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EUROPEAN UNION: FROM TRADE DEFICIT TO SURPLUS

Guillaume Derrien

After two years of deficit, the EU trade balance returned to positive territory in 2023, supported in particular by falling energy prices

Trade surplus in traditionally buoyant sectors (pharmaceuticals, automotive) remains at historically high levels

China's ramp-up to higher value-added sectors has, over the years, led to a deterioration in the EU's trade balance with the country. Among other things, imports of motor vehicles from China tripled between 2019 and 2023.

EU TRADE BALANCE WITH THE REST OF THE WORLD

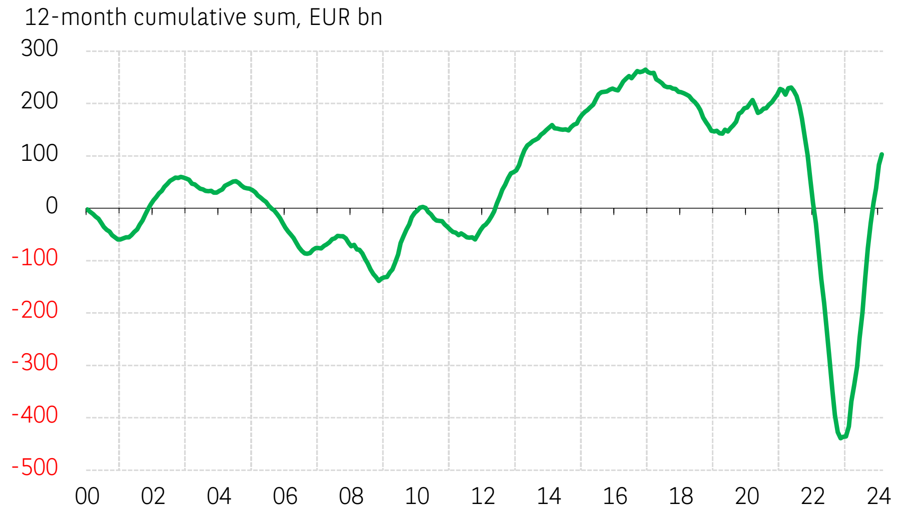

CHART 1 SOURCES : EUROSTAT, BNP PARIBAS

The trade balance of the European Union with the rest of the world recovered significantly in 2023. After two years marked by an unprecedented deterioration leading to a record deficit of EUR 436.1 billion (2.7% of EU GDP) in 2022, the balance returned to positive territory at EUR 37.9 billion in 2023 *(see chart 1)*. This restores the EU's surplus position that prevailed before the energy crisis. In fact, the surplus widened further this winter to EUR 102.9 billion in February over a 12-month cumulative period[1].

This improvement mainly reflects the combined effects of lower energy prices (improved terms of trade) and a greater decline in import volumes compared to exports. According to national accounts, the volume of EU goods exports fell by 1.7% in 2023 (annual average), compared to a decline in imports of 3.6%. Apart from 2020 (lockdown), we need to look back to the global financial crisis of 2008 to find the traces of such a drop in imports over a year. The current improvement in the European trade balance therefore partially reflects the fragility of domestic demand on the Old Continent, which weighed on growth in the region in 2023 (+0.4% only). Nevertheless, more positive dynamics influenced this result. Energy efficiency efforts, which resulted in a 2.7% drop in electricity consumption in 2023 compared to 2022[2], also contributed to the fall in imports.

1 The figures used in this article come from Eurostat and are based on the SITC (Standard International Trade Classification).
2 See *RTE Electricity Review 2023.*

LESS ENERGY, LESS DEFICIT

The shift from a trade deficit in 2022 to a surplus in 2023 was primarily fuelled by the absorption of the deficit in natural gas, which fell by almost EUR 142 billion in 2023 (*see chart 2*). This improvement, although significant, only erases part of the deterioration suffered on this item in 2022 (+EUR 204 billion of additional deficit). Natural gas is still the EU's second largest item of deficit with the rest of the world, after crude oil, whose deficit also fell significantly last year (-EUR 57.5 billion). Adding coal to this, the three main items of improvement in the EU trade balance in 2023 were energy components.

