

The EU-US Trade Relations Changes During the COVID-19

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Abstract: The article aims to examine the changes in the EU trade relations with the United States during the COVID-19 pandemic. The pandemic had a significant impact on the commodity structure of mutual trade in goods, however it did not have a negative effect on trade in services. The Trade Intensity Index indicates that EU - US trade in goods is below the potential. The pandemic caused a stagnation in the intensity of trade in goods in 2020, thus halting the increasing trend before the pandemic. Regarding the intensity of trade in services, the EU and the US are achieving their trade potential, and the COVID-19 pandemic did not reverse the growing trend-

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JEL Classification codes: F10; F19; O24; F2

INTRODUCTION

Even though the relationship between the European Union and the United States is based on common values and goals, the ways to achieve them often differ. However, the prevalence of common attitudes and several decades of cooperation between the two entities have led to the creation of a strong bilateral partnership and cooperation on several issues in the areas of trade, security, climate, and digital transformation. Within the international community, they have created one of the most significant and influential bilateral relations, while factors such as the size of the market, the openness of the economy, orientation towards foreign trade, and the transparency of the foreign direct investment regime of both entities have predetermined their strong position and influence in the world.

Similar economic targets and the significant position of the EU and the United States in the world economy on one hand are the trigger for their cooperation, on the other they are also the reason for their competitive position. Despite a strong trade relationship, common values and goals, the EU does not have a preferential trade relationship with the US and the mutual foreign trade is governed by the rules of the World Trade Organization (WTO).

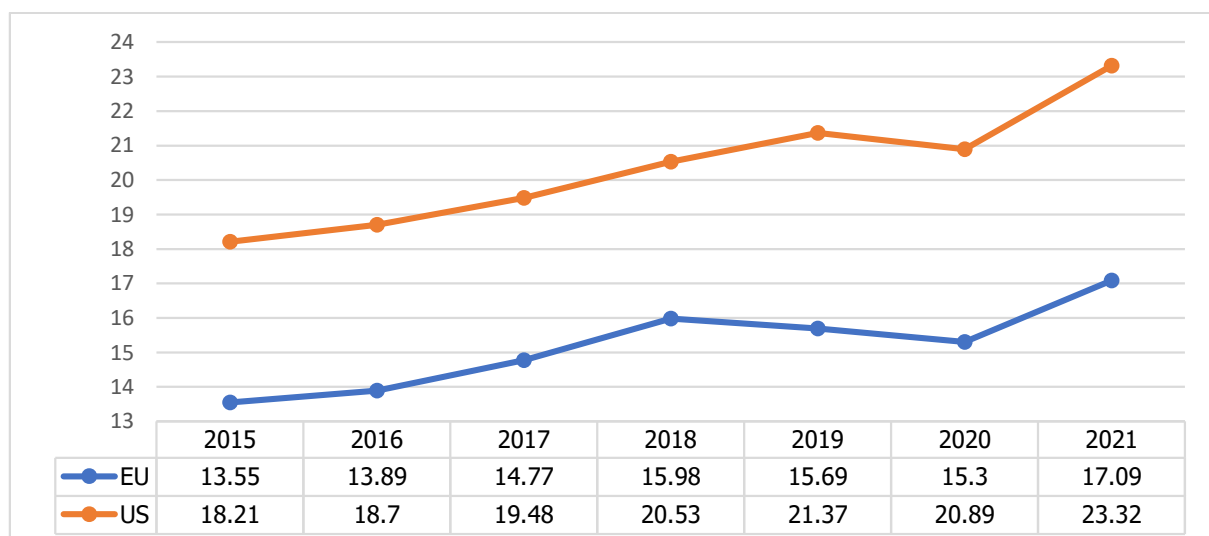
The COVID-19 pandemic and US president Donald Trump's approach to foreign trade policy have disrupted the long-term development of mutual relations between the EU and the United States. Transatlantic Trade and Investment Partnership (TTIP) was supposed to be a landmark agreement, intending to increase compatibility and openness in the field of trade and investment regulation while maintaining high standards of environmental protection, health, and safety and offering a remarkable opportunity to deepen relations between partners (USTR.gov. (n. d.).

