State and Trends of the Trade Flows in Goods between the EU and the BRIC Countries[1]

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Abstract

The purpose of our paper is to present an in-depth comparative analysis of the trade flows in goods between the EU-27 and the strongest emerging countries in the world: Brazil, Russia, India and China (BRIC), during 2000-2011.

In the introduction we will emphasize the main reasons for choosing the present research topic. Among our arguments we include: the rapid development of these countries and their prominence on the global scene, the untapped potential of cooperation between EU and the BRICs, as these emerging economies become more and more innovation oriented and aspects related to the different pillars of the strategic partnerships between the EU and these countries.

Subsequently, relying on statistics published by international, European and national institutions and bodies, our study highlights in the first part the main features of the EU-BRIC bilateral trade, while in the next section it focuses on the "trade split" between the EU-15 and NMS in relation with the BRICs, emphasizing which group of countries dominates the bilateral flows and why.

Our investigation represents an attempt to pave the way for further in-depth analyses of the EU-BRIC trade flows, which have not yet been fully exploited and, at the same time, proposes several challenging issues for further debate.

Keywords: trade in goods, EU-27, EU-15, NMS, BRIC.

JEL classification: F14, F19, F59.

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1. INTRODUCTION

Since 2001, when the "BRIC" acronym was coined,[3] this group of countries made up of Brazil, Russia, India and China incited many scholars to embark on extensive analyses related to the "BRIC mechanism"[4] and especially the member economies' interconnections with the rest of the world. Among the most engaged international organizations, bodies and research institutes in such analyses one can enumerate: Vienna Institute for International Economic Studies (WIIW),[5] OECD, Goldman Sachs and European Commission.

Brazil can be described as an economy based on services, oriented toward the domestic market, the development of Russia is supported by the export of energy and raw materials, India is, like Brazil, a service economy, but export-oriented, while the main engines of the Chinese economy are the export of manufactures and the FDI (Havlik et al. 2009, p. 108).

In 2011, the BRIC group had an aggregate share of circa 40% of the world population, 25% of the world surface, almost 19% of the global GDP, 15% of the cumulated international trade flows and 40% of the global foreign exchange reserves. Even more, taking into consideration the contribution at the world GDP (at current prices), these economies together have the potential to surpass the USA in 2014, and even the group of EU-27 in 2016 (IMF, 2012).

At global level, if we examine the statistics of production, international trade and foreign direct investment (FDI), China ranks first in many respects. According to the WTO trade data, in 2009, China outranked Germany and was the first in the hierarchy of the leading exporters in world merchandise trade and it managed to keep its position in the subsequent period. At the same time, China became the largest importer as well as the largest exporter of services among the developing countries and transition economies, ranking fourth in terms of exports and third in terms of imports in the hierarchy of the leading traders in services at global level in 2010 and 2011. In 2010, China broke two new records. As indicated by the IMF statistics, in the hierarchy of the world countries in terms of GDP (at current prices), China surpassed Japan, becoming the world's second largest economy, after the USA.[6] The IMF experts predict that in 2016 China will become the world's largest economy on a purchasing-power-parity basis. In addition, China became in 2010 the largest world producer of goods, by bringing to an end the supremacy cycle of the USA during 1895-2010.[7] Taking

[3] Jim O'Neill launched this acronym in his paper: *Building Better Global Economic BRICs*, Goldman Sachs, Global Economics Paper No. 66, 30.11.2001. At the third high level meeting of BRIC (Sanya, April 14, 2011), South Africa officially joined the alliance and thus the "BRIC" became "BRICS". Anyway, our analysis refers only at the trade relations between the EU and BRIC.

[4] This locution, "BRIC mechanism" is largely used in the international mass media and it cannot be attributed to a person or an organization.

[5] Havlik, Pindyuk, Stöllinger, 2009, Hunya, Stöllinger, 2009, Havlik et al., 2009.

[6] Taking into consideration the GDP at purchasing power parity (PPP), China has been on the 2nd position, after the USA, for almost a decade and the IMF statistics indicate that China will surpass the USA in several years.

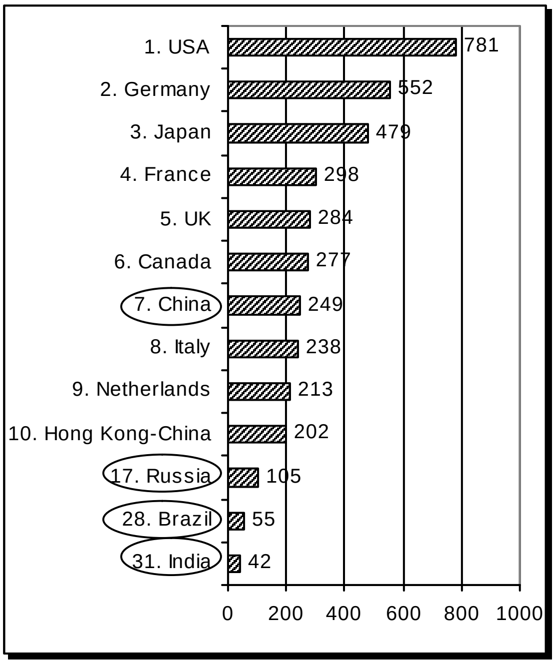
[7] As a matter of fact, the largest emerging economy in the world had been the "world manufacturer" for centuries: together with India, during 500-1700, and alone in the time frame 1700-1850. See the article: Marsh, Peter (2011), *China Noses Back Ahead As Top Goods Produces to Halt 110-year US Run*, Financial Times, 14.03.2011.

into consideration the results of the recent surveys carried out among the managers of transnational corporations (TNC) on China's potential to attract FDI, the largest Asian economy is firmly placed on the investors' favourite destination map. In the hierarchy of the most promising host economies for FDI during the 2010-2012, China remains the "top priority" keeping its first position, before India, Brazil, the USA and the Russian Federation.[8]

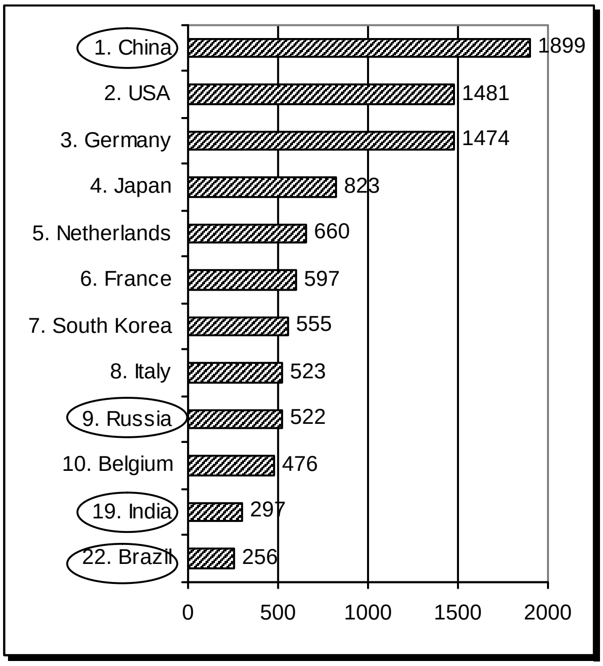
In the international trade, the BRIC group claimed in 2011 a share of 16.3% of the world exports and 15% of the world imports (including intra-EU trade), percentages slightly lower than those cumulated by the four EU leading traders, Germany, Netherlands, France and Italy, on the export side and Germany, France, United Kingdom and Netherlands, on the import side (WTO, 2012, p. 31).

Figure 1: *BRIC countries in the hierarchy of leading exporters in world merchandise trade, 2011/2000 (USD billion)*

Leading exporters, 2000



Leading exporters, 2011



Note: Taking into consideration both intra- and extra-EU trade flows at the level of the EU countries and including significant re-exports and imports for re-export.

Source: Own representation based on WTO (2001) and WTO (2012).

