Chief Assistant Professor Vassil Petkov, PhD

THE ECONOMIC SHOCKS AFTER 2008 AND THEIR IMPACT ON THE GEOGRAPHIC STRUCTURE OF BULGARIA'S FOREIGN TRADE

The article discusses the main trends in the dynamics of Bulgaria's export and the changes in its structure as a result of the crisis that spread after 2008. The period which is observed can be divided in three different time intervals. The first encompasses the years from the beginning of the new millennium until 2008 and is associated primarily with the process of integration and a strengthening of Bulgaria's trade relations with the EU. In the second time interval the country started to feel the initial effect of the global financial and economic crisis of 2008-2009, expressed most obviously in the collapse of foreign trade. The article focuses on the third period which began in 2010 and has continued until now. It covers the recovery from the economic turmoil and the implications of the European debt crisis. The author makes a comparative analysis of the foreign trade structure changes in Bulgaria and the other new EU Member States.

JEL: B22; F15; F41

International trade flows have followed the natural changes occurring in the reproduction process. The last two decades witnessed a number of economic shocks which were, nevertheless, overcome relatively fast. The global financial and economic crisis of 2008-2009 and the ensuing debt crisis, the effects of which can still be felt, were an exception. If we look at the global economic development, the crisis of 1993-1994 was handled quickly due to the increasing number of military orders from the USA and the still stable Japanese economy. This economic cycle did not match the processes taking place in Europe. The crisis spread there with a significant delay – after its main sources (the USA and Japan) were already on their path to recovery. After its unification, Germany – the leading European economy – became the driver of economic recovery. The world economy overcame these cyclical imbalances relatively fast and entered a period of unprecedented economic expansion.

However, structural imbalances do occur sometimes, influencing certain important sectors of the national economy. A vivid example is the Asian financial crisis which affected the so called Asian Tigers, mainly their banking and financial sectors. It is also noteworthy that the crisis had fewer implications for the real sector and the foreign trade of these countries. At the same time, these Asian problems had little impact on the financial markets in the USA and Europe. The US economy grew at a significant pace spurred by strong domestic demand, accelerating credit expansion, and large investment in real estate and different financial assets. As far as the latter are concerned, risk was very often disregarded in an attempt to achieve high yields.

The global economy is naturally expected to follow the long-established business cycle with its periods of recession, depression, recovery, and expansion.

No matter how persistent the attempts of 'decision-makers' to steer development, the economy is forging a path of its own. This tendency led to the cyclical crisis of 2001-2003 which was triggered by the overcapitalization of high-tech companies listed on American stock exchanges. This collapse and the ensuing attempt to avoid traditional investment assets like stocks turned out to be a harbinger of the events that took place after 2008.

The dot-com bubble forced investors to shift to real estate assets. People expected that they could turn into the new safe haven but this did not happen in the long run. The idea of everyone having their own home, even if it was bought on credit, and banks' vicious practice of issuing mortgage-backed securities eventually led to the housing bubble and laid the foundations of the global financial and the subsequent economic crisis.

All of the abovementioned factors have raised doubts whether it is right to boost debt-driven consumption as it invariably results in rising household indebtedness. This problem has brought to the fore the inability of neoliberal mechanisms to restore market equilibrium. Governments were forced to conduct expansionary fiscal policies while the role of central banks increased as they injected liquidity into the economy – one of the main instruments of monetary policy.

The crises from the first decade of the twenty-first century led to a sharp decline in the volumes of international trade. In 2009 global trade shrank by 22.6% and although it recovered relatively fast, in 2012 it stagnated due to the negative effects of the Eurozone debt crisis.[1] These unfavorable processes inevitably influenced Bulgarian foreign trade, as well. Export came to the fore as it played a key role during the initial stage of economic recovery in 2010 and the period thereafter.

Changes in the geographic structure of Bulgaria's export and import after 2008

The factors influencing economic activity have been the object of a number of economic studies. Many of them focus on the importance of international trade for GDP growth. Export plays an indisputable role in employment creation, it provides opportunities for innovation, for higher living standards, and for attracting FDI. It can be claimed that, as far as small economies with high export orientation like Bulgaria are concerned, export is crucial for shaping the whole structure of the economy. Furthermore, the dynamics of import, export, and, consequently, of the foreign trade balance are of major significance for the macroeconomic stability of every country. For this reason, monitoring the external trade processes and, more importantly, clarifying all factors that cause changes in them should become a priority for policy-makers and economic analysts.

The last decade saw significant changes in the dynamics of Bulgaria's export and import as well as in their geographic and commodity structure. The underlying factors were the process of European integration which the country went through and

[1] According to UNCTAD data.

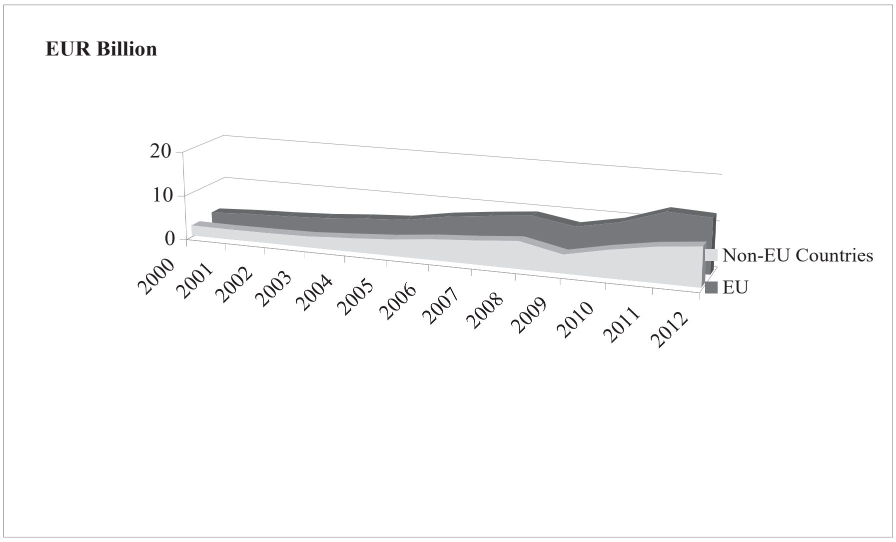
the two economic crises after 2008. The leading role of the EU in foreign trade was strengthened during the accession process while the economic turmoil later caused a partial shift of export towards third countries. The European debt crisis was the reason behind the waning initial momentum of the recovery in the trade between Bulgaria and EU Member States which was largely why non-EU markets became the engine that drove export in 2012. The dire and deteriorating state of European economies at the beginning of 2013 gives grounds to expect that this trend will continue.