The Trump administration exclusively pursued American interests and considered the EU as a competitor rather than a partner. US foreign policy began to move towards a unilateral and bilateral approach and the American public also expressed a negative attitude towards the potential preferential agreement between the EU and the US. Brexit also changed the approach within the EU itself, as the Great Britain was the biggest supporter of TTIP within the EU countries. These consequences were the reason for the suspension and subsequent termination of the TTIP negotiations (Škvrnda & Kurucz, 2020).

Deteriorating relations between the EU and the US peaked in 2018, when Trump administration-imposed tariffs of 10% on aluminium and 25% on steel from several states, including the EU countries. In response, the EU introduced tariffs on iconic American products, such as Levi's jeans, Harley-Davidson motorcycles, bourbon, and peanut butter. This had serious economic consequences, but President Donald Trump claimed it was in the interest of protecting the US. Mutual tariffs persisted until Joe Biden took office as the 46th president of the United States. In 2021, representatives of both parties agreed to re-establish trade flows in steel and aluminium and to suspend their WTO disputes regarding this issue. The United States allowed duty-free imports from the EU at a historical-based volume and the EU suspended its retaliatory duties on selected products from the US (Sadden & Coyne, 2023).

To highlight the impact of the pandemic and the position of the EU in the world economy, the Figure 1 shows the development of the GDP of the EU and the US in the period of years 2015-2021. According to Dossche and Martinez-Martin (2018) the slowdown of the EU GDP in 2018 was caused by external factors, in particular the weakness in external demand – decline in net exports in the first and third quarter of 2018. Economic slowdown, reflecting falling global demand and uncertainties due to trade tensions were also reflected in 2019 (BusinessEurope.eu, 2019). The COVID-19 outbreak and resulting economic impact had a visible impact on the EU's GDP in 2020, which stood at USD 15.3 trillion. In 2021, the EU economy recovered and recorded 5.4% growth with a GDP value of USD 17.09 trillion. Even though the EU was one of the most affected by the pandemic, its position in the world economy is stable. Figure 1 shows the similar trend for the United States as well.

Fig. 1 GDP development of the EU and USA in 2015 - 2021 (in USD trillion)



Source: own elaboration according to the World Bank (2023)

1 LITERATURE REVIEW

Wei Luo et al. (2023) analysed the international trade network vulnerabilities during the COVID-19 pandemic and concluded that the countries with strong anti-pandemic strategies like East Asia (including China), as well the Western countries, achieved higher resistance to fluctuations in the international trade and the most international connections have recovered after uncertainty time, whereas the low-income countries showed high vulnerability. The United States and the EU recovered at a moderate rate thanks to monetary support.

The results of the research of Coquidé et al. (2023) demonstrated negative impact of COVID-19 on international trade. For the US, the balance of mineral fuels slightly improved, but the balance in machinery and manufacturing products dropped in both the US and the EU. The authors propose the increase of industrial production in both regions to improve self-sufficiency. Wysokonska (2023) point out that the global trade declined during the pandemics significantly. The drop in trade was the biggest since the 2009 crisis. The largest trade markets during 2020 were the EU, United States and China accounting for 43% of total trade, but while the EU trade fell by 10%, and American by 9%, China's has risen by 2%. The e-commerce boom was noted worldwide. Ambroziak (2021) focused his paper on the EU intra and extra trade - in case of extra-trade, export position of the EU was not affected despite various restrictions on the EU level.

Giovannetti et al. (2023) reviewed the evolution of international trade on the background of slowbalisation, the US trade war with China, COVID-19 pandemics, the US "Buy American products" program and Russia's invasion of the territory of Ukraine as well as reaction on changes on the EU side. Global trade reached pre-COVID levels quickly and the EU participation in the international division of labour remained high. The trade and trade surplus with the US has grown as well. However, it is also worth noting the EU's dependence on imports from China and exports to the US.

Hilmola and Panova (2021) examined a ten-year period of the EU trade with China and the United States ending in 2019, including trade disputes, Brexit, and sanctions. They reviewed foreign trade competitiveness of all three players, re-import and re-export and discussed importance of the US for the main EU market – Germany. The paper confirmed the growing importance of the EU trade both with China and the US. Carreño et al. (2020) studied trade related measures adopted by the EU during pandemics and global export restrictions.

2 METHODOLOGY

The purpose of the paper is to examine the changes in the EU trade relations with the United States during the COVID-19 pandemic.