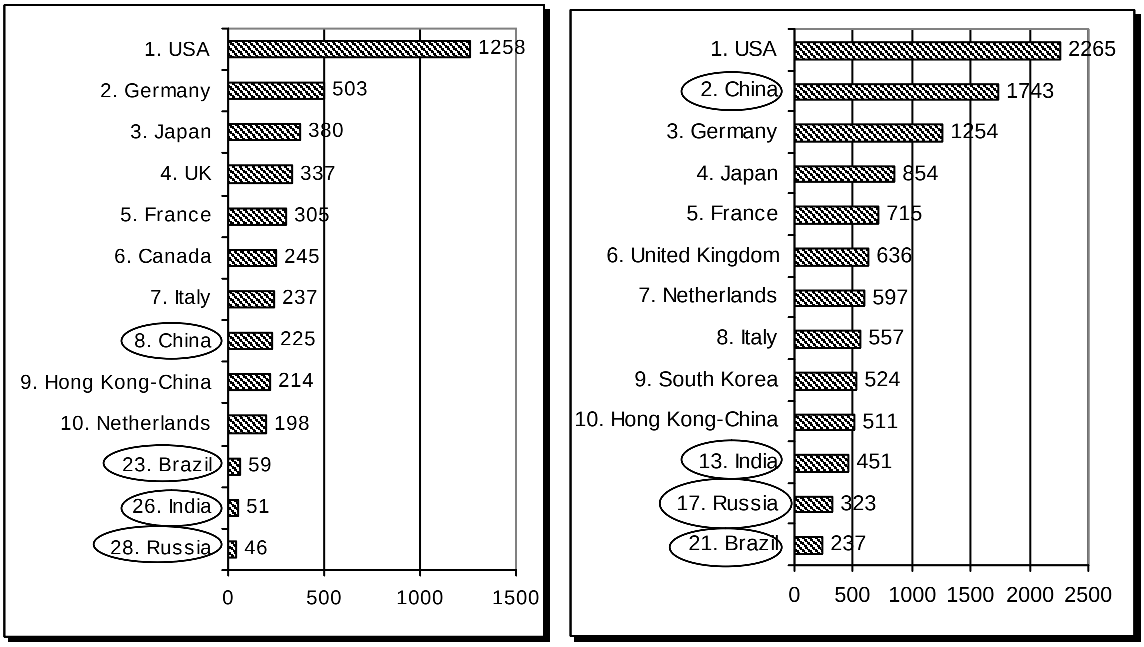
Comparing the BRIC's rankings in the hierarchy of leading exporters and importers in world merchandise trade (Figures 1 and 2), one can remark the rapid ascension of China, Russia and even India on the export side and that of China, India and to a lesser extent Russia on the import side. In 2011, Russia outranked Belgium, the United Kingdom and Hong Kong-China and managed to occupy the ninth position among the top world exporters, while India surpassed the United Arab Emirates and ranked the 19th. In the same year, at import, Russia exceeded Chinese Taipei and was the 17th in the hierarchy of leading importers in world

[8] See UNCTAD (2010), *World Investment Prospects Survey 2010-2012*, New York and Geneva, p. 13.

merchandise trade. Brazil, with a degree of market integration through trade in goods[9] of circa 10% in 2011 lags well behind Russia (14.6%), India (22.3%) and China (25%).

Figure 2: *BRIC countries in the hierarchy of leading importers in world merchandise trade, 2011/2000 (USD billion)*

Leading importers, 2000 *Leading importers, 2011*



Note: Taking into consideration both intra- and extra-EU trade flows at the level of the EU countries.
Source: Own representation based on WTO (2001) and WTO (2012).

Even if the EU as a whole still dominates the international trade in goods, *if we exclude the intra-EU trade (i.e. taking into consideration only the extra-EU trade), the BRIC's shares in the world exports have been larger than those of the EU since 2006, while the corresponding shares in imports have surpassed those of the EU since 2010 (WTO 2006-2011). In 2011, these percentages were 20.8% and 18.9% respectively, compared to 14.9% and 16.2% respectively* (WTO, 2012, p. 31).

Anyway, the rapid development of these countries and their prominence on global scene do not represent the only impetus to tackle this challenging subject. Another motivation is given by the huge untapped potential of cooperation between BRIC and the EU. As already evoked in other research papers,[10] in the actual stage of globalization, the developing and emerging countries are deeply interrelated with the developed ones. The cooperation of the former with the EU (and other developed economies) is essential for the implementation of

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[9] According to the Eurostat definition, trade integration of goods as a percentage of GDP is the average of imports and exports of goods divided by GDP: $\frac{\left(\frac{X+M}{2}\right)}{GDP}\times 100$. If the index increases over time it means that the country/zone is becoming more integrated within the international economy.

[10] Please consult Oehler-Şincai *et al.*, 2011, pp. 21-22 and Oehler-Şincai (2011a).

their national modernization and innovation strategies. China intends to become "an innovation-oriented nation until 2020 and world leader in science and technology until 2050".[11] India wishes to become a developed country before 2020. At its turn, the Russian Federation, thanks to the *Strategy 2020 – Long term social and economic development of the Russian Federation*, expects "to become innovative, competitive at global level and join the list of world leaders". In this context, it is worth mentioning that after the conclusion of the Modernization Partnership between the EU and the Russian Federation (at the 25th bilateral summit of May 31- June 1, 2010, from Rostov on Don), many of the EU Member States signed their own bilateral modernization partnerships with Russia, at present being in force a number of 23 such partnerships. This is considered by the President of the European Commission as "a clear signal that the European Union is Russia's most important partner in modernization" (European Commission, 2011). As regards Brazil, besides its ambitious strategies in energy and agriculture fields, the largest Latin American country has as target the acceleration of the innovation process at national level. Therefore the BRIC(S)-EU relationship is a key component of the BRIC(S)'s relations with the rest of the world.

A third impulse for choosing this topic was given by a strategic point of view. Brazil, Russia, India and China are together with the USA, Canada, Japan, Mexico, South Africa and recently South Korea strategic partners of the EU. The European Commission reckons that, "because of their economic size and potential, as well as their influence on the global economy, our trade policy needs to pay particular attention to the US, China, Russia, Japan, India and Brazil. For different reasons, our economic relations with these countries have a strategic dimension for the EU" (European Comission, 2010). Indeed, China[12] and Russia are two countries with which the EU runs the largest trade deficits among all its trade partners. With India, the EU is in the process of negotiating a free trade agreement, having in view tapping a strategic partnership and trade relationship characterized as *still incipient*. At the same time, Brazil, the largest Latin American economy, is seen as a regional leader that could spur the EU-Mercosur bi-regional negotiations.

Relying on statistics published by Eurostat, DG Trade, WTO and national authorities, our study will highlight the main trends of the trade flows between the EU and BRICs during 2000-2011 in a comparative manner. In the next section we will present some dominant features of the bilateral trade, in the context of significant changes at the level of EU trade dependency on external markets. The following section will bring to the forefront the "trade split" between the EU-15 and NMS in relation with the BRICs and will try to present some answers to the questions: *Which group of countries dominates the bilateral flows and why?*

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[11] See also the *National plan for long term development of science and technology 2006-2020* and the *National plan for long and medium term development of talents 2010-2020.* In this context it should be noticed that sectoral cooperation between EU and China has experienced a very rapid growth over the last years. From the 17 areas of cooperation covered in 2004, bilateral cooperation has expanded to cover in a detailed manner more than 50 areas. Since 2007, three additional high-level mechanisms have been established: a High Level Economic and Trade Dialogue, a High Level Strategic Dialogue and a High Level People-to-People Dialogue.

[12] All data for China in this paper exclude Hong Kong-China.

Following this rationale, our paper is structured around two main sections, followed by a summary of the author’s conclusions.

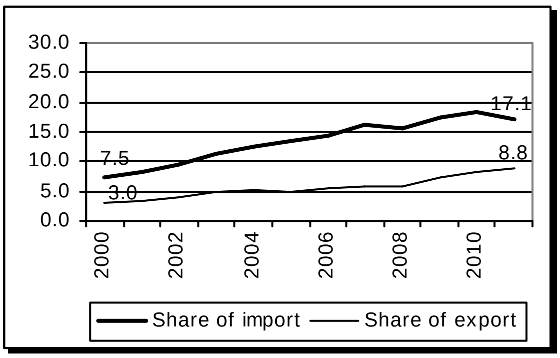
2. DOMINANT FEATURES OF THE BILATERAL TRADE

In the 1990s, and especially during the last decade, the participation of the BRIC countries in the international trade in goods intensified. At the same time, in the years 2000s, the role played by extra-community countries in the EU trade increased, in parallel with the decrease of the intra-EU shares of total EU trade in goods. This tendency was more striking in the field of imports. During 2000-2011, the shares of the extra-EU exports in the total exports of the EU increased by 3.6 percentage points (from 32% to 35.6%), while the corresponding shares at the level of import flows expanded by 2.1 percentage points (from 36.5% to 38.6%) (Eurostat, 2012). The increase of the extra-EU shares in the total trade flows of the Union accelerated in 2009-2011.

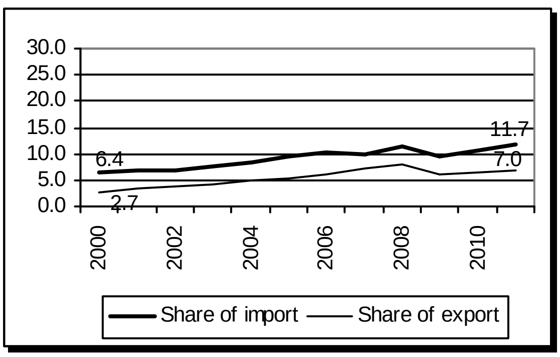
In 2011, the main partners of the EU in the field of trade in goods (export+import) were: the USA (13.8% of total), China (13.3%, very close to the USA), the Russian Federation (9.5%), Switzerland (6.6%), Norway (4.4%), Turkey (3.7%), surpassing Japan (3.6%), India (2.5%) and Brazil (2.3%) outranking South Korea (2.1%). Comparing these shares with those of 2000, we can remark the distinct share increases of China and Russia, the modest growth in the case of Brazil and India, in parallel with the sharp decrease of percentages of traditional trade partners: USA and Japan (Figure 3). As export destinations, we remark as well growing shares of countries like Switzerland, Turkey, Algeria and South Africa, and as import sources, increasing participation of Turkey and Norway, for example. *It is worth mentioning that in 2011 Russia outranked the USA and occupied the second place next to China in the hierarchy of major import partners of the EU.*

