

Box 8**The openness of the euro area with regard to external trade**

The standard method for measuring the degree of openness of a region is to express its exports and imports as a proportion of GDP. By contrast with individual euro area countries previously seen as small or medium-sized economies, the euro area – with a large internal market bound together by a single currency – is one of the major world economies, comparable in size to the United States or Japan and, like those economies, relatively closed (see the table below). However, differences exist in terms of the relative openness of these three major economies and their openness towards other regions in the world.

With regard to both exports and imports the euro area is somewhat less closed than either the United States or Japan. In terms of goods and services, its exports form around 17% of its GDP, compared with just over 11% for the United States or Japan, and its imports represent around 15% of its GDP, compared with around 13% and 10% for the United States and Japan respectively.

Shares of exports and imports as a percentage of GDP (balance of payments data)

	Euro area ¹⁾				United States				Japan			
	Goods		Goods and services		Goods		Goods and services		Goods		Goods and services	
	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997	1998
Exports	12.9	13.2	16.8	17.1	8.4	7.9	11.6	11.0	9.8	9.8	11.4	11.5
Imports	11.3	11.1	15.2	15.1	10.8	10.8	12.9	12.9	7.3	6.6	10.3	9.6

Sources: Eurostat and the ECB for the euro area, IFS for the United States and Japan.

1) Euro area data for 1997 are drawn from Eurostat figures and are not fully comparable with those for 1998, which are based on ECB balance of payments figures. The numbers reported here differ from those reported in Table 1 of the January 1999 issue of the ECB Monthly Bulletin, as the latter were based on Eurostat data because euro area balance of payment statistics were not yet available.

Such aggregate measures provide information about the magnitude of external trade links, but tell us little about other important features, such as the degree of openness with regard to different geographical trading partners or the level of economic development of such partners. In particular, different degrees of regional openness may provide information which is useful for explaining the different responses of the major economies to external shocks transmitted via trade links. To explain this, the table below provides details of the regional direction of trade for the three major economies in terms of percentages of their GDP.

Regional trade in goods as a percentage of GDP (1995-98 average)

	Euro area		Japan		United States	
	Exports	Imports	Exports	Imports	Exports	Imports
Industrialised countries	6.7%	6.0%	4.7%	3.4%	4.6%	5.8%
<i>Euro area</i>	-	-	1.2%	0.8%	1.2%	1.5%
<i>Japan</i>	0.5%	0.8%	-	-	0.8%	1.6%
<i>United States</i>	1.7%	1.6%	2.7%	1.7%	-	-
<i>Other industrialised countries</i>	4.6%	3.7%	0.8%	0.9%	2.6%	2.8%
Emerging economies	6.0%	5.3%	4.8%	4.0%	3.6%	5.0%
<i>Asia excluding Japan</i>	1.3%	1.6%	3.9%	2.8%	1.5%	2.7%
<i>Transition economies</i>	1.7%	1.3%	0.1%	0.1%	0.1%	0.1%
<i>Latin America</i>	0.7%	0.5%	0.4%	0.2%	1.5%	1.7%
<i>Other emerging economies</i>	2.3%	1.9%	0.4%	0.9%	0.4%	0.5%

Sources: Eurostat and IMF databases.

When considering the scale of trade between the three major economies, the second table shows that both Japan and the euro area import similar magnitudes from the other two major economies (around 2.5% of their respective GDPs), despite the fact that the Japanese economy is relatively more closed. This reflects the concentration of Japan's trade with industrialised countries on the United States and the euro area. By contrast, both the United States and the euro area also have substantial trade links with other industrialised countries, such as the United Kingdom in the case of the euro area and Canada in the case of the United States. Another feature is that roughly half of the total trade of each of the three major economies is with emerging market economies, but there are significant differences in the geographical composition of such trade. All three major economies appear to be "open" towards distinctly different emerging economy trading blocs. The degree of openness of Japan vis-à-vis the rest of Asia in terms of exports is three times as large as that of the United States and the euro area, whereas the trade links in terms of imports from the same area are virtually the same for both the United States and Japan. By contrast, a significant part of emerging market trade with the euro area is concentrated among the accession and transition countries of eastern Europe, while trade between this region and the United States and Japan is virtually nil. Similarly, Japan and the euro area have only limited trade links with the Latin American countries, whereas a relatively significant part of US trade is with this region.

In summary, the three major economies are relatively closed, although the euro area tends to be somewhat less closed than the United States and Japan. In addition, there are substantial differences in their relative openness with regard to other regions. As a consequence, the euro area, the United States and Japan have different exposures to external shocks transmitted via trade links.