Foreign trade between the EU and BRICs: Challenges for European competitiveness

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This policy paper, prepared as a background study for the European Competitiveness Report 2009, analyses the external trade in goods between the EU and the BRICs. The paper starts with the analysis of the global position of the EU and the BRICs in world trade (using the IMF DOT and UN COMTRADE databases) and moves subsequently to the more detailed analysis of regional (individual EU countries' trade with BRICs), commodity and industry-specific trade specialization patterns, using the Eurostat Comext database.

The key findings can be summarized as follows:

– the EU is the biggest world exporter; in imports it ranks second after the USA;
– the EU, USA and Japan have lost market shares both globally and in the markets of the BRICs, yet the EU has been relatively successful in defending its market shares;
– the EU plays a more important role in BRICs' trade than vice versa;
– the EU has trade deficits with all BRICs (with the exception of India);
– among BRICs, Russia has been the most important EU export partner, China is the largest import partner;
– there is a lot of diversity in EU-BRICs trade: in general, the new member state (NMS) trading patterns with BRICs differ from the rest of the EU and BRICs trading patterns also differ from each other;
– only China is emerging as a serious challenge to EU's industrial competitiveness because of its dynamic export performance and the composition of exports which is closer to a developed country than to countries of its peer income group;
– technological upgrading found in Chinese manufacturing exports is to some extent the result of foreign companies operating in and exporting out of China;
– revealed comparative advantages of China are also partly shaped by the comparative advantages of foreign firms that decided to establish subsidiaries in China as well as the high share of processing trade in China's imports and exports;
– the global crisis resulted in a sharp fall of BRICs' trade in the first quarter of 2009, but signs of a recovery are already visible.