

## Box A

# Trade Exposures to the Euro Area

The ongoing turmoil in the euro area is affecting other economies around the world through its impact on financial markets, business and household confidence, and trade. While the effect through trade may not be the most significant linkage, it is perhaps the more predictable one since a decline in demand in the euro area economies at the centre of the crisis (that is, Greece, Ireland, Italy, Portugal and Spain – the ‘crisis economies’) feeds directly to a reduction in exports to these economies from the rest of the world.

The size of this direct trade effect depends in part on proximity to the crisis economies because distance is an important determinant of the intensity of trade. Graph A1 ranks economies according to their direct trade exposure to the crisis economies, as measured by the exports of goods to the crisis economies as a share of each source economy’s GDP. Not surprisingly, the exposure via trade to the crisis countries is greatest for their near neighbours, the other economies in the euro area. In 2010, around 20 per cent of merchandise exports from these economies went to the crisis economies, accounting for more than 4 per cent of euro area GDP (excluding the crisis economies). This share was lower (at around 3 per cent) for other countries in Europe, followed by Russia and the Middle East, then Asia. Exports to the crisis economies from Japan, the United States and Australia were only around 0.2 per cent of their GDP.

Another important determinant of the size of the trade effect is the nature of that trade. In particular, since the downturn in demand in the crisis economies is most evident for durable goods, countries with a larger share of durable goods in their exports tend to be more adversely affected.

**Graph A1**  
**Exports to the Crisis Economies\***  
Share of source economy GDP, 2010



For example, in 2009, GDP in the crisis economies contracted by 2½ per cent and, while the volume of machinery & transport equipment imports fell by 25 per cent, the volume of mineral fuels and lubricants imports actually increased by 17 per cent. So, even though Russia and the Middle East export a considerable share of their output to the crisis economies, the direct trade effect is likely to be considerably lessened by the fact that their exports of final durable goods are much lower. Instead, a higher share of exports from Russia and the Middle East to the crisis economies are in the form of energy commodities. When focusing on final durable goods, China’s exposure is similar to that of Europe (excluding the euro area), while the exposure of east Asia (excluding China and Japan) is also relatively significant.

Indirect trade links will also expose economies to the turmoil in the euro area. For example, an economy might be exposed to the decline in demand in

the crisis economies even if it does not export there directly, but rather supplies inputs to other economies that are direct exporters. However, while accounting for this indirect trade linkage implies a slightly larger effect of reduced demand in the crisis economies than that suggested by the direct trade linkages alone, it does not alter the ranking of the different regions' exposure to weak demand in the crisis economies described above.