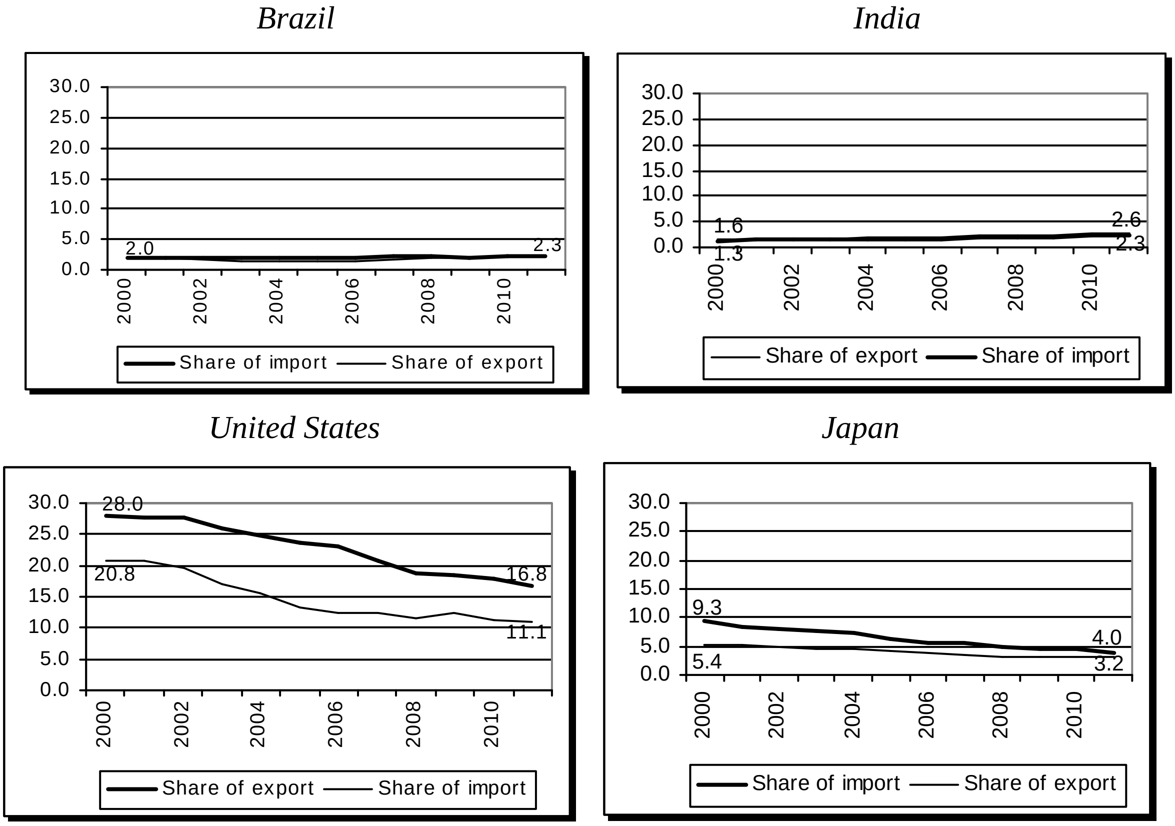
Figure 3: *Increasing shares of BRIC countries and diminishing shares of United States and Japan in the extra-EU trade in goods during 2000-2011 (%)*

China



Russia

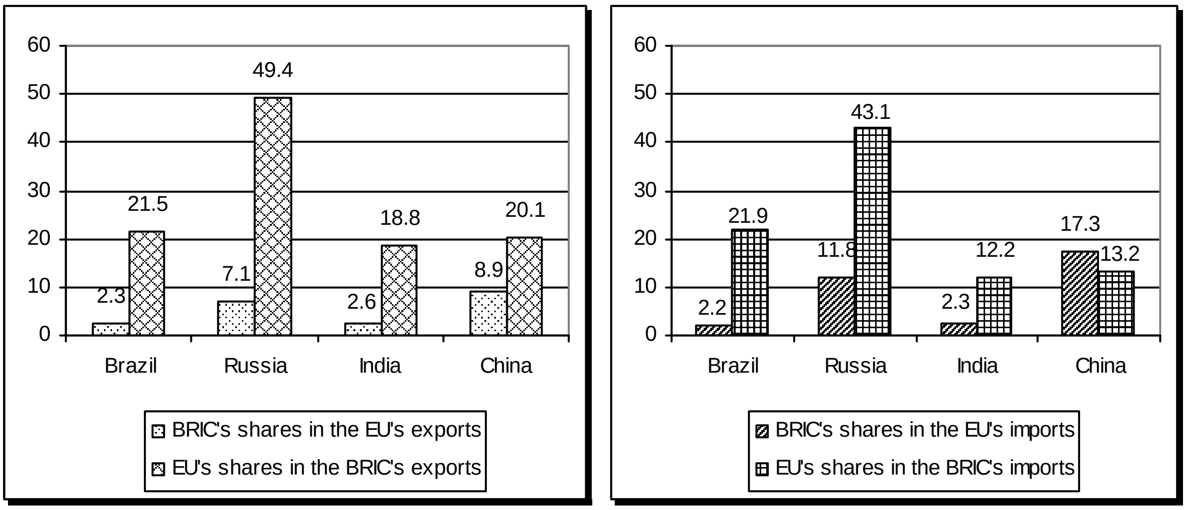




Source: Own representation based on Eurostat (2012).

At the same time, the degree of dependence of the BRIC countries on the EU Internal Market is much higher than that of EU upon the BRIC countries, as regards exports. The situation is similar for import, except the EU-China flows: China's share in the EU import (almost 17.3% in 2011) is higher than EU's share in China's imports (13.2% in 2011), although the EU is the main exporter on the Chinese market, after Japan (Figure 4).

Figure 4: *Bilateral trade dependency between the EU and BRIC in 2011 (%)*



Note: Extra-EU trade level.

Source: Own representation, based on DG Trade (2012).

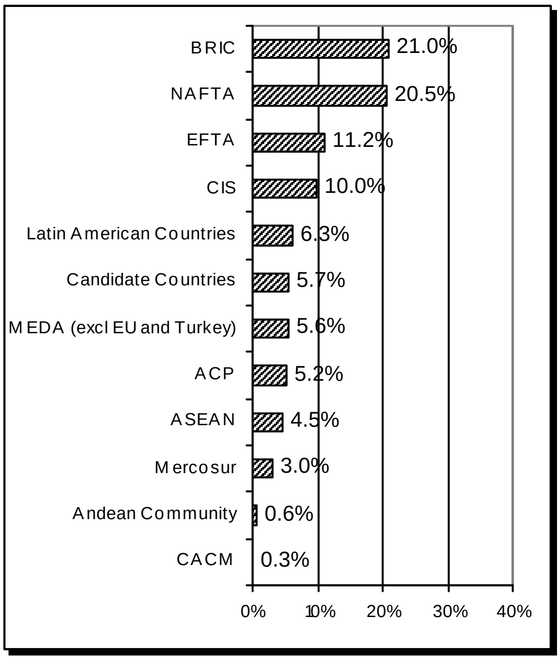
In this context, it is worth remarking that China is the largest single-country trading partner of Brazil and India, although its trade dependence on these countries is still low. It should also be mentioned that the collective shares of China, Russia and Brazil in the Indian imports surpass the share of the EU as an entity, due to the high level of Chinese imports.

During 2000-2011, both EU export and import flows to/from China, Russia and India had compound annual growth rates (CAGR) larger than 10%. The growth rates of the EU trade flows in relation with Brazil were robust but still under 10%.

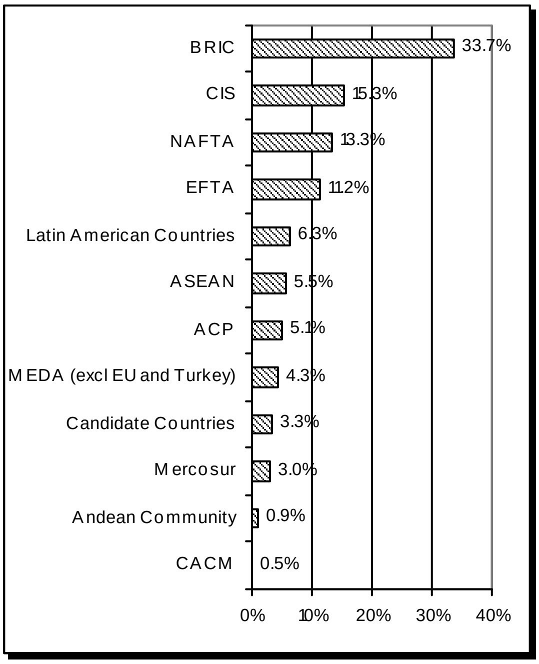
The shares of the BRIC group in the extra-EU trade flows increased gradually, to reach maximum levels in 2011. Taking into consideration both trade flows (export plus import), the BRIC group had in 2011 a share of 27.6% in the EU trade, much larger than the percentage held by the group of NAFTA countries, namely 16.7% of total. On the export side, *the contribution of BRIC surpassed for the first time that of NAFTA* (21% versus 20.5%), while the imports were net dominated by BRIC, followed at distance by CIS and NAFTA (33.7%, 15.3% and 13.3% respectively) (Figure 5).