Intra-Community trade has a prevailing share in Bulgaria's trade and in the period 2000-2012 it formed around 60% of the total volume of external trade. The development of the Single Market and the country's integration in the EU have undoubtedly contributed to further intensification of the trade relations with Member States. *In 2008* the volume of trade with the EU reached EUR 23.3 billion and was three and a half times larger than at the beginning of the decade. Trade with third countries also accelerated (to EUR 17 billion), though at a slightly slower pace (in 2008 trade turnover was three times larger than in 2000).

In 2000-2008 the total export of Bulgarian goods rose 2.9 times to EUR 15.2 billion, with intra-Community supplies accounting for nearly two thirds of the increase (Fig. 1).

Figure 1

Bulgaria's Export to the EU and to Third Countries, 2000-2012



Source. Eurostat.

During this period the average growth rate of exports to Member States was 15.1%. Neighboring Greece and Romania, together with Germany, had the greatest impact on their dynamics. Supplies to third countries also expanded, albeit at a slower pace (12.9%). Among countries outside the EU, only Turkey and the USA fell within the top ten export partners of Bulgaria. A similar trend was observed in import, with EU countries increasing their importance. Over the same period, the EU accounted for 58% of Bulgaria's total import. The supplies from Member States grew 3.8 times, up to EUR 14.2 billion, while those originating from third countries rose 3.3 times, up to EUR 10.9 billion. At the same time, the widening trade deficit with both Member States and non-EU countries become a significant issue for the country. In 2008 the trade gap amounted to EUR 9.9 billion in comparison to EUR 1.8 billion in 2000 (Table 1). Yet, during the period under consideration the negative impact of the trade deficit on economic growth was offset by strong final domestic consumption and the flow of foreign direct investment in the country.

Table 1

Bulgaria's Export, Import, and Trade Balance, 2000-2012

Indicator	Partner	Unit	Years												
			2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Export	EU	EUR Million	2950.9	3467.4	3762.3	4212.4	4969.9	5537.5	7129.1	8219.9	9118.1	7595.3	9469.3	12604.6	12152.5
		Change (%)	-	17.5	8.5	12.0	18.0	11.4	28.7	15.3	10.9	-16.7	24.7	33.1	-3.6
	Non-EU Countries	EUR Million	2302.1	2246.8	2300.6	2455.8	3015.0	3685.8	4619.1	5292.1	6086.0	4104.2	6092.1	7660.0	8640.9
		Change (%)	-	-2.4	2.4	6.7	22.8	22.2	25.3	14.6	15.0	-32.6	48.4	25.7	12.8
	World	EUR Million	5253.1	5714.2	6062.9	6668.2	7984.9	9223.3	11748.1	13512.1	15204.1	11699.5	15561.4	20264.6	20793.4
		Change (%)	-	8.8	6.1	10.0	19.7	15.5	27.4	15.0	12.5	-23.1	33.0	30.2	2.6
Import	EU	EUR Million	3748.3	4638.6	4 850.8	5547.7	6624.0	7820.5	9430.6	12779.1	14227.6	10118.5	11256.4	13899.0	14937.1
		Change (%)	-	23.8	4.6	14.4	19.4	18.1	20.6	35.5	11.3	-28.9	11.2	23.5	7.5
	Non-EU Countries	EUR Million	3336.6	3489.2	3 560.4	4062.8	4995.5	4676.9	5993.6	9082.5	10 66.3	6757.5	7988.7	9507.5	10547.3
		Change (%)	-	4.6	2.0	14.1	23.0	-6.4	28.2	51.5	19.6	-37.8	18.2	19.0	10.9
	World	EUR Million	7084.9	8127.8	8 411.2	9610.5	11619.5	12497.5	15424.2	21 61.5	25093.9	16875.9	19245.1	23406.5	25484.4
		Change (%)	-	14.7	3.5	14.3	20.9	7.6	23.4	41.7	14.8	-32.7	14.0	21.6	8.9
Trade balance	EU	EUR Million	-797.4	-1171.2	-1088.6	-1335.3	-1654.1	-2283.1	-2301.5	-4559.1	-5109.5	-2523.2	-1787.1	-1294.4	-2784.6
	Non-EU Countries		-1034.4	-1242.3	-1259.8	-1607.0	-180.5	-991.1	-1374.5	-3790.3	-4780.3	-2653.3	-1896.6	-1847.5	-1906.4
	World		-1831.8	-2413.6	-2348.4	-2942.3	-3634.6	-3274.2	-3676.0	-8349.5	-9889.9	-5176.5	-3683.7	-3141.9	-4691.0

Source. Eurostat.