Methods used in the paper: the analysis of mutual foreign trade in goods and services. The evaluation, by using the Trade Intensity Index, indicated the impact of the COVID-19 pandemic on EU trade with the United States

To assess and compare the impact of pandemics on mutual EU-US as well as vice versa trade with goods and services – we used the trade intensity index (TII). The purpose of TII is to determine whether the value of trade between two countries/regions is greater or smaller than it would be expected based on their importance in world trade. It is defined as the share of one country's exports going to a partner divided by the share of world exports going to the partner (World Bank, 2010). It is calculated as:

$$TII_{ij} = \frac{\frac{x_{ij}}{X_{it}}}{\frac{x_{wj}}{X_{wt}}} \quad (1)$$

where x_{ij} is the value of country i 's exports to partner country j , X_{it} is the value of total exports of the country i ; x_{wj} – value of world exports to country j , and X_{wt} is the world exports' value.

The TII values range from 0 to $+\infty$. A value greater than 1 indicates a relationship more intense than the world average for the partner country (World Bank, 2013). If the index is more than 1, it indicates a more intensive trade between the partner countries than expected given their position in world economy; and if the TII is less than 1, the intensity of trade is at lower level, than it would be expected.

For our analysis and the calculation of TII, we used foreign trade data from International Trade Center (ITC), the Trade Map database. The monetary units of this database are expressed in USD.

3 RESULTS AND DISCUSSION

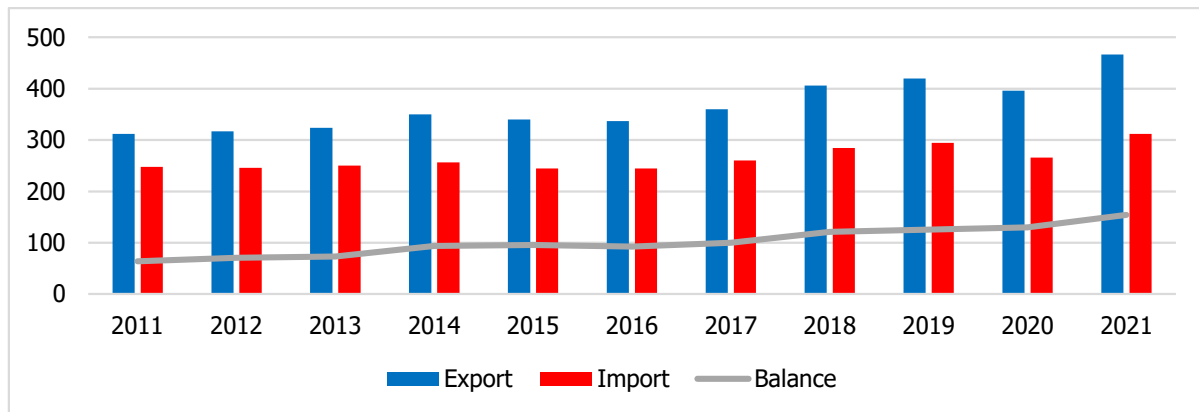
The COVID-19 pandemic has slowed economic growth and affected trade around the world. The EU and the United States were no exception. It is the US where the majority of the EU goods exports go, its value was 466.3 billion USD in 2021, representing 18% of the EU exports (European Commission, 2023). The USA is the EU's second largest import partner. The value of the import of goods was 312.2 billion USD, representing 11% of the EU imports (European Commission, 2023). As for trade in services, the US is the EU's most important trading partner in terms of both exports and imports of services. The total export of EU services to the USA in 2021 amounted to 280.6 billion USD with a total share of 13.9%, services with a value of 384.2 billion were imported from the USA in 2021. USD, i.e. a 17.8% share of total imports.

Regarding the EU's position in US foreign trade, in terms of trade in goods, the EU is the third largest export market after Canada and Mexico with a share of 15.8% in 2021 (272.4 billion USD) and the second in imports, the share of the EU was 17.1% (502.5 billion USD). When comparing export of services and goods, it is evident that the US exports significantly less services than goods. In services trade, the EU is the most important trade partner for the US. Exports reached 201.2 billion USD and made up more than 25% of the total export of US services (201.2 billion USD). The share of the EU in the total import of services was 23.6% (130.2 billion USD).