Figure 5: *BRIC's share in the extra-EU trade flows in 2011, as compared to NAFTA and ten other groups of countries (%)*

Export



Import



Note: **NAFTA** – North American Free Trade Area, **EFTA** – European Free Trade Association, **CIS** – Community of the Independent States, **MEDA** – countries participating at the Euro-Mediterranean Partnership, **ASEAN** – Association of the Southeast Asian Nations, **ACP** – 79 countries from Africa, Caribbeans and Pacific, **CACM** – Honduras, El Salvador, Nicaragua, Costa Rica, Guatemala, Panama, **Mercosur** – Argentina, Brazil, Paraguay, Uruguay.

Source: DG Trade (2012).

These market shares were reflected in a large *EU-BRIC deficit of the trade balance in goods in 2011*: Euro 246 billion, close to the deficit of 2008, amounting to Euro 250 billion and larger that the negative balance of Euro 243 billion in 2010.[13] The EU-BRIC deficit in the field of trade in goods is even more significant if we take into consideration the total EU deficit in relation with its extra-community partners, which amounted to around Euro 153 billion in 2011 (DG Trade, 2012). The EU continued to register an insignificant trade surplus in the relationship with India (circa Euro 1 billion) and a moderate deficit with Brazil (circa Euro 2 billion – representing one fifth of the deficits recorded in 2006-2008), while the deficits of trade balances with China and Russia were remarkable (Euro 156 billion and Euro 90 billion respectively, marking a *sharp decrease* in the first case and a *significant increase* in the second case (DG Trade, 2012). The EU trade balance deficits in relation with China and Russia remained the two largest deficits among all the Union's deficits with its trade partners and these were followed by those in relation with Norway (circa Euro 47 billion), Japan and Kazakhstan (Euro 18 billion and Euro 17 billion respectively).

As regards the trade balance in relation with China, the EU experts hold China responsible for maintaining the national currency, RMB, at an undervalued foreign exchange rate, in order to encourage exports or, conversely, to slow down imports. Nevertheless, the Chinese experts find other explanations for the Chinese trade surplus (Zhu, Jia, Zhang, 2009). They highlight that the EU and the USA weapon embargo over exports to China, in effect for over 20 years, is an impediment to exports increase on the Chinese market (by restricting the export of double-usage technologies, civil and military). Besides, they emphasize the "trade equilibrium triangle: EU-China-Eastern and Southeastern Asia", meaning that the trade surplus of the Eastern and Southeastern Asian countries with the EU was transferred to the China-EU surplus, as China uses the inputs from its neighbours and exports the final products to the EU. However, the exported products do not incorporate a high value-added and the total Chinese surplus is due to the significant quantity exported. Finally, they underline that the cheap Chinese products exported to the EU have a positive impact on the inflation rate in Europe and on the European household budgets and besides the foreign companies in China are the main beneficiaries of the trade relationship between the EU and China.

In our opinion, two long term processes might have a strong impact upon the Chinese trade balance: on the one hand, the revaluation of the national currency, which would increase the attractivity degree of the domestic market for the Chinese producers (which is equivalent to exports moderation); on the other hand, the reduction of the propensity to save of the households and companies, which would contribute to increase the domestic demand (which means imports increase as well).

In 2011, only Germany and Finland managed to have a modest trade surplus in relation with *China*, while deficits recorded by countries like Netherlands, UK, Italy, Spain

[13] Anyway, the deficit of the EU trade balance in goods in relation with the BRIC countries reached the minimum of the period 2006-2011 in 2009, as the global financial and economic crisis influenced also the EU-BRIC trade, by contributing to the diminishing of exports, imports, and accordingly, trade (in)balances.

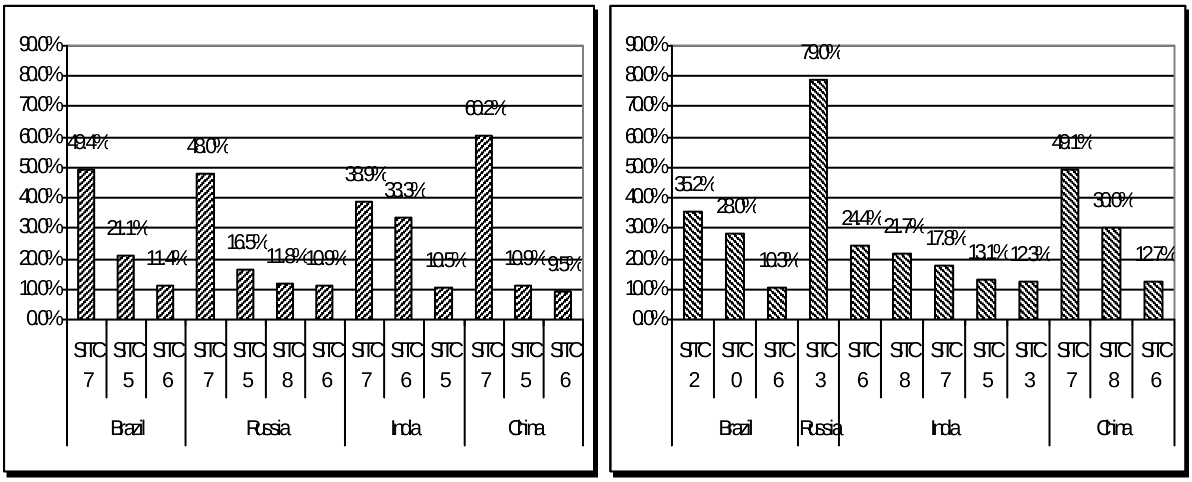
and France surpassed Euro 10 billion. In the same year, in relation with *India*, twelve EU member states reported a trade surplus, out of which only Germany and Belgium recorded notable surpluses (Euro 4.3 billion and Euro 2.7 billion). At the level of the bilateral trade with *Brazil*, twelve EU countries recorded a trade surplus in 2011, but only Germany's balance, amounting to Euro 4.2 billion, was significant. By contrast, the deficit of Netherlands was remarkable (Euro 6.8 billion). In the same year, seven EU countries (Austria, Denmark, Estonia, Ireland, Latvia, Luxembourg and Slovenia) were able to record a positive trade balance in relation with the *Russian Federation*, but these surpluses were modest. It is also worth noting the high deficits of Netherlands (Euro 18.7 billion) and Poland (Euro 12 billion).

As regards the structure of the EU-BRIC trade flows in 2011, the EU exports were dominated by manufactures (with shares in a range between 84-87%), while the EU imports presented variations both in time and among the trade partners as follows: *the imports from Russia and Brazil were dominated by primary products* (84.7% and 73.9% respectively, representing increases of 10 percentage points and 6.4 percentage points respectively as compared to the corresponding shares of 2007), while at the level of *imports from China and India* predominant were manufactures: the imports from China were clearly dominated by manufactures (95.5%) and this percentage remained almost unchanged during 2007-2011, while manufactures had a percentage of 76.6% in the total EU imports from India and this marked a sharp decrease of 6.1 percentage points in favour of primary products.

Referring to the EU-BRIC trade structure, one can remark that both exports and imports continued to be dominated in 2011 by a limited number of SITC sections (Figure 6).

Figure 6: *Dominant SITC sections in the EU trade with the BRIC countries in 2011 (%)*