The global financial and economic crisis reshaped the dynamics of international trade significantly. Due to its high trade openness, Bulgaria was not spared and also felt the negative influence of restricted external demand. As the crisis hit the country in 2009, the export of Bulgarian goods dropped by 23.1% to EUR 11.7 billion because of the reduction in both intra-Community supplies (by EUR 1.52 billion or 16.7%) and third-country exports (by EUR 1.98 billion or 32.6%). *The decline in non-EU exports was obviously more significant*. Exports to Turkey and Serbia tumbled nearly two times or by EUR 492.2 million and EUR 291.7 million, respectively. At the same time, exports to the United Arab Emirates fell by EUR 121.9 million while those to Russia dropped by EUR 119.1 million. As far as EU countries are concerned, supplies to Greece were the hardest-hit, with a decrease by EUR 390.5 million. Other export destinations from the EU with which Bulgaria recorded a more substantial decline were Belgium (by EUR 233.5 million) and Italy (by EUR 179.4 million). Similar to export, the import of goods from abroad also shrank during the crisis. In 2009 total foreign supplies to the country slumped by 32.7% compared to a year earlier. Imports from both the EU and third countries were equally affected, shrinking by EUR 4.1 billion each. Among the few upsides of the recession was the shrinking effect it had on the trade deficit of Bulgaria. In 2009 it halved to EUR 5.2 billion as a result of subdued domestic consumption and investment activity which caused imports to contract. The negative trade balance improved with both the EU (by EUR 2.6 billion) and third countries (by EUR 2.1 billion).

The global economy saw an upturn *in 2010* as it was on its way to a successful recovery from the severe effects of the crisis. The revival in the majority of Bulgaria's trade partners was expressed in an increase in production activity, a build-up of inventories, and a rise in domestic demand. This improvement had a favorable influence on Bulgarian export-oriented enterprises, which started to sell more and more goods on foreign markets. Consequently, export proved to be the engine of economic growth and reached an all-time high. The rest of the GDP components remained weak and played no significant role in the economic revival. On the whole, the process of post-crisis export recovery might be divided into two stages. The first period encompasses 2010 and the first half of 2011 when export growth was driven primarily by intra-Community supplies. The second one started at the end of 2011 and lasted until the end of 2012. During the last phase the negative effects of the debt crisis in the Eurozone became visible, forcing Bulgarian exporters to rely largely on countries outside the EU.

In 2010 Bulgarian export not only registered an increase by 33.0% compared to a year earlier, but also reached historical levels (EUR 15.6 billion). Member States had a considerable contribution to this development. Some European economies like Germany, Italy, and Romania supported the flow of Bulgarian goods to the Single Market. In 2010 they accounted for over 60% of the increase in intra-Community supplies. The export to third countries which was hit hardest by the crisis managed to climb by 48.4%. Turkey came out as the leader among non-EU markets with the most considerable rise in supplies from Bulgaria in absolute terms (by EUR 470.7 million). This comes as no surprise given factors like its geographic proximity, large market capacity, and the remarkable growth of the economy (by 9.0% in 2010) and of industrial output (by 12.4%). In 2011 the relatively favorable economic conditions continued to have a positive influence on the orders of the export-oriented firms in Bulgaria. This time, however, the accelerated growth in export, which reached record highs (EUR 20.3 billion) for a second year in a row, was driven primarily by Member States. Intra-Community supplies picked up by more than EUR 3 billion (or 33.1%) supported primarily by Germany and Romania. Thus, in 2011 Bulgarian trade with the EU gained momentum and turned out to be of key significance to the recovery of the economy. Third-country exports also grew (by EUR 1.6 billion or 25.7%) but at rates which were several times lower than those registered by intra-Community supplies. Turkey was once again the main engine, followed by Gibraltar and Saudi Arabia.

However, the woes of the debt-stricken Eurozone and the uncertainty and instability crippling Europe started to have an effect on the positive trends in export dynamics as early as the end of 2011. The problems facing the EU triggered a decline in industrial production and an economic downturn in a number of Member States which logically translated into deteriorating demand for foreign goods, including for Bulgarian products. In 2012 intra-Community supplies saw their upward trend cease and registered a decline by 3.6% on the prior year. In an attempt to find a solution, the exporting companies started to partially shift their sales to third countries. The growth in the volume of Bulgarian goods sold outside the EU (by 12.8%) proved to be the only driver of export in 2012. This situation was in sharp contrast with the events observed during the initial phase of economic recovery in Bulgaria. The country redirected its exports mainly to more stable and larger markets such as Turkey and China which were less affected by the global economic downturn (Table 2). Both countries are among the fastest growing economies characterized by strong demand, huge domestic market capacity, and even greater potential for trade development. While Bulgaria is able to rely on its traditional trade relations with Turkey, the process of establishing stronger trade links with China is yet to begin. The fact that the Asian economy climbed 20 places up the ranking of Bulgaria's export partners in just five years (in 2008 China took the 28th place while in 2012 it ranked 9th) gives clear evidence of the progress in the export to this country. Turkey managed to replace Italy and Romania, which were leading trade partners after the crisis, and became Bulgaria's second most important export partner with a share of over 9%. Other less explored export destinations like South Korea and South Africa have started drawing the attention of Bulgarian exporting companies due to their huge potential. In the period 2008-2012 exports to these destinations grew 3.6 and 12.8 times, respectively. Bulgaria will be able to take advantage of the opportunities in South Korea, especially after the EU-South Korea Free Trade Agreement entered into force in 2011. Nevertheless, it should be kept in mind that the rise in the exports to these countries is closely related to sales mainly of goods with a low degree of manufacturing like metalliferous ores and metal scrap (to South Korea) and fuels (to South Africa).