3.1 The EU's foreign trade in goods with the United States

Figure 2 shows the development of the EU's foreign trade with the US in goods from 2011 to 2021. Comparing the year 2011 with the year 2021, it shows that the export of EU goods to the US increased by 33.2%, which is more than 150 billion USD. Imports increased by only 20.7%, or 64.5 billion USD. With the declaration of the COVID-19 pandemic and the rapid spread of the virus, the total turnover of EU goods with the US fell by 7.5% in 2020. Trade recovery in 2021 brought a 15.1% increase in mutual merchandise trade, 8,2% more than in the pre-pandemic period. As can be seen on Figure 2, COVID-19 did not cause a change in the trade balance of the EU with the USA, and therefore we conclude that exports increase more than imports every year.

Fig.2 Development of the EU trade in goods with US from 2011 to 2021



Source: own elaboration according to ITC (2023).

The commodities that the EU exported the most to the USA (according to HS2 classification) were:

- pharmaceutical products (84.1 billion USD, 18.0% of EU exports) - a large part of them consisted of protective equipment such as masks and suits, in addition, medicines, tests, or vaccines;
- machines, mechanical equipment, nuclear reactors, boilers, their parts, and components.

The largest increase (16.4%) compared to 2020 was recorded in electrical machines and equipment and their parts and components, devices for recording and reproducing sound. The EU imported the most machinery, mechanical equipment, nuclear reactors, boilers from the USA; their parts and components and the value of trade with these commodities was 46.9 billion USD and accounted for 15% of imports. However, the biggest increase (by 43.1%) compared to 2020 was recorded by mineral fuels, mineral oils and their distillation products, bituminous substances imports.

We can conclude that the EU's foreign trade in goods with the USA faced difficult challenges during 2020, but they were managed by observing the pandemic measures. EU trade losses with the US from 2020 became evident in 2021, when consumer demand increased enormously. The largest increase in EU exports to the USA in 2021 was recorded by electronic products, especially mobile phones, integrated circuits, and electric accumulators.

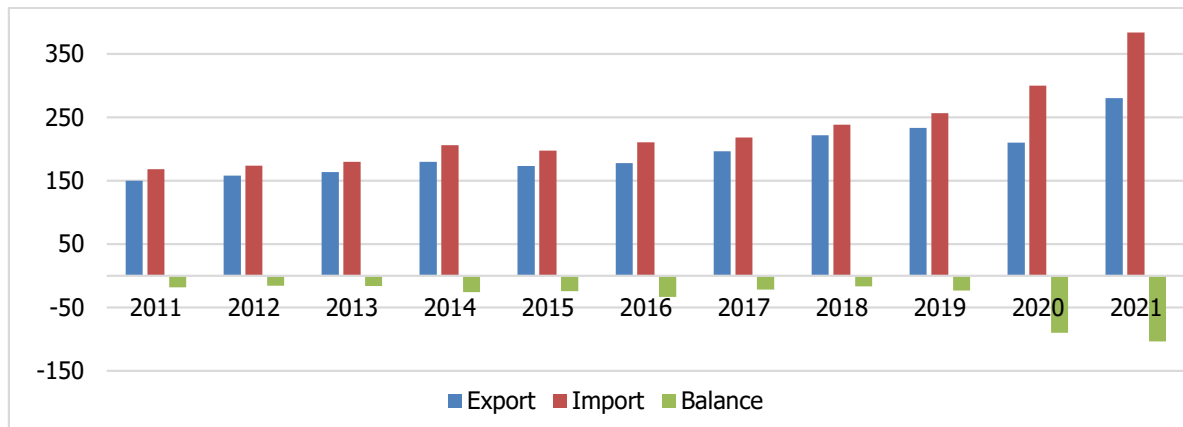
In terms of EU imports from the USA, we have seen the largest increase in products from the mineral oil group, namely crude oil, oil gas and refined oil. This increase was due to increased demand and reduced imports from other EU trading partners. We expect that foreign trade in goods between the EU and the USA will continue to grow in the coming years and will constitute a large share of global trade.

3.2 The EU's foreign trade in services with the United States

Figure 3 shows the development of the EU's foreign trade with the US in services from 2011 to 2021, that has a continuous upward trend and increased even during 2020 (mainly due to high imports from the USA). Total turnover of mutual trade in services increased more than twice from 318.3 billion USD in 2011 to 664.8 billion USD in 2021, while the total trade increased also in 2020 by 20 billion USD compared to the previous year (the decrease occurred only on the export side by 23 billion USD). Comparing the year 2011 with the year 2021, we

found that the export of EU services to the US increased by more than 130 billion USD (by 53.4%). The import of services also increased, by 215.9 billion USD, which represents 43.8%.

