

Box 3

Recent developments in extra-euro area trade: the role of emerging market economies

Over the past 15 years extra-euro area trade has played an increasingly important role.

During the early 2000s trade between the euro area countries accounted for the majority of total euro area trade. Therefore, trade was largely reliant on domestic developments in the euro area. Since the mid-2000s, however, euro area trade has become more dependent on global developments owing to the increase in the share of extra-euro area trade in total euro area trade, which stood at more than 55% in the first quarter of 2015 (see Chart A). This reflects the fast pace of globalisation since 2000 and the accession of further countries to the World Trade Organization, notably China, which has opened up new markets for euro area exporters.

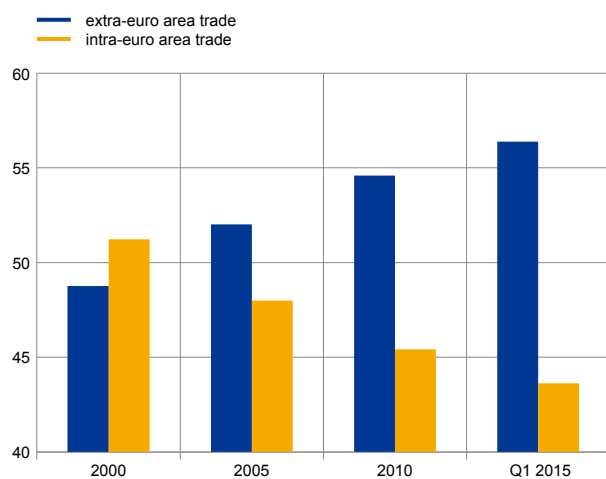
Unlike euro area domestic demand, foreign demand has rebounded quickly since the crisis.

Since 2009 domestic demand in the euro area has been dampened by private sector balance sheet adjustments, bank deleveraging and credit constraints, as well as tight financing conditions in some euro area countries. Furthermore, the sovereign debt crisis in 2012 led to increased uncertainty and had adverse effects on consumer confidence and investment spending. Owing to these adverse factors, domestic demand, although increasing, had still not returned to its pre-crisis levels in the first quarter of 2015. In contrast, euro area foreign demand rebounded quickly after the crisis (see Chart B) and is now around 25% higher than

Chart A

Intra and extra-euro area trade

(percentage shares of total euro area trade)

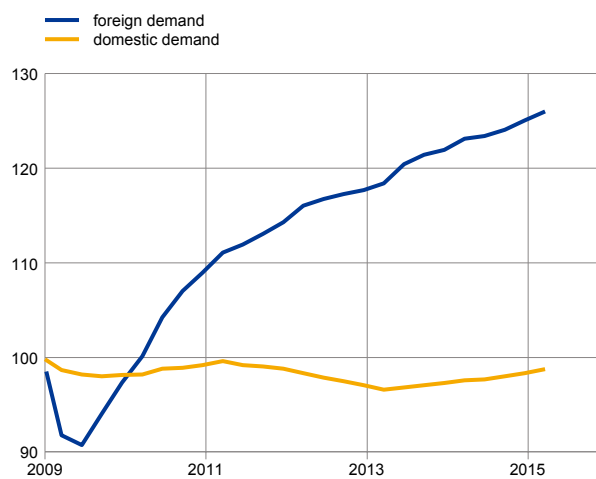


Sources: Eurostat and ECB calculations.
Notes: Trade refers to both imports and exports.

Chart B

Foreign and domestic demand

(index: Q4 2008 = 100)

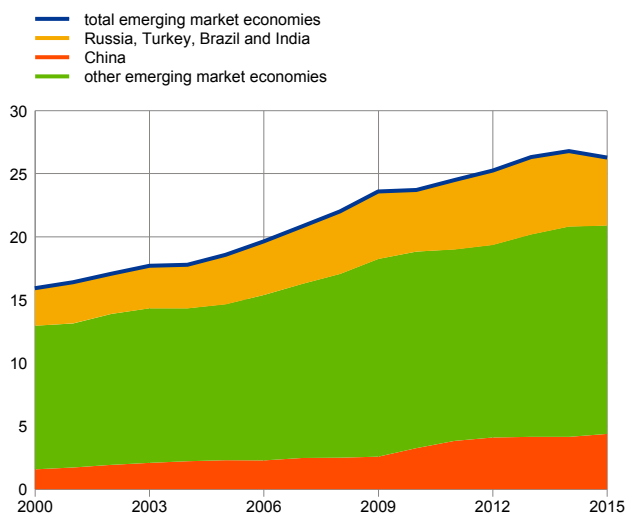


Sources: Eurostat and ECB calculations.

Chart C

Exports to emerging economies

(percentage shares of total euro area exports)



Sources: International Monetary Fund (Direction of Trade Statistics) and ECB calculations.

the level recorded at the end of 2008. However, the rate of increase in euro area foreign demand has moderated somewhat since early 2011, in line with slower global trade growth.

Euro area exports to emerging economies have been steadily increasing. Extra-euro area exports are to a large extent destined to advanced economies in the European Union or to other European countries. In addition, around 14% of extra-euro area trade is with the United States. Over time the share of emerging economies in total euro area exports has steadily increased, rising from 16% in 2000 to just above 25% in 2011 (see Chart C). Since then this share has been broadly stable at around 26%. Among the emerging market economies, China is the main destination of extra-euro area exports, followed by Russia and Turkey.

