Chapter 94
Economic Crisis and Its Effects on International Trade:
A Case of Selected EU and Non-EU Countries

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ABSTRACT

The aim of this chapter is to analyse the effects of the economic crisis on the trade among the Southeastern European (SEE) countries. The countries were divided into two groups: the EU countries and non-EU countries. Macroeconomic performances and international trade indicators of the 11 observed countries were analysed for the period 2007-2019, and the effects of the economic crisis were present in all the observed countries, particularly the effects on the export performances. The crisis also affected the entire import of the non-EU countries. The EU countries recovered from the crisis faster than the non-EU countries. However, the non-EU countries achieved a more significant inflow of foreign direct investment in the post-crisis period, which significantly improved the position of the balance of payments in these countries. The observed countries had managed to stabilise their trade flows all until the beginning of the COVID-19 crisis. The impact of the current crisis on these countries remains to be estimated in the future.

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INTRODUCTION

The international trade expansion and the development of interdependence have influence on the global economic progress and complexity in the global trade relationship. This trend has been present since the 1950s, but with some contraction of economic activities, trade volumes, and capital movements due to regional or global economic crises (Broll & Jauer, 2014). According to classical and neoclassical economists, international trade plays a role in economic growth and development in both developed and developing countries. However, there is an opinion that international trade cannot have a significant impact on economic growth in the developing countries due to their lack of capacity for import and export of goods and services. Import should bring resources unavailable domestically, new products and technology that will lead to the expansion of export and access to the world markets. These countries have a slow progress towards high technology, increased efficiency, and productivity in industries. They specialise in primary goods' production (agriculture, metal, and mineral) and struggle with industrialisation due to the lack of technological innovation. On the other hand, developed countries benefit from the international trade due to trade openness (trade liberalisation), international prices, cost of production, rising income, and comparative advantage. Today, international trade policy helps all the abovementioned countries to gain sustainable economic growth.

It is a fact that various types of crises occur more and more frequently. Economic crises happen in both national and global economies due to weak economic bases, government inability, and poor management. Prior to the global crisis (2007-2008), most crises were of regional character occurring each three years (Reinhart & Rogoff, 2008). It is also a fact that crises have influence on economies and international trade. However, international trade may also transmit crises from one affected country to other countries (contagious effect). Crises bring about the reduction of economic activity and trade, which was particularly prominent during the global financial crisis of 2007-2008 (Levchenko et al., 2010). In 2009, the world trade flows dropped by 12%, and the decrease in the world GDP was 5.4% (Chor & Manova, 2012). There are various types of crises – sovereign default, financial crises, exchange rate crashes, and inflation explosions. All of them cause major issues in the economy. One of the most common issues is the lack of capital, which affects the exchange rate, price, competitiveness, and consumption. Furthermore, crises affect economies, particularly those with development strategies based on export-led growth. When a crisis occurs, many countries apply trade measures to protect their industries and trade. Also, during the global economic crisis, different credit conditions and a slowdown in global demand affected trade volumes (Chor & Manova, 2012). These are the challenges to overcome.

The last crisis influenced both the supply and demand sides of the global economy. The supply-side effects such as restriction of movement and going to work, and/or disruption in the supply of intermediate products influenced the production. The demand side was also affected by a decline in consumption due to a fall in employment and income on one side, and an increase in uncertainty on the other side. The international service sector (tourism, air sector, etc.) suffered the most during the COVID-19 crisis (Gruszczynski, 2020). According to WTO, merchandise trade would have decreased by 13-32% in 2020.

The European Union (EU) is one of the key players in the global trade along with the USA and China. In 2019, the EU, USA and China counted for 43% of the world trade. The EU is the second-largest exporter and importer of goods globally (Eurostat, 2020). The international trade in the EU and non-EU countries is determined by GDP, geographical distance, membership (Beck, 2020), and commercial cooperation (Maciejewski & Wach, 2019). The EU also tackles the crisis. The estimation of WTO for 2020 was that in EU27 the export would drop by 12-33% and import by 10%-25%.

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