

Box 2

**THE GEOGRAPHICAL COMPOSITION OF EURO AREA FOREIGN DEMAND**

This box briefly reviews developments in the value of extra-euro area exports of goods over recent years and describes changes in the composition of euro area foreign demand.<sup>1</sup>

Euro area exports to non-Japan Asia and the new EU Member States have been particularly buoyant over the past few years, with annual growth rates averaging between 5% and 10% in

<sup>1</sup> The measure of euro area foreign demand referred to in this box is defined as a weighted geometric average of the imports of extra-euro area trading partners. The weights used for each country/region are based on bilateral trade flows.

value terms (see Chart A). Exports to China have grown even more rapidly, with growth rates ranging between 10% and 25% from 2002 to the beginning of 2004. However, total extra-euro area exports decreased by 2.6% in 2003. In particular, exports to the United States, Japan and the United Kingdom decreased by 9.8%, 5.7% and 6.2% respectively. These developments reflect the effects of the euro appreciation that began in the second quarter of 2002 and the muted demand for imports observed in these countries in the second half of 2002 and the first half of 2003.

Despite the decline in exports to the United States, Japan and the United Kingdom in 2003, euro area exports have benefited from the more dynamic growth of import demand in other regions. In particular, non-Japan Asia and the new Member States have contributed positively to euro area exports since 2001, thereby partly offsetting the decreases observed in exports to other regions (see Chart B), especially in 2003. More recently, euro area exporters have taken advantage of the strong recovery in foreign demand witnessed across most export markets from the second half of 2003 onwards.

As a result, the geographical composition of extra-euro area exports has changed slightly in the past few years. The most striking development concerns the growing share of the new EU Member States, which now account for more than 11% of extra-euro area exports; in the second half of the 1990s they accounted for less than 9% on average. Overall, the share of euro area exports to non-euro area EU countries increased from 34.4% in the second half of the 1990s to 35.4% in 2003. The United Kingdom accounted for more than half of such demand in 2003 (making up 18.3% of total foreign demand), while the new Member States accounted for almost one-third. The United States, non-Japan Asia and Switzerland were the other main trading partners of the euro area (making up 15.7%, 13.2% and 6.0% of total foreign demand respectively).

Although non-Japan Asia's share has remained broadly constant (between 12% and slightly above 13%), its composition has changed considerably. China currently absorbs almost one-quarter of euro area exports to this region, while it accounted for roughly one-sixth in the second half of the 1990s. The significant increase in the Chinese weight has been at the expense of the ASEAN countries, whose weight in euro area exports to non-Japan Asia has decreased

#### Shares in euro area foreign demand

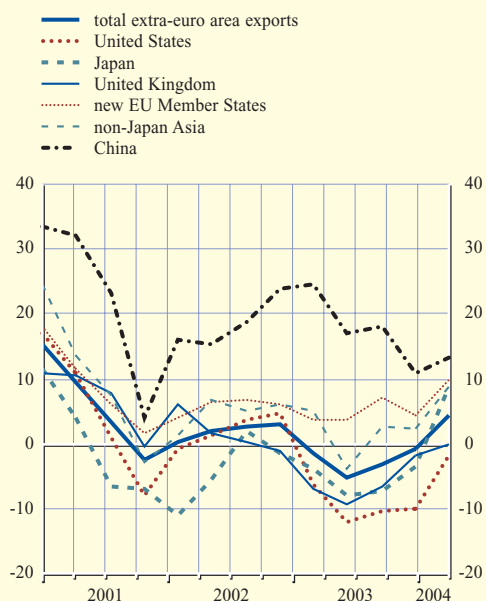
(in percentages)

	1995-2000	2001	2002	2003
United States	14.7	17.0	17.0	15.7
Japan	3.6	3.2	3.1	3.0
Non-euro area EU countries	34.4	34.8	35.1	35.4
<i>of which</i> United Kingdom	18.8	19.0	19.0	18.3
Sweden	4.0	3.5	3.4	3.6
Denmark	2.6	2.3	2.3	2.4
New EU Member States	8.9	10.0	10.3	11.1
Switzerland	6.8	6.2	5.9	6.0
Non-Japan Asia	13.0	12.3	12.7	13.2
<i>of which</i> ASEAN	3.8	3.2	2.9	2.8
China	1.9	2.4	2.8	3.3
Other countries	27.6	26.4	26.3	26.7
Total extra-euro area trade	100.0	100.0	100.0	100.0

Sources: Eurostat, ECB calculations (on the basis of values in EUR billions).

**Chart A Euro area export growth to selected partners**

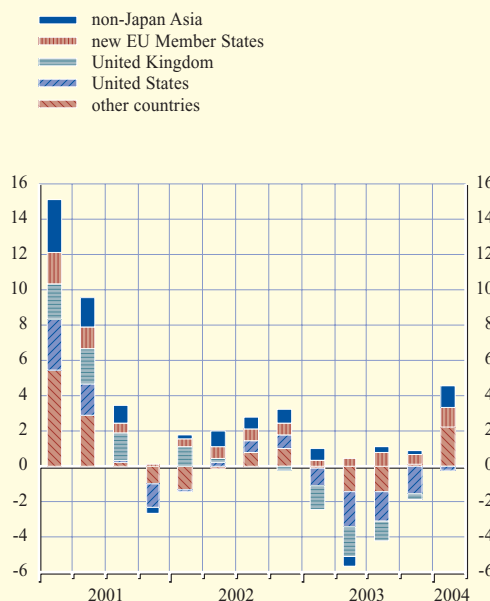
(annual percentage changes)



Sources: Eurostat, ECB calculations.

**Chart B Contribution of selected partners to euro area exports**

(percentage points)



Sources: Eurostat, ECB calculations.

from one-third to one-fifth over the same period. Hence, in 2003 China accounted for 3.3% of euro area foreign demand, while it represented less than 2% on average in the second half of the 1990s. Over the same period the share of ASEAN countries decreased from 3.8% to 2.8%.