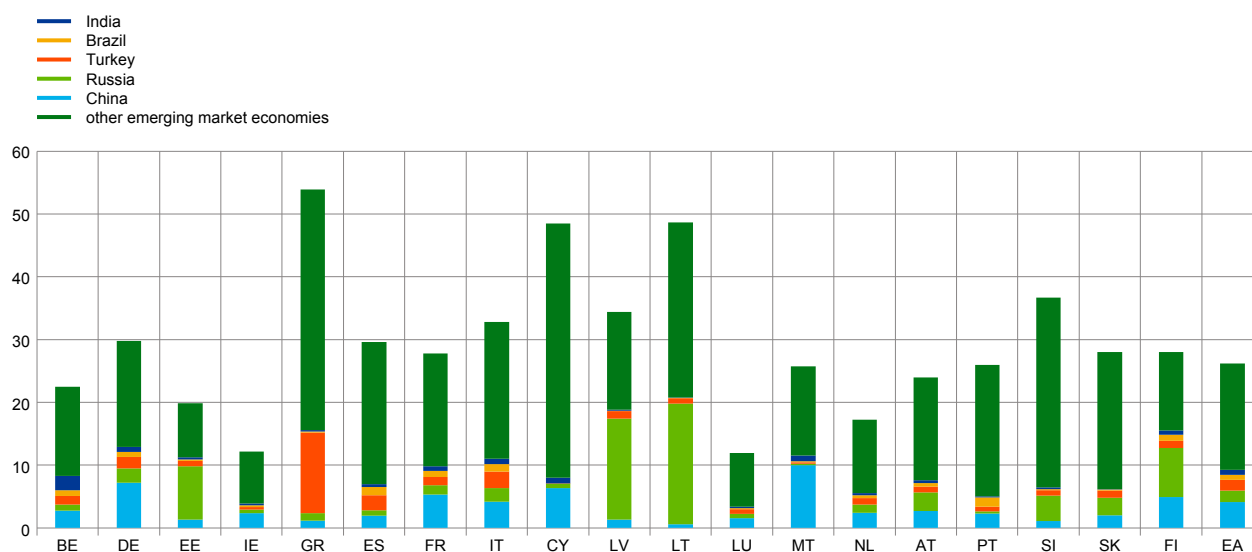
The share in euro area exports of the five main trading partners among the emerging economies is around 10%. Thus, at the euro area and individual

country levels, exposure to the export markets of the five most important trading partners among the group of emerging economies (China, Russia, Turkey, Brazil and India) is non-negligible (see Chart D). This is particularly the case for the Baltic countries, Finland and Greece. For the Baltic countries and Finland, trade with Russia constitutes around 10% of their total exports. In the case of Greece, exports to Turkey account for 13% of total exports. For these economies, a further slowdown affecting some of their main emerging market trading partners could reduce exports

Chart D

Exposure to emerging market economies via exports

(percentage shares of total exports in value terms in Q4 2014)

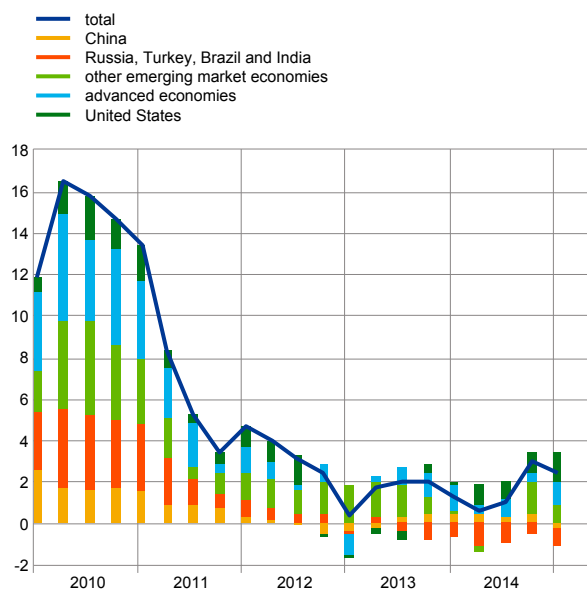


Sources: International Monetary Fund (Direction of Trade Statistics) and ECB calculations.

Chart E

Extra-euro area exports

(year-on-year growth; percentage point contributions to growth)



Sources: Eurostat and ECB calculations.

and hence slow their own growth. However, the extent of such a slowdown in these euro area countries would also depend on domestic conditions, as well as the resilience of their exporting industries.

Recently the contribution of emerging economies to extra-euro area export growth has declined.

Since late 2013 the five main trading partners among the group of emerging economies have made a negative contribution to extra-euro area export growth, notably owing to the continued weakness in Russia and Brazil. In the first quarter of 2015 China's contribution to extra-euro area export growth turned negative (see Chart E). While growth in the emerging economies has slowed, advanced economies, such as the United States and the United Kingdom, have increased their imports from the euro area, as domestic demand in these countries has rebounded somewhat. As a consequence, the share of extra-euro area exports to the United States has increased during the last three years, rising from 12% in 2012 to 14% in the first few months of 2015. Nonetheless, the increase in demand

from the United States and other advanced economies has not fully offset the slower pace of growth in emerging economies since the beginning of 2015. The latest data for April 2015 point to a continued weak performance of exports to China, Russia and Brazil. At the same time, the United States continued to support extra-euro area export growth in April.

With the slowdown in emerging economies, the euro area will have to rely on advanced economies to drive export growth in the near term.