Table 2

Bulgaria's Main Export Partners in 2008 and 2012

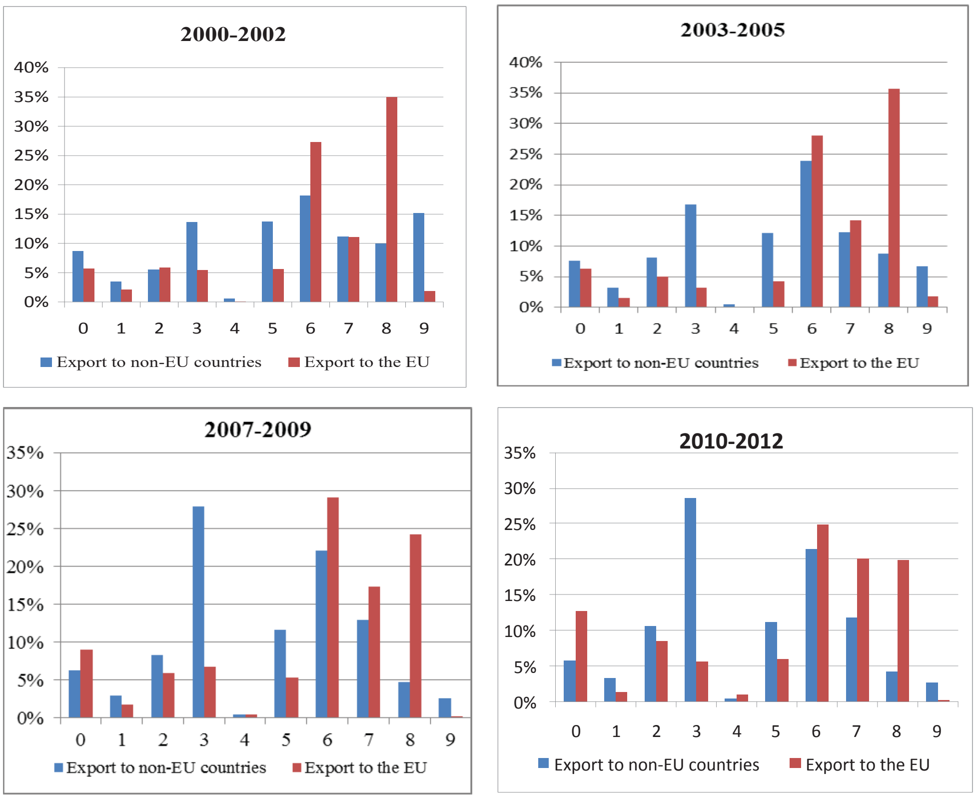
2008				2012			
Partner	Value (EUR million)	Share in Total Export (%)	Change on the Prior Year, %	Partner	Value (EUR million)	Share in Total Export (%)	Change on the Prior Year (%)
World	*15.204.1*	*100.0*	*12.5*	*World*	*20.793.4*	*100.0*	*2.6*
EU	9.118.1	60.0	10.9	EU	12.152.5	58.4	-3.6
Non-EU Countries	6.086.0	40.0	15.0	Non-EU countries	8.640.9	41.6	12.8
Greece	1.508.2	9.9	22.7	Germany	2.126.7	10.2	-9.7
Germany	1.383.3	9.1	-0.4	Turkey	1.955.5	9.4	12.8
Turkey	1.338.7	8.8	-13.3	Italy	1.763.9	8.5	0.2
Italy	1.272.0	8.4	-8.6	Romania	1.670.9	8.0	-13.6
Romania	1.102.9	7.3	66.9	Greece	1.493.9	7.2	4.9
Belgium	897.3	5.9	7.4	France	825.0	4.0	-3.5
Serbia	663.5	4.4	11.4	Belgium	765.1	3.7	-23.4
France	623.1	4.1	15.7	Gibraltar	732.2	3.5	17.2
Russia	412.6	2.7	26.3	China	595.0	2.9	102.6
Macedonia	342.7	2.3	20.6	Russia	562.2	2.7	3.7

Source. Eurostat.

Similar to exports, the imports of foreign goods also registered an increase as the economic recovery advanced. In 2010 they amounted to EUR 19.2 billion which represented a rise by 14%. After the crisis the growth rates of the acquisitions from third countries, however, exceeded the ones registered in the imports originating from the EU. 2011 was an exception as it was marked by intensive trade within the Single Market. The critical 2009 reversed the constant trend of a widening chronic deficit with Member States and in the following two years the gap started to narrow. This development was supported by the record high levels of intra-Community supplies. The high values of the imports from outside the EU are related to the huge energy dependence of Bulgaria which buys large quantities of oil and natural gas from third countries (mainly from Russia). The upsurge in oil prices also had an impact on the growth in the value of the acquisitions from non-Member States. This phenomenon largely exacerbated the trade imbalances with these countries, especially with Russia. After the crisis the largest trade gap was registered in 2012, driven by strong import which was spurred by reviving domestic demand. Yet, it remained twice lower than its pre-crisis 2008 levels. In 2008-2012 the deficit registered with third countries recorded a larger decrease (by two and a half times) in comparison to that with the EU (1.8 times). The reason was the partial shift of Bulgarian export-oriented companies to markets outside the EU as well as the lower growth rates of imports originating from these countries.

Figure 2

Commodity Structure of Bulgarian Export to the EU
and to Third Countries*



*The commodity structure is presented by the Standard International Trade Classification (SITC). The commodity groups are the following:

0 – Food and live animals
1 – Beverages and tobacco
2 – Crude materials, inedible, except fuels
3 – Mineral fuels, lubricants, and related materials
4 – Animal and vegetable oils, fats and waxes
5 – Chemicals and related products, n.e.s.
6 – Manufactured goods classified chiefly by material
7 – Machinery and transport equipment
8 – Miscellaneous manufactured articles
9 – Commodities and transactions not classified elsewhere in the SITC

Source. Eurostat.