In terms of bilateral equilibrium, this has strengthened the EU's trade surplus with respect to the US and the UK (see chart 3) – two countries to which Europeans turned to import natural gas as a substitute for Russian imports – and, more broadly, to reduce trade imbalance with the EU's principal hydrocarbon supply countries (Norway, Algeria, Saudi Arabia, Azerbaijan, Qatar).

Other items, which weighed relatively little compared to energy, also pulled up the trade balance in 2023. This is particularly true for textiles and clothing, and machines and equipment for «general industrial use»[3]. Conversely, medical and pharmaceutical products and, to a lesser extent, paper and wood, weighed the most negatively on the European trade balance last year.

Germany was, unsurprisingly, the country that had the greatest impact on the recovery of the EU trade balance: of the EUR 474 billion of improvement at EU level in 2023, nearly a quarter (+EUR 115 billion) is attributable to the first European economy. However, Italy (+EUR 74.5 billion), the Netherlands (+EUR 64.5 billion) and France (+EUR 52.1 billion) also significantly improved their position with countries outside the EU[4]. Apart from the Netherlands, which suffers from a structural deficit due mainly to large imports of hydrocarbons, France and Italy traditionally record surpluses with extra-EU countries. Indeed, both these economies rely on the strength of their pharmaceutical and luxury goods industries, to which should be added, in the case of France, the aeronautics, spirits and cosmetics sectors, and in the case of Italy, the shipbuilding industry. In the case of France, however, this surplus is more than offset by the intra-EU deficit, particularly towards Germany[5].

The succession of geopolitical events that has shaken Europe in recent years has favoured the adjustment of the European trade balance. The collapse of trade with Russia following the outbreak of the war in Ukraine and the drastic, but not total, reduction in imports of fossil fuels and industrial metals (copper, nickel, aluminium and others) mechanically wiped out a large part of the EU's deficit with the country, which actually reached nearly EUR 148 billion in 2022. The deficit fell to EUR 12 billion in 2023 (*see chart 3*).

At the same time, the war in Ukraine caused a significant increase in European exports to the country, to support Kyiv in its war effort, which was reflected in an increase in exports of weapons and ammunition, machinery and equipment (telecommunications, vehicles for transporting people and goods and aircraft) and chemicals (medicines, fertilisers). At the same time, imports of vegetable oils, which formed the EU's largest bilateral deficit with Ukraine, fell sharply.

TRADE BALANCE EVOLUTION OF THE EU BY PRODUCT: 2023 MINUS 2022

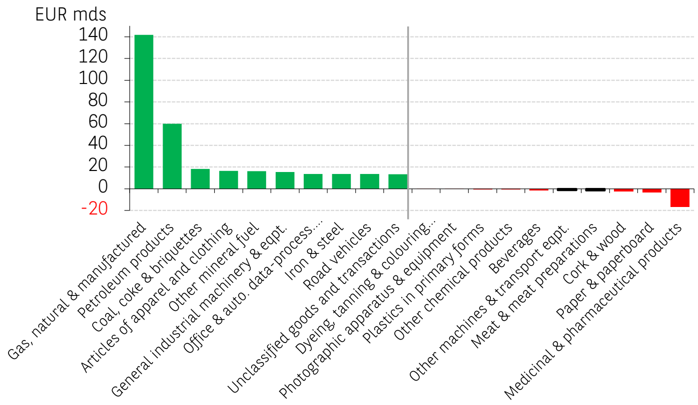

CHART 2 SOURCES : EUROSTAT, BNP PARIBAS

Note: the figure includes the top ten improved items and the ten lowest-performing items for 2023