Fig. 3 Development of the EU trade in services with the US from 2011 to 2021.



Source: own elaboration according to Eurostat (2023).

The EU has a services trade deficit with the US, which increased primarily in 2020 and 2021 (i. e. during the COVID-19 pandemic) due to faster growth in EU imports. Exports of EU services to the US were noticeably lower than imports. The EU exported to the United States in 2021 mainly "other business services" (76.2 billion USD) which accounted for 27.1% of exports. Second in line were fees for the use of intellectual property which recorded the largest increase compared to 2020, by 45.6%, contributing 17.9% to exports. This group of services, on the other hand, was the most imported from the US in 2021 accounting for 39% of imports (149.9 billion USD) followed by "other business services" accounting for 31 % of imports (119.2 billion USD).

The EU and the US are each other's largest partners in terms of both import and export of services, trade in services is very important for the mutual development of these two entities. The COVID-19 pandemic did not have a negative impact on the EU's trade in services with the US and did not disrupt the growing trend.

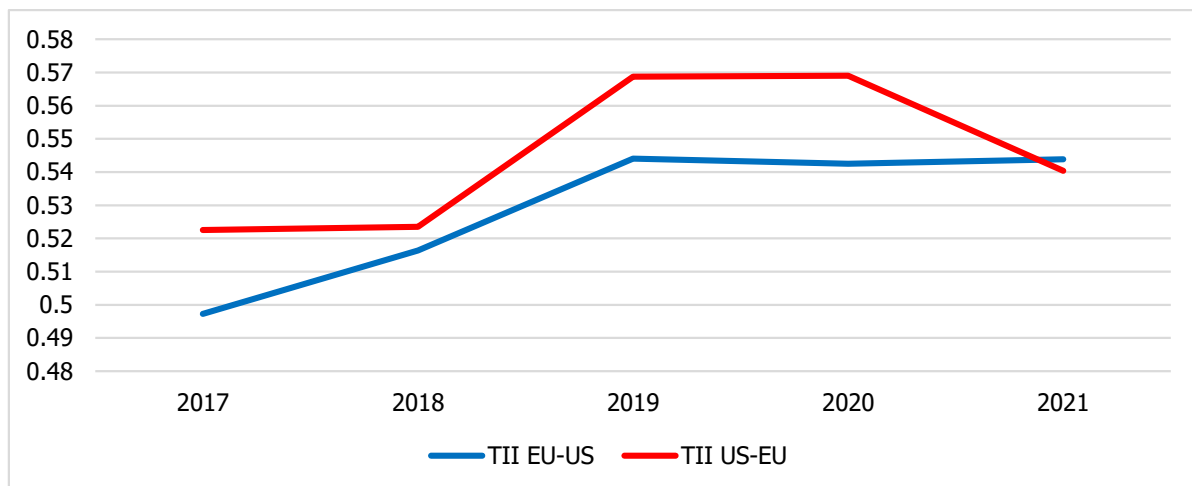
3.3 The intensity of trade in goods and services between the EU and the US

To assess and evaluate the impact of the COVID-19 pandemic on the intensity of trade in goods between the EU and the United States in years 2017 – 2021, we used the trade intensity index (TII), (Figures 4 and 5).

The intensity of trade in goods between the EU and the US does not reach expectations based on their position in international trade, as the value of the intensity of trade is less than 1. The reason is the high share of intra-exports in total EU exports.

The EU-US TII had an increasing trend from 2017 to 2019, reaching a value of 0.54 points in 2019, representing an increase of 8.6%. Since 2019, the stagnation is apparent due to the pandemic, which lasted until 2021. The pandemic stopped the growth of the intensity of trade in goods between the EU and the United States.

