

## **EU TRADE WITH EMERGING ECONOMIES AND RENTIER STATES: LEVERAGING GEOGRAPHY**

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### **NON-TECHNICAL SUMMARY**

During the past ten years, the volume of international trade has grown by an annual average of more than 6%, twice as fast as the global production. This trend has been accompanied by a reshuffling of international trade in favour of new players. Several developing economies have emerged as the most dynamic exporters of manufactured goods, services and commodities and have eroded the dominant position of the developed countries in world markets. They have also been expanding markets and partners of the developed economies in the international division of labour. The paper investigates how the EU15, the first global trade power, has coped with this new context.

The first section proposes a definition of the new players which distinguishes two subsets: *emerging economies* are those which have substantially increased their share in world exports of manufactured goods or services; *rentier states* are those which have strengthened their position in world markets thanks to their exports of fuels and raw materials. This classification relies on the CEPII databases (CHELEM-GDP-INT-BOP). Taking stock of the heterogeneity of these new players, the paper analyses the reshuffle of international trade and points out the positions of the winners and the losers. This brings to the fore that the EU15 has lost less ground in world exports than the other two big trade powers (the US and Japan), during the period 1995-2007. One of the reasons of this resilience was that the EU15 took advantage of its strong position in the markets of emerging economies and rentier states, and managed to achieve a relatively good performance in these dynamic markets.

The second section provides an in-depth analysis of the EU15 trade with emerging economies and rentier states from 1997 to 2007, making use of an original database drawn from Eurostat Comext. The key findings can be summarised as follows.

The primordial observation is that the EU15 trade profiles differ with neighbours and with distant partners. The EU15 took advantage of its geographic location and was most successful in enhancing its exports to emerging and rentier countries located in Europe & Periphery. The EU enlargement and neighbourhood policies have strengthened the effects of geography and have opened up new dynamic markets near at end (new member states and Mediterranean

countries). The rentier states in the EU periphery have become major markets for the European exporters since the early 2000s. By contrast, the EU15 trade with emerging Asia shows a relatively moderate increase in exports, a fast rise in imports, and a ballooning trade deficit, which was partially compensated by the trade surplus with emerging neighbours. Trade with neighbours thus cushioned some of the consequences of rise of Asian producers.

Outstanding changes have taken place in the EU15 trade with emerging Europe & Periphery. They reflect the productive links which have been building up in industrial sectors and especially in the car industry which was the key driver of trade restructuring. The result of this productive integration was a rapid technology and quality/price upgrading of the EU15 imports from its neighbours, bearing out their catch up process.

The EU15 trade with emerging Asia exhibits a quite different pattern. The most dynamic sector in two way trade was electronics. As a result of the far-reaching reorganisation of Asian industry among matured and emerging economies, the latter have enhanced their position as suppliers of high-technology at low cost. The EU15 export performance in these markets shows that the comparative advantage of a high-cost producer in its trade with low-income countries lies mainly in high-technology and high-quality products.

The global economic crisis has hit all emerging countries since 2008 but the worst hit were the economies which were the EU15 most dynamic markets in the past ten years: rentier states and emerging economies in Europe and its periphery. The productive integration underlying the EU15 trade with its emerging neighbours has created a well-built interdependence which will make it difficult to get out of the downturn without cooperation. In emerging Asia, China and India have been more resilient to the global crisis and will provide the EU15 exporters promising markets especially for the high-technology and the up-market segments of their supply. As amply shown in the paper, the two emerging regions are heterogeneous and should be seen as complementary and not as alternative partners for European firms.

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