Export **Import**

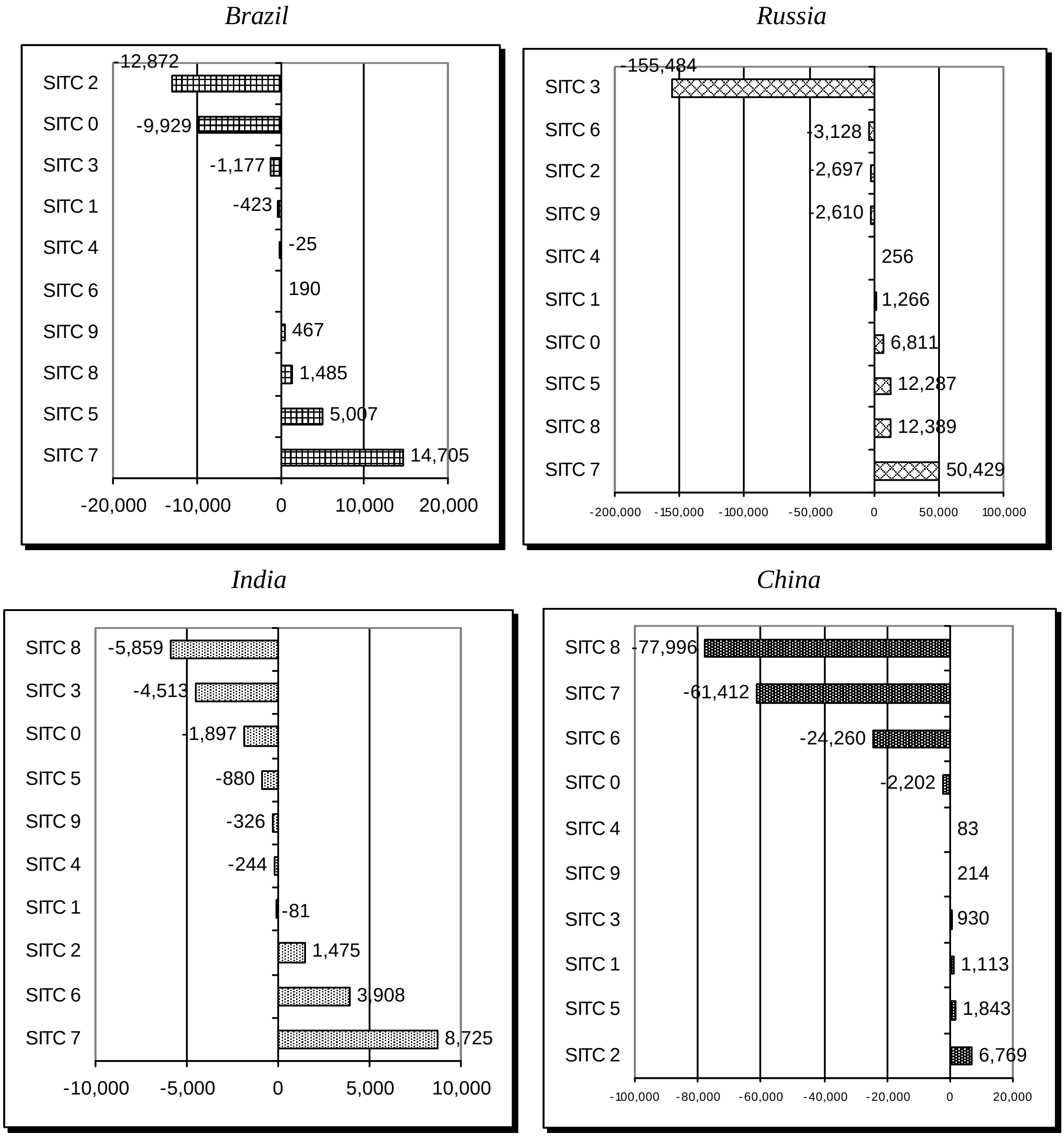


SITC 0 Food and live animals
SITC 1 Beverages and tobacco
SITC 2 Crude materials, inedible, except fuels
SITC 3 Mineral fuels, lubricants and related materials
SITC 4 Animal and vegetable oils, fats and waxes
SITC 5 Chemicals and related prod, n.e.s.
SITC 6 Manufactured goods classified chiefly by material
SITC 7 Machinery and transport equipment
SITC 8 Miscellaneous manufactured articles
SITC 9 Commodities and transactions n.c.e.

Source: DG Trade (2012).

Nevertheless, the degree of trade concentration differs significantly. At the level of EU exports to all the BRIC countries prevails section 7 *Machinery and transport equipment* (with shares of circa 50% in the exports to Brazil and Russia, 40% in the exports to India and even 60% in the exports to China). The most concentrated are the imports from the Russian Federation (section 3 *Mineral fuels, lubricants and related materials, almost 80% of the total EU imports from Russia*), while the most diversified are the exports to Russia and the imports from India. As a consequence, the trade balances of the EU with the BRIC countries contrast strongly by SITC sections (Figure 7).

Figure 7: *EU trade balance in relation with the BRIC countries, breakdown by SITC section in 2011(%)*



Source: DG Trade (2012).

In the final part of this section, we underline that the EU-BRIC trade flows are distinctly dominated by the group of EU-15. The NMS hold significant shares only in relationship with the Russian Federation, the group having shares of 20-25% in the total EU-Russia trade. This characteristic will be detailed in the following section of our paper.

3. REMARKS UPON THE "TRADE SPLIT" BETWEEN THE OLD AND THE NEW EU MEMBER STATES IN RELATION WITH THE BRIC COUNTRIES

3.1. THE "TRADE SPLIT" ON THE INTERNAL MARKET

The importance of the external market as destination for the EU exports accentuated in the context of the world financial and economic crisis (including here the Euro Zone debt crisis). Although it is demonstrated that some emerging regions "recoupled" rather than "decoupled" of the rest of the world (Kim *et al.*, 2011), nevertheless diversified export/import destinations/sources diminish the trade risks (synonym with: concentrated export/import destinations/sources increment the trade risks).

In spite of this "outwarding" process, EU as an entity and both groups of analyzed countries, EU-15 and NMS, are still more dependent on the Internal Market than on the external ones. At the level of 2011, the degree of dependence on the Internal Market was higher at export (62.7% in the case of the EU-15 and 76.6% in the case of the NMS) than at import (60.2% and 70.4% respectively). Conversely, the degrees of dependence on the external markets, though increasing, remain significantly inferior to the degrees of dependence on the Internal Market.

In this context, we define the "trade split" or gap between the two groups of countries on the Internal Market as the difference between their degrees of dependence on the Internal Market, expressed in percentage points.

"Trade split" between the EU-15 and the NMS at export on the Internal Market:

$$\frac{X_{EU-15,intra-EU,n}}{X_{EU-15,total,n}} - \frac{X_{NMS,intra-EU,n}}{X_{NMS,total,n}} \quad (1)$$

$X_{EU-15,intra-EU,n}$ = value of the cumulated exports of the EU-15 on the Internal Market in year "n";

$X_{EU-15,total,n}$ = total export value of the EU-15 (intra- plus extra-EU) in year "n";

$X_{NMS,intra-EU,n}$ = cumulated export value of the NMS on the Internal Market in year "n";

$X_{NMS,total,n}$ = total export value of the NMS (intra- plus extra-EU) in year "n".

On the import side, the formula is the same, but the export flows defined above are replaced by the corresponding imports.

<u>“Trade split” between the EU-15 and the NMS at import on the Internal Market:</u>

$$\frac{M_{EU-15,intra-EU,n}}{M_{EU-15,total,n}} - \frac{M_{NMS,intra-EU,n}}{M_{NMS,total,n}} \quad (2)$$

$M_{EU-15,intra-EU,n}$ = value of the cumulated imports of the EU-15 from the Internal Market in year “n”;

$M_{EU-15,total,n}$ = total import value of the EU-15 (intra- plus extra-EU) in year “n”;

$M_{NMS,intra-EU,n}$ = value of the cumulated imports of the NMS from the Internal Market in year “n”;

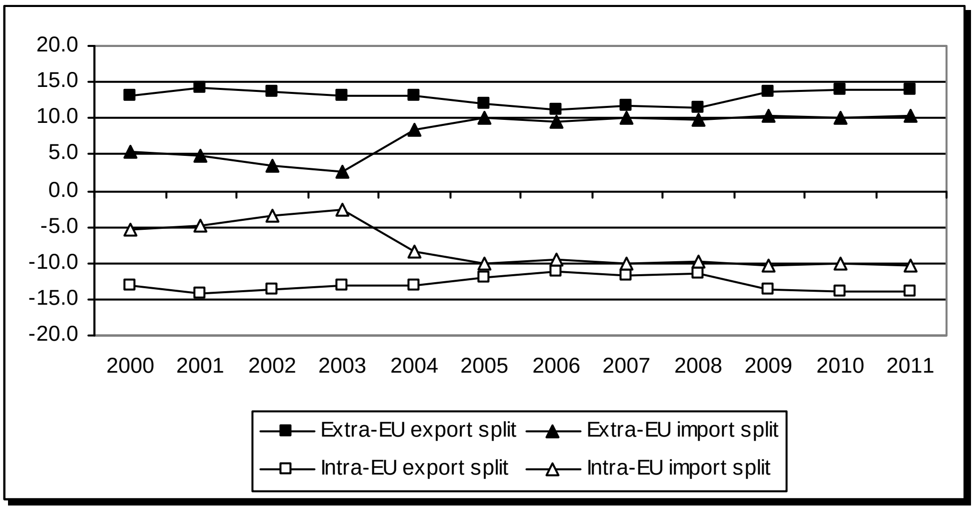
$M_{NMS,total,n}$ = total import value of the NMS (intra- plus extra-EU) in year “n”.

If we take into consideration both trade flows, export plus import, the “trade split” is calculated by replacing the X and M flows by their sum, X+M. Anyway, in this paper we present the “trade split” separately at export and import.

A negative value for (1) or (2) denotes that the group of EU-15 is less dependent on the Internal Market than the NMS at export or import, while a positive value signifies that the group of EU-15 is more dependent on the Internal Market than the NMS at export or import.

Conversely, the “trade split” on the external markets is the “mirror” image of that obtained on the Internal Market (x-axis symmetry (Figure 8)). The formulas are the same, only at numerator the intra-EU flows are replaced by the extra-EU flows.

Figure 8: *EU-15- NMS “trade split” at export and import, extra-EU and intra-EU trade, 2000-2011 (in %)*



Source: Own calculations and representation, based on Eurostat (2012).

Referring to the intra-EU trade in 2011, the differences between the percentages of the two groups (“trade split”) were -13.9 percentage points at export and -10.2 percentage points at import (negative values for both export and import, signifying that the group of NMS is more dependent on the Internal Market than the EU-15 both at export and import).

Conversely, as regards the extra-EU trade, our calculations indicate that the group of EU-15 is more outward oriented than the NMS.

It is worth mentioning here that during 2000-2011 the “export split” on the external markets increased by 0.8 percentage points, while the “import split” augmented by 4.7 percentage points. Although the “trade split” remains larger at export than at import, these growths imply the increasing importance of these markets for the EU-15, especially as import sources.