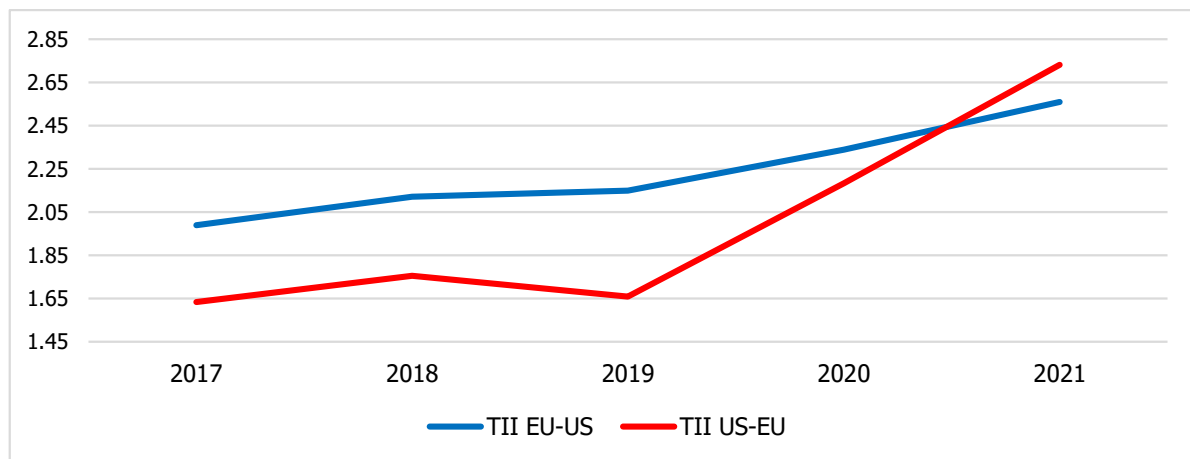
Fig. 4 The intensity of trade in goods between the EU and the US in 2017 – 2021



Source: Own elaboration.

In the case of the intensity of mutual trade in services between the EU and the USA, the expectations based on the position of these two entities have been fulfilled, it is higher than 1 point throughout the whole period. EU-US TII has a growing tendency and is evident that the impact of the pandemic on the intensity of trade in services was positive, as the intensity increased faster. In 2021, it reached a value of 2.55 points. In the case of the US-EU TII, the pandemic had an even greater positive impact on the intensity of mutual trade in services, with the value of the US-EU TII increasing by 39.3% from 2019 to 2021. Overall, the COVID 19 pandemic had a positive impact on the development of the intensity of mutual trade in services between EU and US.

Fig. 4 The intensity of trade in services between the EU and the US in 2017 – 2021



Source: Own elaboration.

The COVID-19 pandemic had a significant impact on the EU and the US in 2020 on GDP as well as trade in goods. The pandemic did not have a such a negative impact on trade in services, given the growth of both imports and exports in 2020 and 2021. We assess the impact of the COVID-19 on the service sector as positive or neutral, as we cannot prove the size of trade in services between the EU and the US in the absence of a pandemic. In 2021, there was a global revival of international trade, stabilization, and gradual growth. As a result of increased demand from European and American consumers, we could see an increase in business production as well as a high pressure on supply chains. The EU's trade relations with the US improved in 2021 thanks to digitization and the growing importance of e-commerce.

We analysed the period of 2020 and 2021, and as for the policy during the Trump Administration, we assume that the pandemic further highlighted three years of strained mutual relations, however, the Trump administration asserted its interest in working together to address aspects of the pandemic. Ending the pandemic became one of the priorities of mutual EU-US cooperation in 2021 under the Biden Administration (Archick et al., 2022).

CONCLUSION

The EU's foreign trade relations with the USA constitute one of the most important bilateral cooperations in the world. As a result of the COVID-19 pandemic, international trade was limited and significantly slowed down in 2020, but saw a significant recovery in 2021, leading to record values of foreign trade between the EU and the US as for trade in goods. Based on the results of our study, we expect that mutual trade in goods will have a growing tendency in the coming years as well. The COVID-19 pandemic had a significant impact on the commodity structure. The most important EU export commodity to the USA in 2021 was pharmaceutical products.

As for trade in services, the US and the EU are each other's biggest trading partners. We found that the COVID-19 pandemic did not have a negative impact on trade in services, given the increase of total trade in services in 2020 and 2021. We even saw a large year-on-year increase in all service groups in 2021, but the largest was in fees for the use of intellectual property.

Using the trade intensity index, we found that the EU's trade in goods with the USA is below potential. The pandemic caused a stagnation in the intensity of trade in goods, thus halting the growing trend before the pandemic. Regarding the intensity of trade in services, the EU

and the US are fulfilling their trade potential. The COVID-19 pandemic did not prevent the growing trend.

We believe that it is beneficial to continue in more thorough research/examination of the factors that led to a decrease in the intensity of trade in goods, or factors that would increase mutual trade in goods potential.

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