intra-EU exports amounted to Euro 349.200 mn in January-February 2009, a decline of 24.6 % as compared to the same period of 2008.

Annex Table 12

Impact of the global crisis on the exports of selected NMSs to main extra-EU countries (January-March 2009)

(a) in Euro mn

	Russia	Switz	Turkey	Ukraine	USA	China	WBC*
Czech R.	456	324	188	131	337	114	298
Hungary	482	216	122	161	351	160	964
Poland	832	188	226	511	327	205	269
Romania	107	67	304	72	91	29	157
Slovakia	310	93	122	61	78	51	287
Slovenia	146	50	36	44	54	17	1.525

(b) change as compared to January-March 2008 (in per cent)

	Russia	Switzerland	Turkey	USA	China	WBC*
Czech R.	- 28.7	- 11.4	+ 18.3	- 19.7	- 19.7	- 39.0
Hungary	- 30.6	- 15.5	- 58.6	- 24.2	- 9.0	- 38.2
Poland	- 38.5	- 10.1	- 25.8	- 11.0	- 11.2	- 29.3
Slovakia	- 16.5	+ 11.2	- 34.1	- 62.1	- 51.3	+ 11.3
Slovenia	- 36.9	+ 15.9	- 9.6	- 24.0	- 19.4	- 20.9

* Western Balkan countries