In 2000-2012 the commodity structure of Bulgarian export went through a certain transformation as well. The main reasons behind it were factors like the following: the internal restructuring of the economy during the transition to market economy (mainly in the form of a continuous process of deindustrialization); the loss of certain traditional markets; the accelerated development of certain sectors of the economy as a result of the country's accession to the EU which entailed the subsidizing of some industries (e.g. extensive crop production); the surge in the international commodity prices, etc. Over the last years the commodity structure of Bulgarian export was doubtlessly affected also by the development of trade relations with new partners and by the stalemate in the relations with already established export destinations from the EU. As noted above, the global financial and economic crisis and mainly the ensuing debt crisis triggered certain changes in the geographic structure of Bulgarian exports. In this regard, the reorientation to third countries will most likely continue at least in the medium term. Still, Bulgarian companies exporting mainly to the EU will not be able to immediately replace their current markets with these new and promising destinations. *Therefore, the change in the geography of exports will be accompanied by a restructuring of commodity flows in line with the specifics of third-country markets.* Yet, it should be noted that the structure of Bulgarian import from countries outside the EU is quite different from that of import from the Single Market. One of the negative sides is the prevailing share of goods with low degree of manufacturing and, consequently, with low value added (see Fig. 2). The following charts provide clear evidence of the disparities and even imply that they *have not been mitigated; on the contrary, it seems that they have deepened.*

In 2010-2012 three groups accounted for 64.7% of Bulgarian exports to the EU: *Manufactured goods classified chiefly by material*, *Machinery and transport equipment*, and *Miscellaneous manufactured articles*. Their corresponding share for third countries was 37.4%. Moreover, these are the groups which include products with higher value added. Intra-Community supplies of goods belonging to those three groups amounted to EUR 22.1 billion while their export to third countries was estimated at EUR 8.4 billion. When observing their export dynamics throughout the years, it cannot be claimed that the difference can be overcome in the short to medium term. In the last three years 63.9% of *Manufactured goods classified chiefly by material*, 72.2% of *Machinery and transport equipment*, and 87.9% of *Miscellaneous manufactured articles* were exported to the EU. Of course, as far as some divisions of these three main sections are concerned, some EU partners were replaced with third countries but these cases are limited in number. Non-ferrous metals can be given as an example since the value of their export to and outside the EU became almost equal. It should be taken into account, however, that these products are definitely not considered as having a high degree of manufacturing and high value added. At the same time, EU countries remained almost the only partner of Bulgaria in the trade with goods from groups like *Textile yarn, fabrics, made-up articles, n.e.s., and related products*, *Iron and steel*, *Machinery specialized for particular industries*, and *Articles of apparel and clothing accessories*.

Half of third-country export was concentrated in two groups: *Mineral fuels, lubricants, and related materials* (28.6% in 2010-2012) and *Manufactured goods classified chiefly by material* (21.5%) followed by *Machinery and transport equipment*, *Chemicals and related products, n.e.s.*, and *Crude materials, inedible, except fuels* which had almost equal shares.

Countries outside the EU and the commodity groups with a prevailing share in the export to them have been increasingly shaping the dynamics of Bulgaria's total export. In 2012 total export grew by EUR 9.1 billion compared to 2009. Member States and non-EU countries had equal contribution to its rise which once again proved the expanding role of third-country markets. Considering the shift of global industrial production to Asian countries, the rapid economic expansion of Turkey, and the long-term deindustrialization observed in European economies, this trend is very likely to continue. In terms of commodity groups, *Manufactured goods classified chiefly by material* has contributed most to the increase in total export. The importance of countries outside the EU (with a share of 43.0% or EUR 876 million) should not be neglected as well, especially given the rise registered in 2012 (by EUR 96 million) and the last decrease in intra-Community supplies (by EUR 371.4 million) (Table 3).

Table 3

Contribution of Commodity Groups in Bulgaria's Total Export Growth

Commodity Group	Change in 2012 on 2009		Share of the Commodity Group in Total Growth	Contribution to Growth (value in euro)		Contribution to Growth (%)	
	Value in Euro	(%)	(%)	Non-EU Countries	EU	Non-EU Countries	EU
0	880.733.568	72.6	9.7	209.276.395	671.457.173	23.8	76.2
1	102.550.972	29.6	1.1	126.000.914	-23.449.942	122.9	-22.9
2	990.072.469	116.9	10.9	605.530.493	384.541.976	61.2	38.8
3	1.937.762.584	128.2	21.3	1.653.782.996	283.979.588	85.3	14.7
4	75.764.104	95.7	0.8	14.263.139	61.500.965	18.8	81.2
5	825.376.080	92.5	9.1	370.291.709	455.084.371	44.9	55.1
6	2.037.203.638	75.8	22.4	875.988.317	1.161.215.321	43.0	57.0
7	1.493.735.524	75.8	16.4	455.574.906	1.038.160.618	30.5	69.5
8	684.783.971	33.9	7.5	176.751.789	508.032.182	25.8	74.2
9	65.947.035	50.0	0.7	49.254.016	16.693.019	74.7	25.3
Total:	9.093.929.945			4.536.714.639	4.557.215.393		

Source. Eurostat.

The next most important group for export growth is *Mineral fuels, lubricants, and related materials* where the role of non-EU countries is clearly visible as they accounted for exactly 85.3% of the increase. Furthermore, over 70% of the products included in this group have been sold on these markets in the last three years. The third most important group is *Machinery specialized for particular industries* where the EU is the main export market, attracting more than 70% of total export which is nearly the same as its contribution to the increase in the export of these goods. It is this group that includes knowledge- and capital-intensive products with high value added. Bulgarian export-oriented machinery producers should strive to sell their products on third-country markets with the support of the government. Still, they should undoubtedly try not to lose their positions on the Single Market, as well.

The differences in the commodity structure in the trade with the EU and third countries become clear when we analyze the trade structure with some of Bulgaria's major trading partners. Over the past few years *China* has strengthened its position as one of the best performing export markets with great potential for trade Bulgaria. In 2012 Bulgarian supplies to this country amounted to EUR 595 million, accounting for 2.9% of total exports. The export to the Asian economy declined by only 12.4% in 2009 and saw a rapid recovery with impressive growth rates over the next three years, especially in 2012, when export doubled on a yearly basis. This, however, completes the list of positives. At the same time, the commodity structure was characterized by extremely low diversification – since 2008 only two groups (*Non-ferrous metals* and *Metalliferous ores and metal scrap*) have made up more than 80% of exports, with their share reaching 91% in 2012. In 2006 the group *Machinery and transport equipment* had a significant share in Bulgarian exports to China (22.8%) but in the next years it fell and stood at only 2.9% in 2012. It is important to note that some divisions like *Metalworking machinery* and *General industrial machinery and equipment, n.e.s., and machine parts, n.e.s.* registered a decline in the value of their export as well. The only division to report a more significant growth in the last three years was *Electrical machinery, apparatus and appliances, n.e.s., and electrical parts thereof*.