Our analysis reveals further that, *at export*, Slovakia, Czech Republic, Luxembourg, Poland, Netherlands, Hungary, Portugal, Belgium, Romania and Slovenia were in 2011 the most dependent on the Internal Market among the EU-27 – all with a dependence degree larger than 70%. The most outward oriented were in the same year: Malta (59% of its exports went to extra-EU markets), Greece (50.1%), United Kingdom (49.5%), Finland (44.4%), Italy (44%), Sweden (43.9%), Ireland (41.9%) and Germany (40.7%).

On the import side, Luxembourg, Latvia, Austria, Czech Republic, Malta, Portugal, Romania, Slovakia and Denmark were in 2011 the most dependent on the Internal Market among the EU-27 – all with a dependence degree of over 70%. The least dependent on the Internal Market were in the same year: Netherlands (46.5%), United Kingdom (48.7%), Greece (51.9%), Italy (53.3%), Lithuania (55.9%), Spain (57.3%) and Bulgaria (59.2%) – conversely, these were the most outward oriented countries as regards import sources.

Cyprus, Malta and Bulgaria were the only EU countries which augmented their export dependence on the Internal Market during 2000-2011 (by 8%, 7.1% and 6.4% respectively), while on the import side one can remark thirteen countries which increased their dependence on the Internal Market, most of them NMS: Malta, Cyprus, Estonia, Romania, Bulgaria, Ireland (by 13%, 11.2%, 7.8%, 7.4%, 6.3% and 6.2% respectively) followed by Hungary (3.3%), Latvia (3.2%), Slovak Republic (2.1%), Lithuania (1.1%), Poland (0.5%), Germany (0.4%) and France (0.3%).

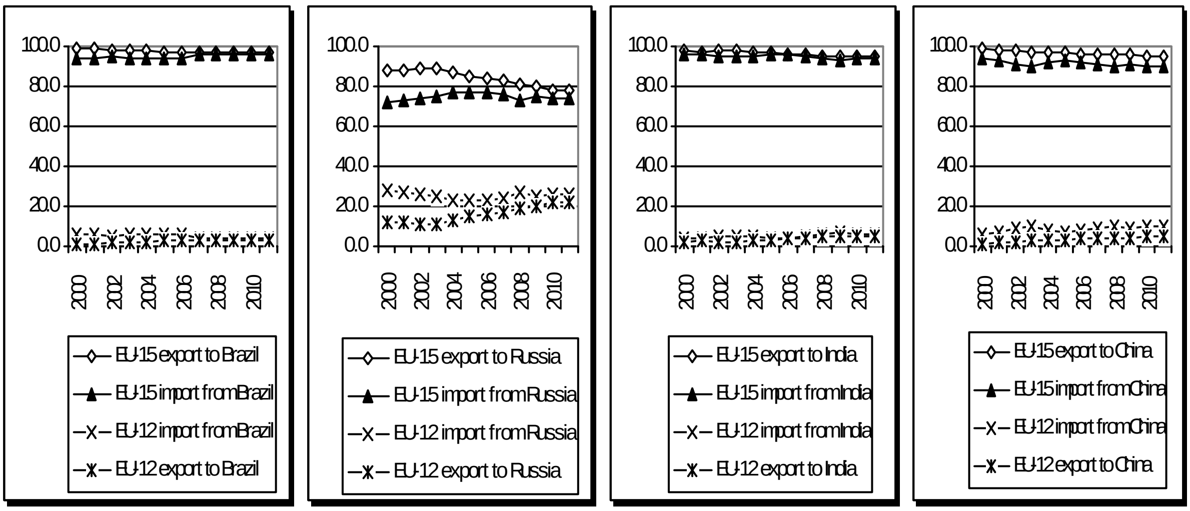
3.2. REMARKS UPON THE “TRADE SPLIT” BETWEEN THE OLD AND THE NEW EU MEMBER STATES IN RELATION WITH THE BRIC COUNTRIES

The process of integration of the NMS in the world economy started at the beginning of the 1990s and can be described as gradual and asymmetric. The deepening of the integration with the Internal Market seemed to occur in the detriment of the relations with countries outside the Union, including the BRICs. The literature review does not give clear indications on the factors that hinder the NMS to accelerate trade relations with the most powerful emerging countries. Anyway, it is obvious that only strong companies are able to compete on the BRIC and other emerging markets or to surpass their entrance trade barriers and most of these companies are Western European, not Central and Eastern European. Besides, after decades in the Council for Mutual Economic Assistance (COMECON), countries like Romania, Hungary and Poland were keen on integrating with the EU, but, at the same time, maintained to a certain extent their trade relations with Russia.

Statistical data indicate that the shares of the NMS in the total extra-EU trade flows remain at low levels. In 2011, the collective contribution of the NMS to the extra-EU exports was of 7.9% and their participation at the extra-EU imports was of 9.5%. Although the participation of the NMS at the extra-EU trade was modest, their contribution to the community trade deficit was large: about Euro 40 billion, in comparison with a total deficit of approximately Euro 160 billion (a share of circa 25%) (Eurostat, 2012).

In general, in relation with the BRIC countries, the shares of the NMS in the total extra-EU exports to India, Brazil and to a lower extent to China remain well below the average of 7.5%, while the NMS participate actively at the Union's exports to the Russian Federation. On the import side, the situation is similar with that described at export, with the exception of imports from China, where the share of the NMS group is slightly higher than the average of 9.5% (Figure 9).

Figure 9: *Shares of the EU-15 and NMS in the EU trade flows with Brazil, Russia, India and China during 2000-2011 (%)*



Source: Own calculations and representation, based on Eurostat (2012).

Our analysis indicates that several EU-15 countries dominate the trade with the BRIC countries: Germany, France, Italy, the United Kingdom, Belgium and Netherlands. Nevertheless it should be underlined that the statistical data are distorted by the so-called "Rotterdam effect".[14] It is worth mentioning also that other trade flows are to some extent

[14] According to Eurostat, goods destined for the EU arrive in Dutch ports and are declared as imports by the Netherlands. This reduces the extra-EU imports to the Member States to which the goods are re-exported, as these are recorded as arrivals from the Netherlands, rather than from an extra-EU partner. To a lesser extent, Belgian extra-EU imports are similarly over-estimated. In 2010, circa 46.5% of the Dutch import value of goods came from outside the EU, in comparison with a percentage of 43.5% in 2007 and China and Russia are the most important growth markets (http://www.portofrotterdam.com/en/News/pressreleases-news/Pages/dutch-trade-afield.aspx).

misrepresented. It is the case of the Romanian trade as well. For example, the large trade deficit of Romania with Hungary – the highest recorded in the Romanian foreign trade – is due to Romanian imports of Chinese goods (of about Euro 2 billion) from this neighbouring country, due to the undeveloped direct relations between Romanian and Chinese companies. On the export side, the situation is similar, as many Romanian goods reach the Chinese market through third countries. Anyway these distortions do not affect the general conclusion that the shares of the NMS in the EU-BRIC trade remain at low levels.

In this section we reflect the "trade split" between the EU-15 and NMS by comparing the shares of these groups of countries in the total EU export and import in relation with each country. As the "trade split" is large enough, we do not need to calculate the difference between them, but we compare directly the following values:

$$\frac{X_{EU-15,Brazil,n}}{X_{EU,Brazil,n}} \text{ and } \frac{X_{NMS,Brazil,n}}{X_{EU,Brazil,n}};\ \frac{M_{EU-15,Brazil,n}}{M_{EU,Brazil,n}} \text{ and } \frac{M_{NMS,Brazil,n}}{M_{EU,Brazil,n}} \text{ (Table 3);}$$

$$\frac{X_{EU-15,Russia,n}}{X_{EU,Russia,n}} \text{ and } \frac{X_{NMS,Russia,n}}{X_{EU,Russia,n}};\ \frac{M_{EU-15,Russia,n}}{M_{EU,Russia,n}} \text{ and } \frac{M_{NMS,Russia,n}}{M_{EU,Russia,n}} \text{ (Table 4);}$$

$$\frac{X_{EU-15,India,n}}{X_{EU,India,n}} \text{ and } \frac{X_{NMS,India,n}}{X_{EU,India,n}};\ \frac{M_{EU-15,India,n}}{M_{EU,India,n}} \text{ and } \frac{M_{NMS,India,n}}{M_{EU,India,n}} \text{ (Table 2);}$$

$$\frac{X_{EU-15,China,n}}{X_{EU,China,n}} \text{ and } \frac{X_{NMS,China,n}}{X_{EU,China,n}};\ \frac{M_{EU-15,China,n}}{M_{EU,China,n}} \text{ and } \frac{M_{NMS,China,n}}{M_{EU,China,n}} \text{ (Table 1).}$$

Our investigation highlights that, although the group of the EU-15 continues to dominate the Union's trade with the BRIC countries, anyway, as regards its exports to all the four emerging economies analyzed and its imports from China and India as shares in the total EU flows to these countries, these had a diminishing trend in the period 2000-2011, in favour of the NMS.

In relation with *China*, Germany, France and Italy concentrated in 2011 circa 65% of the EU exports, while Germany, Netherlands and the United Kingdom cumulated almost 53% of the imports. The participation of the NMS at these flows was modest. Poland was slightly surpassed by Slovakia at export and by Czech Republic at import, in contrast with the preceding year, when it was the most active exporter to and importer from China among the NMS. Romania, who had maintained a strong relationship with China for decades until the fall of the Iron Curtain, lost its privileged position in favour of other European countries, due to a lack of active policies towards the enhancement of the relations with the most powerful emerging country in the world (Table 1).