EU BILATERAL TRADE BALANCE

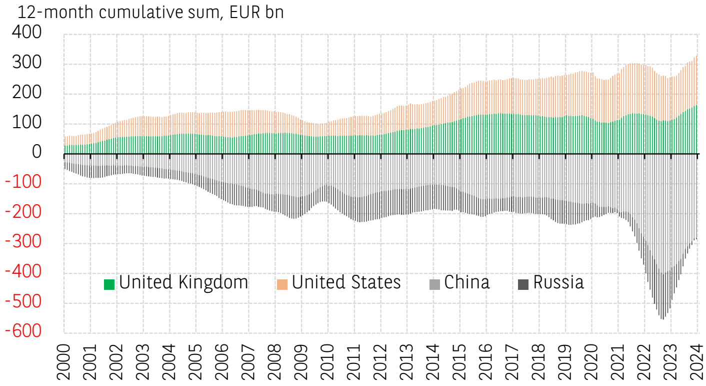

CHART 3 SOURCES : EUROSTAT, BNP PARIBAS

China is by far the country with which the EU has the largest trade deficit (EUR 280 billion in 2023) and one of the most widely spread (7 of the 10 broad SITC categories are in deficit). The significant reduction in the bilateral deficit in 2023 reflects an improvement in the EU's position on industrial goods and materials. However, the imbalance in trade between the two blocs remains much greater today than in 2021, especially compared to the period before the global pandemic. Since China joined the World Trade Organisation (WTO) in 2001, the EU's bilateral deficit with the country has increased sixfold.

3 This category includes handling equipment (cranes, goods lifts), heating and cooling devices, pumps and compressors.
4 Only Denmark saw its non-EU trade balance deteriorate in 2023.
5 See BNP Paribas Ecoflash, French Trade Balance: 2023 Review and 2024-2025 Projections, 27 March 2024

EXPORT OPPORTUNITIES REMAIN SIGNIFICANT

The EU's trade surplus was structured around two principal pillars in 2023: automotive (vehicles and car suppliers combined) and pharmaceuticals. These two sectors accounted for more than a third of the total European surplus in 2023 (exactly 37%). The dominant position of a few major European multinationals in the pharmaceutical industry and the health crisis have, among other things, allowed the EU to generate ever greater trade surpluses in this segment until 2022, even if these trend stalled in 2023 (*see chart 4)*.

The EU's trade surplus in the automotive sector has paradoxically tended to increase in recent years (*see chart 4*). The sustained increase in exports to the United States and the United Kingdom has, for the time being, made up for the rapid deterioration in the trade balance with China. The entry of Chinese manufacturers into the European market is relatively recent, but the speed of penetration is indeed spectacular: imports of Chinese vehicles into the European Union tripled in four years (+197% between 2019 and 2023) when trade in the opposite direction only increased by 0.4% (*see chart 5*). From just under 7% on average in 2019, the share of European vehicle imports from China increased to 20% in 2023.

Some background trends, which have been in place for a longer time, demonstrate a relative weakening of the EU's balance of power with foreign countries for certain high-value added products or products that are strategic in terms of industrial sovereignty. The trade balance has deteriorated over the years for several items in machinery and technological equipment (telecommunications devices and equipment [see chart 4], integrated circuits, computers[6]). The EU has also seen its balance on certain basic industrial metals (steel, aluminium) deteriorate, a distortion partly due to Chinese overproduction, which is now subject to increasingly stringent protective measures on the part of the EU.

This deterioration in the EU's external position on certain goods or industries cannot be separated from the deindustrialisation process under way in many Western European countries, which is still difficult to reverse today[7].

But at a time when statements about European economies falling short of Chinese and US competitors are on the rise, it is also important to keep in mind that the EU retains significant comparative advantages in several high-value-added and job-generating sectors (such as the aerospace and chemical industries, in addition to the pharmaceutical industry). Evolutions in the trade balance enable us to objectively assess the changes in power balance between economic blocs over a long period of time. A further analysis of these structural changes will be the subject of a second article, to be published soon.