The problem posed by weak diversification is clearly illustrated by Bulgaria's export to its largest non-EU trade partner – *Turkey*. In 2012 the value of goods sold in our Southern neighbor reached EUR 1,956 million or 9.4% of the country's total exports. The high growth of export to Turkey in the last three years has fueled the expectations that the importance of the country as a market for Bulgarian goods will continue to grow and that it will most probably become Bulgaria's leading export partner soon. Since 2008 three groups have made up more than 50% of exports and the concentration has grown over time, reaching 60.8% in 2012. These groups were *Petroleum, petroleum products, and related materials* (30.2% of total exports in 2012 or EUR 590.3 million), *Non-ferrous metals* (21.4% or EUR 418.4 million), and *Metalliferous ores and metal scrap* (9.2% or EUR 180.6 million). However, we might say that the opportunities to diversify the commodity structure of the export to Turkey are certainly greater than in other countries. There are various ways to achieve this: focusing on foods and animals, on one hand, and machines and transport equipment, on the other hand. More precisely, the products concerned in the second group are mainly power-generating machinery and equipment, machinery specialized for particular industries, and vehicles. In this regard, Bulgarian export-oriented companies should strive to recover their positions on the Turkish market for metalworking machinery.

The export to Bulgaria's leading trade partners from the EU is much more diversified compared with that to third countries. Moreover, the exported products have higher technology intensity and thus, a larger contribution to the value added in the economy. Specialization in industries producing such goods is a prerequisite for a continuous implementation of innovations, higher employee compensation, as well as for improving the overall standard of living.

Until 2009 over 60% of Bulgarian exports to *Germany* comprised goods falling within the groups *Machinery and transport equipment* and *Miscellaneous manufactured articles.* A certain retreat was observed in their share over the past three years but it was triggered by a slower growth in their export compared to other commodity groups rather than a decline. In other words, it might be said that Bulgarian export-oriented companies have kept their strong positions on the German market.

The situation is quite similar when the commodity structure of Bulgaria's trade with its other main export partner – Italy, is examined. Naturally, the difficulties facing the economy of the country have been an obstacle to Bulgarian exporters. In 2012 there was a decline in the export of certain products belonging to the divisions *Telecommunications and sound-recording and reproducing apparatus and equipment*, *Power-generating machinery and equipment*, *Articles of apparel and clothing accessories*, and *Footwear.* This fall was offset by a rise in the share of the export of goods with lower degree of manufacturing like *Cereals and cereal preparations*, *Petroleum, petroleum products, and related materials*, and *Non-ferrous metals.*

When it comes to Bulgaria's export to its other leading trade partners from the EU which are lagging behind in their economic development, like *Romania* and *Greece,* the case resembles more that of Germany and Italy. The product structure is strongly diversified and commodities have a limited share. It is noteworthy, however, that the changes which have occurred in recent years are related mainly to growth in the share of products with lower degree of manufacturing.

Comparative analysis of the changes in the geography of foreign trade in Bulgaria and the other new EU member states

The first decade of the 21st century witnessed one cyclical crisis between 2001 and 2003 followed by unprecedented growth which ended with the spread of the global financial and economic crisis after 2008. Then, a period of uncertainty and deterioration in the main macroeconomic indicators was observed. The shocks that hit the economies over these years had a different impact on the commodity and geographic structure of Member States' foreign trade, especially on that of countries from the two waves of the Fifth Enlargement of the EU. Intra-EU trade is essential for all of them, except for Malta, and determines to a large extent the overall performance of their export. New Member States' export followed a similar trend of development in most of the last decade. Growth was intensive in the period 2004-2008, fueled by the robust expansion in emerging economies, the process of European integration, and the rise in foreign trade.

Export to the EU, which is the main trade partner of the new Member States, grew almost three-fold in 2000-2008. Nevertheless, the steady upward trend in intra-Community supplies was broken in 2009 when the value of the goods sold in EU countries declined by EUR 57.3 billion (16.6%) (Table 4). The period between 2010 and 2011 was marked by two-digit growth in exports to the Union. As a result, not only have exports recovered, but they have also reached record highs. In 2012, however, new Member States' export reported an anemic increase by 2.3% dented by the implications of the debt crisis reflected in the subdued demand in European markets.