Table 1: *Shares of the EU-15 and NMS in the total EU export to/import from China in 2011 and their variation in 2000-2011 (% and percentage points)*

Export			Import		
Group of countries/country	**Total share in the total flow**	**Variation 2011/2000 (percentage points)**	**Group of countries/country**	**Total share in the total flow**	**Variation 2011/2000 (percentage points)**
EU-15	**95.3**	**-3.3**	**EU-15**	**89.6**	**-4.5**
Out of which countries with the highest shares:			*Out of which countries with the highest shares:*		
1. Germany	*47.4*	*+10.8*	*1. Germany*	*22.0*	*-1.0*
2. France	*9.9*	*-3.3*	*2. Netherlands*	*17.4*	*+5.7*
3. Italy	*7.3*	*-1.9*	*3. UK*	*13.3*	*-5.6*
NMS	**4.7**	**+3.3**	**NMS**	**10.4**	**+4.5**
Out of which countries with the highest shares:			*Out of which countries with the highest shares:*		
13. Slovakia	*1.1*	*+1.1*	*8. Czech Republic*	*2.8*	*+1.8*
14. Poland	*1.0*	*+0.6*	*9. Poland*	*2.6*	*+0.6*
15. Hungary	*0.9*	*+0.7*	*10. Hungary*	*2.1*	*+0.7*
16. Czech Republic	*0.9*	*+0.6*	*16. Romania*	*0.9*	*+0.6*
18. Romania	*0.3*	*-0.1*	*17. Slovakia*	*0.8*	*+0.5*

Note: The other main exporters at the level of 2011 were: 4. United Kingdom, 5. Belgium, 6. Netherlands, 7. Sweden, 8. Spain, 9. Austria, 10. Finland, 11. Denmark, 12. Ireland, 17. Portugal. On the import side, one can remark: 4. Italy, 5. France, 6. Spain, 7. Belgium, 11. Sweden, 12. Denmark, 13. Austria, 14. Finland, 15. Greece. Figures in front of the country names represent the place occupied in the EU-27 export/import hierarchy in relation with China.

Source: Own representation, based on Eurostat (2012).

The NMS group increased its shares both in the exports and imports to/from India during the last decade, but this growth was only marginal. Only three NMS were able in 2011 to register shares larger than 1% in the total EU-India export/import: the Czech Republic on the export side (1.5%) and Poland and Romania on the import side (1.6% and 1% respectively). By contrast, in 2011, Germany, Belgium and the United Kingdom cumulated circa 61% of the EU exports to India, while the same countries concentrated 47% of the total EU imports from this country (Table 2).

The lowest participation of the NMS at the EU-BRIC trade was identified in relation with Brazil. During 2000-2011, the group increased marginally its shares in the EU's exports to Brazil (by 1.7%) but diminished its participation in the corresponding imports (by 1.5%). In 2011, none of the NMS was able to surpass the share of 0.9% in the total EU exports to Brazil, while on the import side, only Romania and Poland had shares larger than 1% in the total EU imports from the largest Latin American country. Three countries of the EU-15 cumulated more than 50% of the total EU exports to and imports from Brazil in 2011:

Germany, Italy and France on the export side and Netherlands, Germany and Italy on the import side (Table 3).

Table 2: *Shares of the EU-15 and NMS in the total EU export to/import from India in 2011 and their variation in 2000-2011 (% and percentage points)*

Export			Import		
Group of countries/country	**Total share in the total flow**	**Variation 2011/2000 (percentage points)**	**Group of countries/country**	**Total share in the total flow**	**Variation 2011/2000 (percentage points)**
EU-15	**95.0**	**-2.8**	**EU-15**	**94.4**	**-1.9**
Out of which countries with the highest shares:			*Out of which countries with the highest shares:*		
1. Germany	*26.7*	*+11.5*	*1. UK*	*16.7*	*-4.7*
2. Belgium[1]	*19.6*	*-5.8*	*2. Germany*	*16.6*	*-1.3*
3. United Kingdom	*14.8*	*-13.8*	*3. Belgium*[1]	*13.4*	*-0.1*
NMS	**5.0**	**+2.8**	**NMS**	**5.6**	**+1.9**
Out of which countries with the highest shares:			*Out of which countries with the highest shares:*		
11. Czech Republic	*1.5*	*+0.9*	*9. Poland*	*1.6*	*+0.4*
13. Poland	*0.9*	*+0.5*	*14. Romania*	*1.0*	*+0.8*
14. Hungary	*0.9*	*+0.7*	*17. Czech Republic*	*0.8*	*+0.1*
16. Romania	*0.5*	*+0.2*	*18. Hungary*	*0.7*	*+0.1*
17. Lithuania	*0.3*	*+0.3*	*19. Slovenia*	*0.6*	*+0.4*

[1]Trade in gems and jewelry represents around 70% of the Belgo-Indian bilateral trade.

Note: The other main exporters at the level of 2011 were: 4. Italy, 5. France, 6. Netherlands, 7. Sweden, 8. Spain, 9. Austria, 10. Finland, 12. Denmark and 15. Ireland. On the import side, one can remark: 4. Italy, 5. Netherlands, 6. France, 7. Spain, 8. Sweden, 10. Denmark, 11. Finland, 12. Greece, 13. Portugal, 15. Austria and 16. Ireland. Figures in front of the country names represent the place occupied in the EU-27 export/import hierarchy in relation with India.

Source: Own representation, based on Eurostat (2012).

Table 3: *Shares of the EU-15 and NMS in the total EU export to/import from Brazil in 2011 and their variation in 2000-2011 (% and percentage points)*

Export			Import		
Group of countries/country	**Total share in the total flow**	**Variation 2011/2000 (percentage points)**	**Group of countries/country**	**Total share in the total flow**	**Variation 2011/2000 (percentage points)**
EU-15	**96.8**	**-1.7**	**EU-15**	**9.6**	**+1.5**
Out of which countries with the highest shares:			*Out of which countries with the highest shares:*		
1. Germany	*31.1*	*+1.2*	*1. Netherlands*	*23.5*	*+8.6*
2. Italy	*13.4*	*-1.2*	*2. Germany*	*17.9*	*+0.5*
3. France	*11.5*	*-5.6*	*3. Italy*	*10.7*	*-2.9*
NMS	**3.2**	**+1.7**	**NMS**	**4.0**	**-1.5**
Out of which countries with the highest shares:			*Out of which countries with the highest shares:*		

Export			Import		
Group of countries/country	**Total share in the total flow**	**Variation 2011/2000 (percentage points)**	**Group of countries/country**	**Total share in the total flow**	**Variation 2011/2000 (percentage points)**
13. Czech Republic	*0.9*	*+0.6*	*11. Romania*	*1.2*	*+0.2*
15. Poland	*0.8*	*+0.3*	*12. Poland*	*1.1*	*-0.6*
16. Hungary	*0.5*	*+0.1*	*14. Slovenia*	*0.7*	*+0.4*
17. Romania	*0.4*	*+0.4*	*18. Hungary*	*0.3*	*-1.0*
18. Slovakia	*0.2*	*+0.2*	*19. Bulgaria*	*0.2*	*-0.1*

Note: The other main exporters to Brazil at the level of 2011 were: 4. United Kingdom, 5. Spain, 6. Belgium, 7. Netherlands, 8. Sweden, 9. Austria, 10. Denmark, 11. Portugal, 12. Finland, 14. Ireland. On the import side, one can remark: 4. United Kingdom, 5. Spain, 6. France, 7. Belgium, 8. Portugal, 9. Finland, 10. Sweden, 13. Denmark, 15. Austria, 16. Ireland, 17. Greece. Figures in front of the country names represent the place occupied in the EU-27 export/import hierarchy in relation with Brazil.

Source: Own representation, based on Eurostat (2012).

In relationship with the *Russian Federation*, the situation is somehow different. The trade flows continue to be dominated by the EU-12 but the NMS group holds shares of over 20% in the total EU-Russia trade. During 2000-2011, the NMS, as entity, increased its share in the total EU exports to Russia by 9.1 percentage points, to the EU-15's detriment, but, on the import side, its share decreased by 2.3 percentage points. This data might be distorted by the growing imports through the Dutch and Belgian harbours, as out of the 15 old member states, only Sweden, Spain, Greece and Finland increased their participation at the EU import from Russia and only by small percentages (Table 4).