Guillaume Derrien
guillaume.a.derrien@bnpparibas.com

EU TRADE BALANCE BY SECTOR

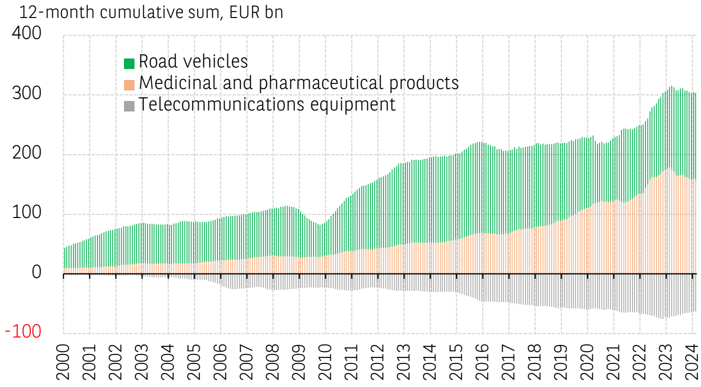

CHART 4 — SOURCES : EUROSTAT, BNP PARIBAS

EU -CHINA BILATERAL TRADE IN AUTOMOBILE

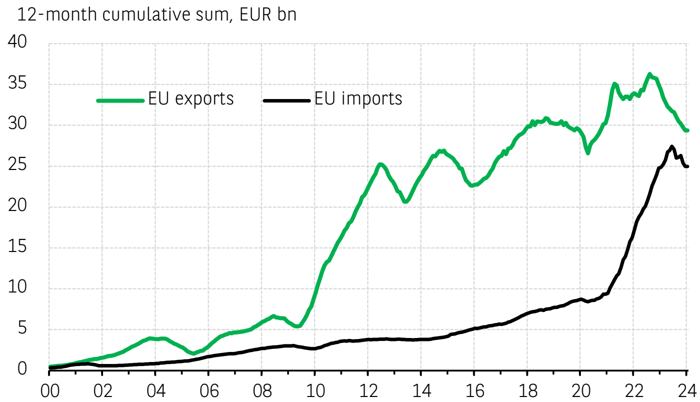

CHART 5 — SOURCES : EUROSTAT, BNP PARIBAS

6 This equipment is grouped into the following SITC categories: 764.1, 776.4, 752.2.
7 According to Eurostat, the share of manufacturing employment in the euro zone reached a new low in Q4 2023, at 12.8%.

GROUP ECONOMIC RESEARCH

William De Vijlder Chief Economist	+33 1 55 77 47 31	william.devijlder@bnpparibas.com

OECD ECONOMIES AND STATISTICS

Hélène Baudchon Deputy chief economist, Head - United States	+33 1 58 16 03 63	helene.baudchon@bnpparibas.com
Stéphane Colliac France, Germany	+33 1 42 98 43 86	stephane.colliac@bnpparibas.com
Guillaume Derrien Eurozone, Southern Europe, Japan, United Kingdom - Global trade	+33 1 55 77 71 89	guillaume.a.derrien@bnpparibas.com
Anis Bensaidani United States, Japan	+33 1 87 74 01 51	anis.bensaidani@bnpparibas.com
Lucie Barette Southern Europe	+33 1 87 74 02 08	lucie.barette@bnpparibas.com
Veary Bou, Tarik Rharrab Statistics		

ECONOMIC PROJECTIONS, RELATIONSHIP WITH THE FRENCH NETWORK

Jean-Luc Proutat Head	+33 1 58 16 73 32	jean-luc.proutat@bnpparibas.com

BANKING ECONOMICS

Laurent Quignon Head	+33 1 42 98 56 54	laurent.quignon@bnpparibas.com
Céline Choulet	+33 1 43 16 95 54	celine.choulet@bnpparibas.com
Thomas Humblot	+33 1 40 14 30 77	thomas.humblot@bnpparibas.com
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EMERGING ECONOMIES AND COUNTRY RISK

François Faure Head – Argentina, Turkey – Methodology, Modelling	+33 1 42 98 79 82	francois.faure@bnpparibas.com
Christine Peltier Deputy Head – Greater China, Vietnam – Methodology	+33 1 42 98 56 27	christine.peltier@bnpparibas.com
Stéphane Alby Africa (French-speaking countries)	+33 1 42 98 02 04	stephane.alby@bnpparibas.com
Pascal Devaux Middle East, Balkan countries	+33 1 43 16 95 51	pascal.devaux@bnpparibas.com
Hélène Drouot South Korea, Philippines, Thailand, Andean countries	+33 1 42 98 33 00	helene.drouot@bnpparibas.com
Salim Hammad Latin America	+33 1 42 98 74 26	salim.hammad@bnpparibas.com
Cynthia Kalasopatan Antoine Ukraine, Central European countries	+33 1 53 31 59 32	cynthia.kalasopatan.antoine@bnpparibas.com
Johanna Melka India, South Asia, Russia, Kazakhstan	+33 1 58 16 05 84	johanna.melka@bnpparibas.com
Lucas Plé Africa (Portuguese & English-speaking countries)	+33 1 40 14 50 18	lucas.ple@bnpparibas.com

CONTACT MEDIA

Mickaelle Fils Marie-Luce	+33 1 42 98 48 59	mickaelle.filsmarie-luce@bnpparibas.com

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