Table 4

Export, Import, and Balance of Trade of New Member States in 2000-2012

Indicator	Partner	Unit	Years												
			2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Export	EU	EUR Billion	118.6	136.0	146.7	159.3	194.1	221.3	266.5	313.6	344.7	287.4	350.6	404.0	413.4
		Share in Export	80.4	81.2	80.7	81.0	80.5	78.8	78.3	78.6	77.5	78.8	77.6	76.6	75.0
		Change (%)	-	14.6	7.9	8.5	21.9	14.0	20.4	17.7	9.9	-16.6	22.0	15.2	2.3
	Non-EU Countries	EUR Billion	29.0	31.5	35.1	37.4	47.0	59.5	73.9	85.5	100.2	77.5	101.3	123.2	137.6
		Share in Export	19.6	18.8	19.3	19.0	19.5	21.2	21.7	21.4	22.5	21.2	22.4	23.4	25.0
		Change (%)	-	8.6	11.4	6.6	25.6	26.6	24.1	15.7	17.2	-22.6	30.7	21.6	11.7
	World	EUR Billion	147.6	167.5	181.8	196.7	241.1	280.8	340.4	399.1	444.9	364.9	451.9	527.2	551.0
		Change (%)	-	13.4	8.6	8.2	22.6	16.5	21.2	17.3	11.5	-18.0	23.9	16.7	4.5
Import	EU	EUR Billion	130.0	144.8	152.9	162.2	208.2	236.7	285.4	342.2	372.3	282.1	338.9	391.1	397.3
		Share in Export	68.6	69.1	68.9	68.6	73.6	73.6	72.6	73.2	71.0	72.5	70.6	70.7	70.3
		Change (%)	-	11.4	5.5	6.1	28.4	13.7	20.6	19.9	8.8	-24.2	20.1	15.4	1.6
	Non-EU Countries	EUR Billion	59.5	64.6	68.9	74.4	74.7	85.0	107.8	125.3	151.8	107.1	141.4	162.3	168.0
		Share in Export	31.4	30.9	31.1	31.4	26.4	26.4	27.4	26.8	29.0	27.5	29.4	29.3	29.7
		Change (%)	-	8.6	6.7	7.9	0.4	13.8	26.8	16.2	21.2	-29.4	32.0	14.8	3.5
	World	EUR Billion	189.5	209.5	221.8	236.6	282.9	321.7	393.2	467.5	524.1	389.2	480.2	553.4	565.2
		Change (%)	-	10.5	5.9	6.7	19.6	13.7	22.2	18.9	12.1	-25.7	23.4	15.2	2.1
Trade balance	EU	EUR Billion	-11.4	-8.9	-6.1	-3.0	-14.1	-15.4	-18.8	-28.6	-27.7	5.3	11.8	12.9	16.2
	Non-EU Countries		-30.5	-33.1	-33.8	-37.0	-27.7	-25.5	-34.0	-39.8	-51.6	-29.6	-40.1	-39.1	-30.4
	World		-41.9	-42.0	-40.0	-39.9	-41.8	-40.9	-52.8	-68.4	-79.3	-24.3	-28.3	-26.2	-14.2

Source. Eurostat.

The dynamics of export to third countries were similar to the development of intra-Community supplies. Before the crisis hit Europe, exports to non-EU markets increased nearly three and a half times in the period between 2000 and 2008, reaching EUR 100.2 billion. Not surprisingly, as a result of the global economic turmoil, the export to these countries dropped considerably in 2009 (by EUR 22.7 billion or by 22.6%), although it was not hit as hard as intra-Community supplies were. Then, a period of recovery and rapid expansion followed. Despite losing momentum in 2012, the export to third countries kept its growth rates higher than those to EU Member States.

In short, the impact of the global financial and economic crisis on the geographic structure of the exports of the twelve countries can be summarized as a gradual decline in the share of EU countries in total exports. Although the EU remained the leading trade partner of the new Member States in 2012, accounting for 75% of foreign sales, its share diminished compared with 2008 when it stood at 77.5%.

Both exports and imports registered a constant increase in absolute terms, with 2009 being the only exception. If we analyze the dynamics of the EU's share in total imports, we see that before the crisis it ranged between 68.3 and 73.6% while after 2010 it leveled off at around 70%. The data for the import from third countries show a similar development – a steady upward trend until 2012 (excluding 2009) when it reached EUR 168 billion. The acquisitions from non-EU markets grew 2.8 times in 2012 on 2000.

The total trade balance of new Member States with both the EU and non-EU countries had traditionally been negative. This was true until 2009 which marked a turning point for the constantly growing negative balance in the trade with the EU. The effects of the global financial and economic crisis led to registering a surplus of EUR 5.3 billion in 2009 which expanded to EUR 16.2 billion in 2012. Although the balance of trade with non-EU countries experienced smaller fluctuations, it remained negative and moved between EUR 25 billion and EUR 40 billion in 2000-2012. However, in 2008 there was a deviation from this trend and the deficit in the trade with third countries reached EUR 51.6 billion. In general, we can say that the global financial and economic crisis had a positive impact on the overall foreign trade deficit of new Member States (especially with the EU) which shrank more than three-fold on a yearly basis in 2009. In the end, the effects of the economic shocks and the attempts to recover growth resulted in an additional decline in the negative trade balance which dropped to EUR 14.2 billion in 2012.

An analysis of the data shows a definite shift in new Member States' export from the EU to third countries after 2008 which indicated that export-oriented companies were trying to sell their products on markets that were less affected by the crisis. The trend in imports during the last three years has been the opposite and the share of EU countries remained around 70%.

Next, the article makes a detailed analysis of the changes in the geography of exports after 2008 separately for each new Member State.

After 2008 the role of non-EU countries as an export destination has become increasingly important for the majority of new Member States. This is true as well for the economies of the Visegrád group which are most heavily dependent on their trade with EU countries (the EU accounts for more than 70% of their export). Although the EU's share in the export of Lithuania, Slovenia, and Romania grew in the period of economic recovery, in 2012 it returned to 2008 levels under pressure from the problems spreading across European markets. Like Bulgaria, Slovenia and Cyprus registered a reduction in intra-Community supplies in 2012 for the first time since the crisis of 2009. Nevertheless, export remained higher than in the previous year backed by the still strong increase in trade with third countries. Romania also saw a decline in its intra-Community supplies but the weak increase in the export to non-EU markets could not offset this negative development. As a result, the country became the only Member State to register a decrease in total exports.

Based on the changes in the geography of new Member States' export outside the EU after 2008, we can identify four groups of countries. They are the following: countries with significant growth in the share of supplies to non-Member States, with a moderate rise, with a small increase, and with a share that returned to 2008 levels.

