Processed Food Trade of Greece with EU and Non-EU Countries: An Empirical Analysis

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ABSTRACT

This paper examines the implications of the European Union (EU) regional trade preferences for processed food trade between Greece and its EU partners, and between Greece and non-EU countries. The empirical analysis relies on the gravity model, and uses different estimation techniques. The results show that the EU regional trade preferences led to substantial increases in processed food trade between Greece and its EU partners, emphasizing trade creation effects. The magnitudes of these increases are higher than the intra-EU average, and are more pronounced for Greece’s imports than for Greece’s exports. The results also indicate that the EU regional trade preferences brought about decreases in processed food trade between Greece and non-EU countries, implying trade diversion effects. The Greek food processing industry could benefit from competitiveness-promoting strategies (e.g., upgrading innovation activities, marketing and distribution channels, and production efficiency) to expand exports to the EU market and to counter import competition in the domestic market. JEL Classification: F13, F14, F15.

KEYWORDS

European Union, Food Processing, Gravity Model, Greece, Regional Trade Agreement, Trade Creation, Trade Diversion

INTRODUCTION

The accession of Greece to the European Economic Community (EEC) on January 1st, 1981 has exposed the Greek food processing industry to new market conditions characterized by higher levels of market competition and wider scopes of trade opportunities. The European Union (EU), which superseded the EEC through the Maastricht Treaty on November 1st of 1993, has further enhanced the extent of regional economic integration and has further impacted the Greek food processing industry. The implications of the EU/EEC regional trade preferences for the Greek food processing industry are primarily expressed through the market access provisions. The elimination of tariff and non-tariff barriers on imports of Greece from other EU/EEC member countries would naturally lead to increases in imports and, hence, in market competition faced by the Greek food processing firms in the domestic market. They would normally cause the exit of less-efficient firms from the Greek market, and they would provoke innovation activities as firm-surviving strategies. Meanwhile, Greek food processing firms are expected to benefit from the intra-regional trade provisions through increases in exports to the EU/EEC markets. The realization of the regional market integration would promote spillover effects in terms of processing technologies, product innovations, and management strategies from more competitive EU/EEC-based firms to the Greek food processing industry. Also, it would
emphasize Greece’s competitive advantage in processed food products, particularly those that are based on Greece’s relatively abundant primary agricultural products. The EU/EEC food regulation policies are also expected to have an impact on Greece’s processed food trade. In this context, De Frahan and Vancauteren (2006) found that the harmonization of food regulations across member countries has promoted intra-regional trade flows.4

There are some empirical studies that examine the various implications of Greece’s accession to the EU/EEC for overall trade flows and economic performance. Arghyrou (2000) showed that the competitiveness of Greek firms did not prevail through the EU/EEC accession, due to lacks in product differentiation and specialization. Also, Arghyrou (2000) found evidence that Greece’s international trade has been re-oriented toward EU/EEC partner countries, and has experienced a reduction with other countries. Koukouritakis (2004) found that Greece’s accession to the EU/EEC has led to important trade deficits, due to significant increases in imports and relatively smaller increases in exports. Papazoglou (2007) analyzed the extent of Greece’s trade potentials within the EU/EEC. The results revealed that exports of Greece to its EU/EEC partners fall below the potential levels, whereas imports of Greece from its EU/EEC partners stand above the predictions, Cuaresma et al. (2008) found that the EU/EEC membership has been more beneficial in terms of economic growth for countries with relatively lower Gross Domestic Product (GDP) per Capita (GDPC) such as Greece.5 These positive implications are attributed to the net financial transfers from other EU/EEC members with higher GDPC, in addition to the technological diffusion effects. Also, Cuaresma et al. (2008) underlined the positive implications of trade openness, which is assumed to have been improved through the EU/EEC formation, on the economic growth of member countries.

Figure 1 depicts the patterns of processed food trade of Greece over the time period 1997-2013.6 The values of trade flows are deflated, and they are presented in 2005 constant United States (US) Dollars (USD). The value of Greece’s total processed food exports shows some fluctuations over time, as it increases from 2300.9 million USD in 1997 to 3709.4 million USD in 2013. Greece’s processed food exports to the EU and non-EU countries have increased from 1357.1 and 943.8 million USD in 1997 to 1816.6 and 1892.8 million USD in 2013, respectively. These statistics imply that the growth rate of Greece’s exports appear to be moderately higher in the case of non-EU countries over this time period. Figure 1 also shows that the value of Greece’s total processed food imports increased

Figure 1. Processed food trade of Greece
Measuring the Impact of Extreme Weather Phenomena on Total Factor Productivity of General Cropping Farms in East Anglia

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