

### Box 3

#### **RECENT CHANGES IN THE GEOGRAPHICAL COMPOSITION OF EURO AREA FOREIGN DEMAND**

The rapid expansion in global trade over the past decade and the increasing integration of emerging markets in the world economy have been reflected in a substantial increase in extra-euro area exports of goods and a growing contribution of emerging markets to euro area export growth. This box briefly examines recent developments in extra-euro area exports of goods and the resulting changes in the geographical composition of euro area foreign demand.

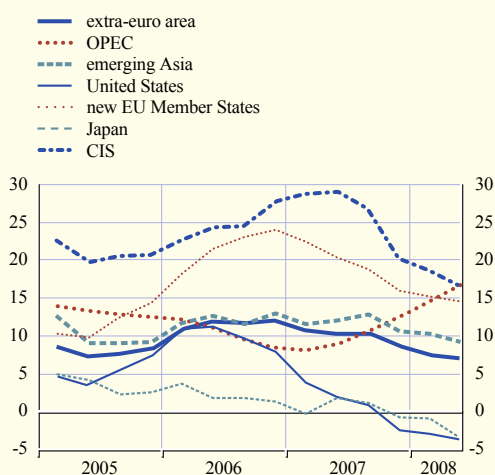
Since 2005,<sup>1</sup> the value of extra-euro area exports of goods has risen considerably, by an annual average growth rate of more than 9%. Euro area exports to emerging Asia (most notably China) and new EU Member States<sup>2</sup> continued to be particularly buoyant, registering annual average growth rates (in value terms) of more than 11% and 17%, respectively, between 2005 and 2007 (see Chart A). This was translated into a substantial positive contribution by these countries to extra-euro area export growth during this period (see Chart B). Euro area exporters also benefited from strong demand from central and eastern European countries as well as from CIS countries and OPEC members. Meanwhile, export growth to advanced economies was much less dynamic, increasing less strongly than total extra-euro area export values. Since the second half of 2007, however, there has been a general slowdown in extra-euro area export growth. With the notable exception of exports to OPEC members, exports to all destinations have grown less rapidly and exports to the United States and Japan have even declined since the fourth quarter of 2007.

As a result of these developments, the geographical structure of euro area foreign demand (measured as exports from the euro area to each partner region divided by total euro area exports) has changed somewhat over the recent period. The most significant development continues to be the increasing share of new EU Member States in total extra-euro area exports. In the first two quarters of 2008, these countries accounted for 15.3% of total extra-euro area exports, which compares with 11.0% on average over the period 2000-05. At the same time, the share of emerging Asia increased from 16.1% on average over the period 2000-05 to 17.5% in 2008,

1 Developments until 2004 were covered by the box entitled “The geographical composition of euro area foreign demand” in the October 2004 issue of the Monthly Bulletin.  
2 New EU Member States comprise non-euro area countries that have joined the EU since 2004. Slovenia, Malta and Cyprus are included in the euro area aggregate.

**Chart A Euro area exports to selected partners (values)**

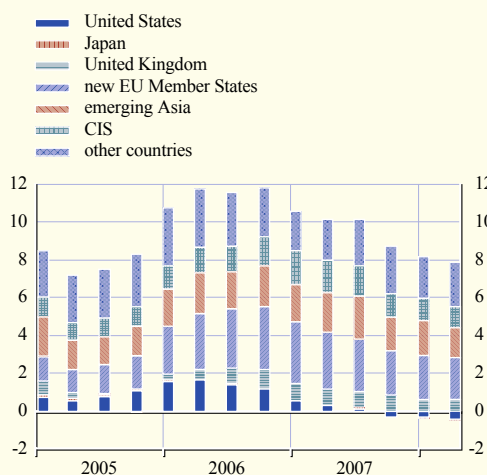
(annual percentage changes)



Sources: Eurostat and ECB staff.  
Note: The annual percentage changes are computed based on 12-month moving sums.

**Chart B Contribution of selected partners to euro area export growth (values)**

(percentage points)



Sources: Eurostat and ECB staff.  
Note: Contributions are calculated by multiplying the annual percentage change of euro area exports to selected partner countries with the share of this country or region in total extra-euro area exports.

and is now one of the euro area's main export markets. This is mainly due to China, which currently absorbs about 4.3% of total extra-euro area exports of goods. Another striking development concerns the rising share of CIS countries (mostly Russia), from an average of 3.7% over the period 2000-05 to 6.6% in 2008, reflecting the increasing integration of these economies in world trade and increased oil revenues. Similarly, OPEC members also registered a significant increase in their share of euro area foreign demand, and currently represent 6.0% of extra-euro area export values.

These developments contrast with the declining share of some advanced economies. In particular, the shares of the United States and the United Kingdom have been decreasing significantly over this period, to about 11.9% and 14.5% in 2008, respectively (compared with 16.2% and 18.3%, on average, between 2000 and 2005). This notwithstanding, these countries remain the two largest individual trading partners of the euro area. The export shares of Japan and Switzerland have also witnessed a slight decline.

Overall, these changes in the euro area export composition reflect the fact that euro area exporters have benefited from increasing demand by emerging markets. The robust growth of emerging economies has been one of the main drivers of the strong euro area export performance over the last few years. Against the background of a recent slowdown in import demand by advanced countries, the prospects for euro area foreign demand will increasingly depend on the outlook for emerging economies.

#### Shares in euro area foreign demand

(percentages)

	2000-05	2006	2007	2008
<b>United States</b>	16.2	14.4	13.0	11.9
<b>Japan</b>	3.1	2.5	2.3	2.1
<b>Switzerland</b>	6.0	5.6	5.5	5.4
<b>Non-euro area EU countries</b>	35.2	35.3	35.8	35.6
UK	18.3	15.7	15.3	14.5
Sweden	3.6	3.6	3.7	3.6
Denmark	2.3	2.3	2.2	2.2
New EU Member States	11.0	13.7	14.7	15.3
<b>Emerging Asia</b>	16.1	17.1	17.4	17.5
China	2.9	3.9	4.0	4.3
ASEAN	3.0	2.7	2.8	2.8
<b>CIS</b>	3.7	5.5	6.0	6.6
Russia	2.7	4.0	4.5	4.9
<b>Latin America</b>	4.1	3.9	4.1	4.1
<b>Other countries</b>	15.7	15.7	15.8	16.7
OPEC	5.0	5.3	5.5	6.0

Sources: Eurostat and ECB staff.

Note: The data for 2008 refer to the first semester.