In 2008-2012 the share of sales to third countries expanded most in Cyprus, Latvia, Estonia, and the Czech Republic – by 8.9, 5.1, 4.1, and 4.1 percentage points, respectively. These Member States increased their exports mainly to markets that were less affected by the crisis after 2008, including newly industrialized economies such as China, Russia, and Turkey. A positive phenomenon observed in new Member States' trade is the fact that in this period they managed to accelerate their export of industrial goods to third countries – mainly of machines and vehicles, which are characterized by a high degree of manufacturing. In this regard, a future deepening of extra-EU trade is unlikely to result in an expansion in the share of the export of goods with lower value added.

Hungary and Poland came next with a moderate increase in the share of export to non-EU countries, with 2.4 and 2.1 percentage points, respectively. The products they sold on these markets were mainly investment goods such as machines, equipment, and vehicles. Their export has been a source of significant revenues for these countries and registered the largest increase (by EUR 1.3 billion in Hungary and by EUR 3.4 billion in Poland). Another positive sign is given by the fact that the export of the two new Member States has reported robust growth in countries which are characterized by intensive economic development and large absorption capacity like China and Turkey, for example.

A minor change in the share of non-EU markets in total export was observed in Bulgaria (an increase by 1.6 percentage points), Slovakia (by 1.4 percentage points), and Malta (by 1.3 percentage points). We can hardly identify any similarities in the structure of the extra-EU exports of these countries. In contrast to Bulgaria and Slovakia where intra-Community supplies play a fundamental role in generating export revenues, Malta depends mainly on third countries. Raw materials with lower value added, such as fuels and non-ferrous metals, made up the bulk of the goods which Bulgaria sold to non-EU markets in the period 2008-2012. At the same time, Slovakia's commodity structure was dominated by goods with higher degree of manufacturing (investment goods) and it was not surprising that the country witnessed the biggest upturn in the export of machinery and vehicles after 2008. These results show the different effects that a possible shift of export to non-EU countries might have on the economic development of Bulgaria and Slovakia. For Bulgaria, the downsides are related to the rise in the export of goods with lower value added, like raw materials, which are also associated with a certain insecurity stemming from their heavy dependence on price fluctuations on international markets and their sensitivity to changes in the global business cycle. In the case of Slovakia, a future export diversification aimed at targeting third countries will have its advantages which may be inferred from the prevailing share of high-value-added products in the commodity structure of its trade with non-EU markets. One of the few similarities between Bulgaria, Malta, and Slovakia in terms of the geography of their exports to third countries is the considerable increase in the supplies to the largest emerging economy – China. Over the period 2008-2012 the three countries' exports to the Asian economy rose by 5.4, 2.5, and 3.2 times, respectively.

In 2012 the share of non-EU countries in the exports of Romania, Lithuania, and Slovenia returned to its 2008 levels. Over the analyzed period the first two Member States saw an improvement in the commodity structure of their sales to third countries. The share of high-value-added goods increased at the expense of those with lower value added. Although investment and industrial goods still had a prevailing share in Slovenia's export to non-EU markets, the trend observed in the country was the opposite. These changes have called into question the long-term sustainability of Slovenia's export to third countries.

Conclusion

The global financial and economic crisis and the debt crisis in the Eurozone acted as a catalyst for the shift in the balance of global economic powers to the benefit of emerging markets. The new appearance of the map of global industrial production and the different pace of recovery of each economy are a reflection of the numerous changes in the dynamics and the direction of international trade flows. Subdued domestic consumption and sluggish investment activity in the Eurozone, the source of the economic shocks in the last two-three years, have been putting downward pressure on imports. The countries from the two waves of the Fifth Enlargement of the EU are among the worst affected by this negative development. Many new Member States have been forced to shift their exports to non-EU countries in order to offset, at least partially, the stagnation in trade within the Single Market.

Similar trends have been typical for Bulgaria as well. Although in 2009 the export to third countries was hit harder than the supplies to the EU, it registered a rapid recovery and even became the engine of Bulgarian exports in 2012. Over the last five years the share of non-EU markets grew from 40.0% to 41.6%. Their role has become increasingly important against the background of the difficulties faced by Member States and their restricted demand. This trend is expected to persist over the short to medium term. In this regard, it is crucial for Bulgarian export-oriented companies to show flexibility, thus allowing export to keep its key importance for the strength of economic activity. Both established trading partners, like Turkey, and less-developed ones, such as China, South Korea, and South Africa represent potential markets. In 2008-2012 the export to these destinations rose 1.5, 5.4, 3.6, and 12.8 times, respectively. The rapid development of these economies, their strong domestic demand, and the large absorption capacity of their markets make them highly attractive for Bulgarian export-oriented companies. Of course, the enterprises that export mainly to the EU cannot switch automatically to the new destinations that have potential. Therefore, the shift in the geography of export entails also a change in its commodity structure in line with the specific conditions in each new market. Nevertheless, it should be noted that the commodity structure of the export to third countries is quite different than the one to EU markets. One of its weaknesses is that products with a lower degree of manufacturing and consequently lower value added have a prevailing share. Moreover, the differences in the commodity structure of the export to the EU and to non-EU countries have not only failed to adjust over time, but even deepened. On the whole, we may conclude that the dynamics of Bulgaria's total export have been increasingly shaped by the export to third countries and the products that have a prevailing share in its structure.

A shift to non-EU Member States has been observed in most of the countries from the two waves of the Fifth Enlargement of the EU, as well. The EU remained the major export partner of the new Member States in 2012 (75%) yet its share declined compared with 2008 (77.5%). In contrast to Bulgaria, the commodity structure of the export of the new Member States to third countries is dominated by products with higher value added. For this reason, a potential diversification in the geography of their exports towards non-EU markets will hardly have any negative effects at all.

Statistical sources:

The Statistical Office of the EU – Eurostat, http://ec.europa.eu/eurostat.

Statistical database, United Nations Conference on Trade and Development – UNCTAD, http://unctadstat.unctad.org/.

International Monetary Fund – IMF, http://www.imf.org/.

The World Bank, http://worldbank.org/.

7.V.2013