Table 4: *Shares of the EU-15 and NMS in the total EU export to/import from* <u>*Russia*</u> *in 2011 and their variation in 2000-2011 (% and percentage points)*

Export			Import		
Group of countries/country	**Total share in the total flow**	**Variation 2011/2000 (percentage points)**	**Group of countries/country**	**Total share in the total flow**	**Variation 2011/2000 (percentage points)**
EU-15	**78.4**	**-9.1**	**EU-15**	**74.0**	**+2.3**
Out of which countries with the highest shares:			*Out of which countries with the highest shares:*		
1. Germany	*31.7*	*+2.4*	*1. Germany*	*19.0*	*-3.4*
2. Italy	*8.6*	*-2.5*	*2. Netherlands*	*12.9*	*+6.8*
3. France	*6.9*	*-1.2*	*4. Italy*	*9.0*	*-4.0*
NMS	**21.6**	**+9.1**	**NMS**	**26.0**	**-2.3**
Out of which countries with the highest shares:			*Out of which countries with the highest shares:*		
5. Poland	*5.6*	*+1.5*	*3. Poland*	*9.0*	*+1.2*
9. Czech Republic	*3.5*	*+1.6*	*10. Lithuania*	*3.7*	*+1.3*

Export			Import		
Group of countries/country	**Total share in the total flow**	**Variation 2011/2000 (percentage points)**	**Group of countries/country**	**Total share in the total flow**	**Variation 2011/2000 (percentage points)**
11. Lithuania	*3.1*	*+2.0*	*12. Hungary*	*3.2*	*-1.2*
13. Hungary	*2.4*	*+0.2*	*13. Slovakia*	*3.1*	*-0.6*
15. Slovakia	*1.9*	*+1.4*	*14. Czech Republic*	*2.6*	*-0.9*
16. Latvia	*1.5*	*+1.1*	*16. Bulgaria*	*2.1*	*-0.5*
18. Estonia	*1.2*	*+0.9*	*18. Romania*	*1.0*	*-0.9*
19. Romania	*0.9*	*+0.5*	*20. Estonia*	*0.5*	*-0.1*

Note: The other main exporters at the level of 2011 were: 4. Netherlands, 6. Finland, 7. Belgium, 8. United Kingdom, 10. Austria, 12. Sweden, 14. Spain, 17. Denmark. On the import side, one can remark: 5. France, 6. Finland, 7. Belgium, 8. United Kingdom, 9. Spain, 11. Sweden, 15. Greece, 17. Austria, 19. Denmark. Figures in front of the country names represent the place occupied in the EU-27 export/import hierarchy in relation with Russia.

Source: Own representation, based on Eurostat (2012).

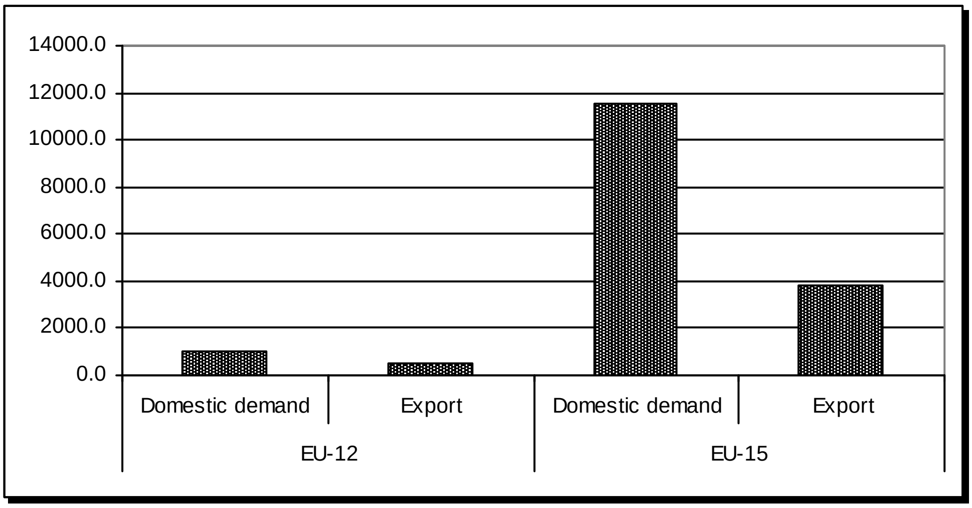
Poland is definitely the most active NMS as regards trade flows to and from the Russian Federation. In 2011, Poland occupied the fifth place in the hierarchy of the main EU exporters to Russia, with a share of 5.6% in the total EU exports and it was the third main importer from Russia, having a contribution of 9% to the corresponding imports. Poland was followed at distance by the Czech Republic and Lithuania on the export side and by Lithuania, Hungary and Slovakia on the import side.

In order to explain the "trade split" between the EU-15 and the NMS on the Internal Market and external markets, including the trade relations with the BRIC countries, we will answer the following questions. *Is the extra-EU trade a necessity for the companies in the EU-15? Are the export companies of the NMS able to compete on the extra-EU markets such as BRIC? Do they have access to necessary financial resources? How can be explained the higher share of the NMS in the total EU trade with Russia as compared to their participation at trade with China, India and Brazil?*

Is the extra-EU trade a necessity for the companies in the EU-15? The answer is definitively *yes*. The group of EU-12 alone would not be able to absorb the EU-15 exports. At the level of 2011, the cumulated domestic demand of the EU-12 was of circa Euro 991.6 billion, while the EU-15 export amounted to about Euro 3834 billion (out of which Euro 1431 billion extra-EU and Euro 2403 billion intra-EU). This represents a proportion of almost 1:4. In the same year, the EU-12 export value of Euro 525 billion (out of which Euro 402 billion intra-EU and Euro 123 billion extra-EU) constituted only a small fraction of the domestic demand of the EU-15, in value of Euro 11502 billion (1:22) (Figure 4). Besides, the transnational corporations (TNC) of the EU-15 have the capacity to compete on the external markets. One argument for our assertion is represented by the hierarchy of the largest 100 non-financial TNCs at global level, ranked by foreign assets, which is dominated by the TNCs of the EU-15 countries (UNCTAD, 2011). According to the literature (Helpman, Melitz and

Yeaple, 2004, p. 301), *least productive firms serve only the domestic market, relatively more productive firms export and the most productive companies engage in FDI.*

Figure 10: *EU-12 and EU-15 – domestic demand and export, 2011 (Euro billion)*



Source: Own calculations and representation, based on Eurostat (2012).

Are the export companies of the NMS able to compete on the extra-EU markets such as BRIC? Do they have access to necessary financial resources? An answer at this question can be found by examining the Forbes Global 2000.[15] In this hierarchy, among the EU-12, there are present only TNC from *Poland* (PGE Polska Grupa – utilities, PKO Bank Polski, PKN Orlen – oil and gas operations, KGHM Polska Miedz – mining, Grupa PZU – property and casualty insurance, Pgnig Group – oil and gas and JSW Group – diversified metals and mining), *Hungary* (MOL – oil and gas operations and OTP Bank), *the Czech Republic* (CEZ, in the field of utilities, which surpasses all the other TNC from the NMS in terms of the composite index) and Cyprus (Marfin Popular Bank). Anyway, there are several strong TNC in other NMS (e.g. Slovenian companies: Gorenje Group, Krka dd, Adria Airways dd and Petrol dd) but these are much smaller than their Western European competitors. As a result, the answer is that only several large companies of the NMS are able to export directly on markets such as BRIC.

How can be explained the higher share of the NMS in the total EU trade with Russia as compared to their participation at trade with China, India and Brazil? Among the determinants can be mentioned the "gravity equation"[16] (based on economic sizes and distance between the trade partners) and tradition of the trade relations maintained even after the disintegration of COMECON in 1991. As demonstrated by the strong trade relations

[15] Presenting the best 2,000 companies taking into consideration a composite ranking based on four metrics: sales, profits, assets and market value.
[16] The gravity model was introduced by Jan Tinbergen in 1962. Please consult: Tinbergen, J. (1962), Shaping the World Economy: Suggestions for an International Economic Policy. New York: Twentieth Century Fund.

between the United Kingdom and India (Table 2) the latter factor can play even a greater role than the former one.

4. CONCLUSIONS

In the present paper, we tried to outline the main characteristics of the trade flows between the EU and the BRIC countries through the lens of their strategic partnerships. At the same time, we underscored the increasing role of the BRICs on the global stage, including that in the field of trade in goods. We stressed that, comparing the BRIC trade flows with those of the EU with the rest of the world (extra-community level), the cumulative shares of the BRIC group in the international export and import flows surpass those of the EU-27.

At the same time, we verified the hypothesis according to which there is a “trade split” between the EU-15 and the NMS, both on the Internal Market and external markets and in relation with the BRIC countries.

Our examination underscored that the group of NMS is more dependent on the Internal Market than the EU-15 both at export and import. Conversely, as regards the extra-EU trade, our calculations indicated that the group of EU-15 is more outward oriented than the NMS, at export and import as well.

Another idea emphasized in our analysis refers to the fact that the EU-BRIC trade flows are distinctly dominated by the group of EU-15. The NMS as a group holds significant shares only in relationship with the Russian Federation, with contributions of over 20% at the total EU-Russia trade. During 2000-2011, the NMS, as entity, increased its share in the total EU exports to Russia by circa 9 percentage points, to the EU-15’s detriment, but, on the import side, its share diminished by more than 2 percentage points. The NMS group raised its shares both in the exports and imports to/from China and India during the last decade, but this growth was only marginal. The lowest participation of the NMS at the EU-BRIC trade was identified in relation with Brazil. Over the last decade, the group increased marginally its shares in the EU’s imports from Brazil but reduced its shares in the corresponding exports.

However, our investigation represents only an attempt to pave the way for further in-depth analyses of the EU-15 – EU-12 “trade split” and is far from being an exhaustive one. We are convinced that we shall find out relevant results by trying to outline the “trade specialization split” between the EU-15 and NMS or the “intra-industry trade split” in relation with the BRIC countries.

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