S&P Global
Ratings

EU Membership Has Changed Trade Patterns For Many CEE Countries

Limiting Fallout From The Russia-Ukraine Conflict

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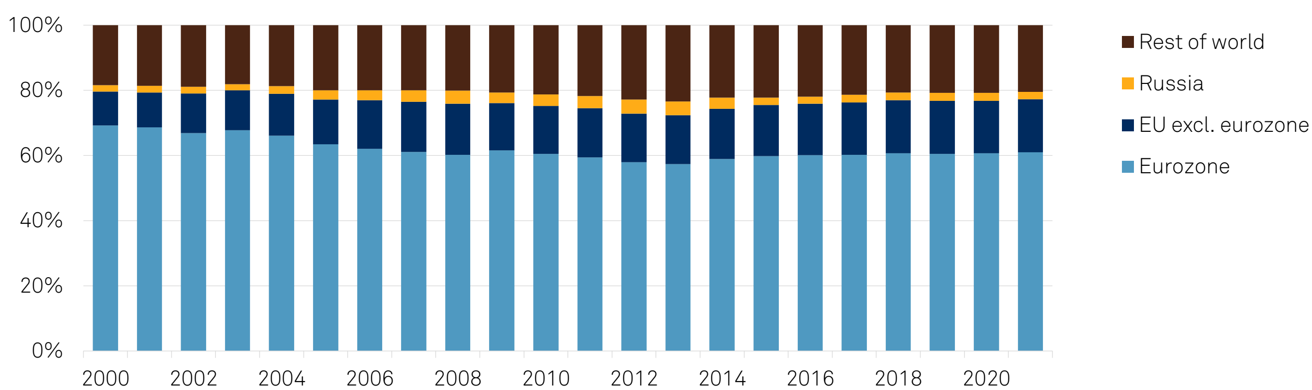
Eastern member countries of the EU are more exposed than most to the Russia-Ukraine conflict because of proximity and history. A closer look at trade data shows, however, that Central and East European (CEE) countries have relatively limited direct trade exposure to Russia thanks to their orientation toward EU member countries. Plus, their exports to Russia declined after the first round of sanctions against the country and its countersanctions in 2014. As long as the war lasts, CEE exports will suffer from the loss of Ukrainian demand. However, as soon as the reconstruction of the country starts, Ukrainian imports should accelerate. The picture is somewhat different for Baltic countries. Although their exports to Russia also about halved since 2013, they started from much higher levels and, therefore, dependence is still greater. What's more, Baltic countries' export share to EU member countries has decreased, despite entry into the single market, as the rest of the world became a more important export destination.

Increase In Trade With The EU-27, Especially Member Countries Outside The Eurozone

Chart 1

Exports to Non-EZ EU Countries Increased Significantly Faster Than Exports To Eurozone For Many CEE Countries



Note: Includes Czech Republic, Hungary, Poland. Source: S&P Global Ratings, Eurostat.

Integration Into European Supply Chains. Entry into the single market fueled trade for new joiners. New EU members saw their exports to other member countries grow faster than those of older members as a larger market opened for them. European, especially German, companies delocalized factories in their supply chains to Eastern European countries to cut production costs, which was simplified by their entry into the single market.

Being Part Of The EU Boosts Trade With Neighboring Countries. However, CEE exports to non-eurozone EU countries grew faster than to the EU as a whole, and this gap has intensified since 2013. As a result, the share in total goods exports to non-eurozone EU members increased over the last 20 years, while that to eurozone countries declined. This shows that for CEE countries, being in a single market with their neighbors fueled export growth more than access to the big eurozone countries. Access to the single market also allowed them to intensify integrated value chains across the region.

Trade With Russia Dropped In 2014 And Has Not Recovered

Strong economic growth in Russia in the 2000s increased demand for foreign goods and boosted exports to Russia from its Western neighbors. The share of Russia in exports peaked in 2013, then dropped starting in 2014 stemming from the imposition of international sanctions on the country and Russia's ban on agricultural imports from the EU. What's more, the sharp drop in the oil price in 2014 weighed on Russian demand and led to three consecutive years of declining imports. In 2021, Russian imports were still about 20% below 2013 levels. CEE exports to Russia, in line with those of the EU as a whole, have not recovered to pre-2014 levels.

Table 1

Goods Export Share To Russia (%)

	Czech Republic	Hungary	Poland	Germany	France	Italy	Spain	Estonia	Latvia	Lithuania
2000	1.3	1.6	2.7	1.1	0.5	1.0	0.5	2.4	4.2	6.2
2001	1.5	1.6	2.9	1.6	0.7	1.3	0.6	2.7	5.9	9.5
2002	1.3	1.3	3.3	1.7	0.7	1.4	0.6	3.3	5.9	11.3
2003	1.2	1.5	2.8	1.8	0.8	1.5	0.6	3.9	5.4	8.9
2004	1.4	1.7	3.9	2.0	0.9	1.7	0.6	5.6	6.4	9.3
2005	1.8	1.9	4.4	2.2	1.0	2.0	0.7	6.5	7.9	10.4
2006	2.0	2.7	4.3	2.6	1.2	2.3	0.9	7.8	11.4	12.7
2007	2.3	3.2	4.6	2.9	1.4	2.6	1.1	8.8	12.9	15.0
2008	2.9	3.6	5.2	3.3	1.7	2.8	1.5	10.4	14.7	16.1
2009	2.3	3.6	3.7	2.6	1.4	2.2	0.9	9.3	13.0	13.2
2010	2.7	3.6	4.2	2.8	1.6	2.3	1.0	9.7	15.3	15.7
2011	3.2	3.2	4.5	3.2	1.7	2.5	1.1	10.9	17.4	16.6
2012	3.8	3.2	5.4	3.5	2.1	2.6	1.3	12.1	17.9	18.9
2013	3.7	3.1	5.3	3.3	1.8	2.8	1.2	11.5	16.2	19.8
2014	3.1	2.5	4.2	2.6	1.6	2.4	1.1	9.8	14.5	20.9
2015	2.0	1.7	2.9	1.8	1.0	1.7	0.7	6.7	11.3	13.7
2016	1.9	1.5	2.8	1.8	1.1	1.6	0.6	6.5	11.3	13.5
2017	1.9	1.7	3.0	2.0	1.2	1.8	0.7	7.2	13.5	14.8
2018	2.0	1.4	3.0	2.0	1.1	1.6	0.7	6.0	13.4	14.0
2019	2.1	1.6	3.1	2.0	1.1	1.6	0.7	6.0	14.1	14.0
2020	2.2	1.5	3.0	1.9	1.2	1.6	0.7	5.6	12.9	13.4
2021	1.9				1.3		0.7	4.2	10.9	10.8

S&P Global Ratings, Eurostat.

The EU Is A Less Important Market For Baltic Countries

The situation is different for Baltic countries. Growth in exports to Russia over the last 20 years outpaced total export growth as well as EU export growth, despite the drop from 2014 on. There are divergences among the three countries, notably concerning exports to Russia. While they fell by one-third in Lithuania and nearly one-half in Estonia, Latvian exports to Russia were nearly back to their peak in 2012 and far above their trough following the 2014 crisis (in nominal terms). A lower share of Baltic exports is destined for the EU: an average of 60% compared with close to 80% on average for Czech Republic, Hungary, and Poland. Export growth to EU countries outside the eurozone – many close neighbors with Baltic countries – has been less dynamic than that of other CEE countries. This shows that being part of the European single market has not fueled trade links and integrated value chains to the same extent.

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