Box 1

THE IMPORTANCE OF THE EURO AREA AS AN EXPORT DESTINATION

The euro area is the leading importer in the world economy, accounting for about 15% of world imports (excluding intra-euro area trade).[1] This box explores how the importance of the euro area as an export destination varies across trading partners.

The analysis is based on a simple indicator, namely the value of a trading partner's exports to the euro area divided by its own GDP. This summary statistic can be seen as a crude proxy of the extent to which a given exporting country is exposed to the economic developments in the euro area through the so-called "trade channel" of international shock transmission. To gain further insight, the overall measure can be decomposed into: (i) the share of a country's exports shipped to the euro area to the country's total exports; and (ii) the share of total exports to GDP. The overall indicator can be derived by multiplying these two components. Taking the second component into account is important, as it captures the size of the entire export sector. If the latter is very small, an increase in exports to the euro area will be felt mostly in the export sector, with limited impact on the wider economy in the exporting country.

Some caveats should be borne in mind. Most importantly, the indicator should be seen merely as a proxy of a country's export dependency vis-à-vis the euro area. Other country-specific characteristics such as factor mobility and price elasticities are likely to amplify or diminish

1 This share is calculated over the period 1999-2009.

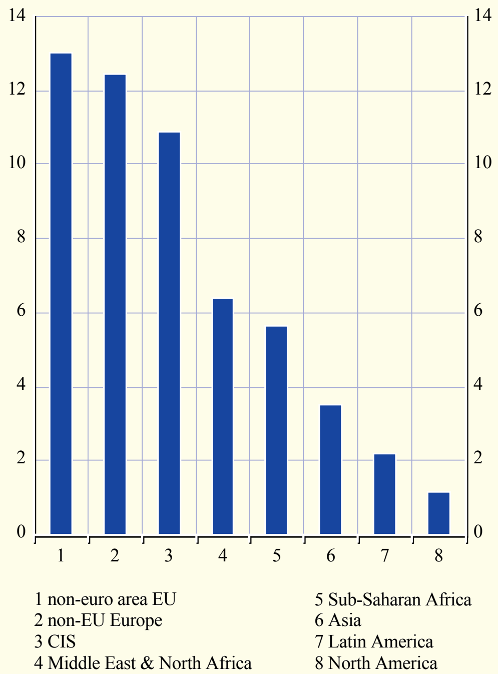
the impact of demand impulses from the euro area. Moreover, the product composition of a country's exports is relevant, given that some goods (e.g. durable consumption and investment goods) are more sensitive to changes in economic conditions than others (e.g. non-durable consumption goods) and the import content of export goods also plays a role.

Variation across trading partners

Export dependency vis-à-vis the euro area varies substantially across potential trading partners, with a strong regional concentration. Focusing on trade in goods, in the period from 2005 to 2009 exports to the euro area from other countries as a percentage of national GDP ranged from 0% to 43.6%, the latter being the case for the Czech Republic. As expected, export dependency is highly concentrated in economies in close geographical proximity to the euro area. In fact, the non-euro area EU Member States are most exposed vis-à-vis the euro area as a whole, followed by non-EU Europe (see Chart A).[2] Export dependency vis-à-vis the euro area generally declines with rising distance. Notably, North America shows a very low degree of dependency, mainly reflecting the fact that the United States is a relatively closed economy, but also the rather small weight of the euro area in North American exports. The strong negative correlation between bilateral distance and export dependency vis-à-vis the euro area is indeed fully in line with theoretical predictions regarding trade. Intuitively, longer distance translates into higher trade costs. Buyers in the importing country will therefore devote a lower share of their expenditure on goods from distant economies, all other things being the same.

Chart A Export dependency vis-à-vis the euro area across trading partners

(percentages of GDP)



Sources: UN (Comtrade), IMF (WEO) and ECB staff calculations.
Note: The geographical aggregates are GDP-weighted. The reference period is 2005-09.

Developments over time

Overall, the export dependency of the non-euro area countries vis-à-vis the euro area has increased moderately since the late 1990s. The GDP-weighted cross-country mean rose from 3.5% for the period from 1995 to 1999 to 4.3% for 2005 to 2009. Interestingly, this conceals two countervailing forces. On the one hand, trading partners outside the euro area nowadays tend to export a slightly smaller fraction of their total exports to the euro area than in the past, mainly reflecting the rising share of exports to emerging markets. On the other hand, this effect has been more than offset by a marked increase in the exports-to-GDP ratio abroad in the wake of global goods market integration and export-led growth strategies in many emerging economies.

2 Smaller EU Member States tend to be more dependent on exports to the euro area than larger ones, mainly owing to their trade openness.

The largest increases in export dependency vis-à-vis the euro area were observed in China and the central and eastern European countries.

The role of trade in services

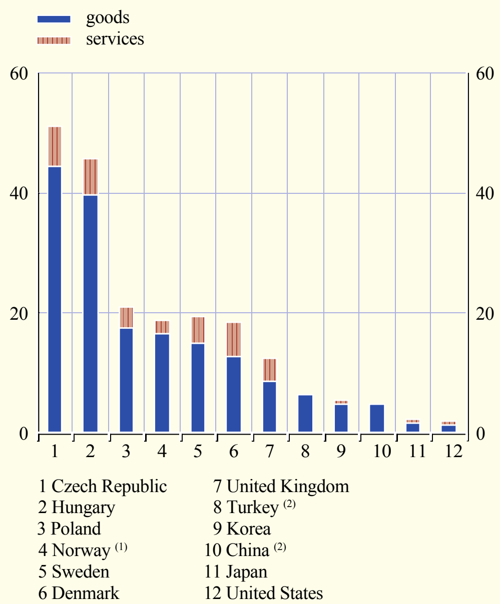
While the analysis has so far concentrated on exports of goods, available evidence suggests that including exports of services does not significantly alter the ranking of countries according to their export dependency vis-à-vis the euro area (see Chart B). This should not come as a surprise since services account for about one-fifth of world trade, according to OECD estimates. Moreover, as with trade in goods, services trade has a strong regional bias owing to implicit distance costs (such as differences in the legal system, language, etc.).

Conclusion

As the largest importer in the world economy, the euro area is an important export market for many of its trading partners. Export dependency vis-à-vis the euro area, also taking into account the size of the overall export sector, is highest for countries in close geographical proximity to the euro area. Therefore, these countries stand to gain most from strengthening demand from the euro area.

Chart B Export dependency vis-à-vis the euro area, including exports of services for selected economies

(percentages of GDP)



Sources: UN (Comtrade), OECD (Statistics on International Trade in Services) and ECB staff calculations. The reference period is 2008 on account of data constraints.
1) Norway: data for 2007.
2) China and Turkey: data for services not reported.