

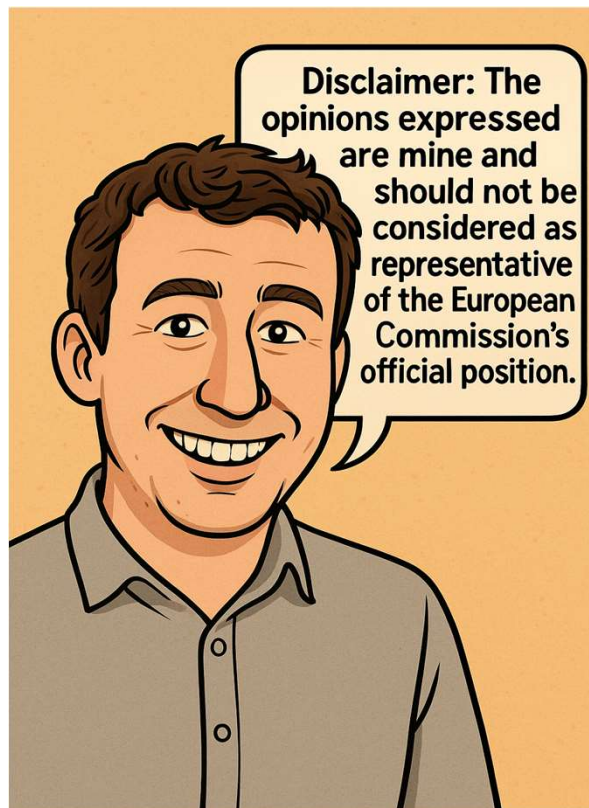


Discussion

Navigating a fragmenting global trading system: insights for central banks

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Disclaimer: The opinions expressed are mine and should not be considered as representative of the European Commission's official position.

Source: Picture generated with *ChatGPT*





Main Messages

1. Evidence of selective trade decoupling:

Global trade integration has shown resilience, but there is evidence of selective decoupling, especially in high-tech sectors (e.g. electronics)

2. European firms are derisking and reorganising their supply chains:

Evidence from business surveys including signs of “EU shoring”

3. Dependencies on Foreign Critical Inputs (FCI) can led to heterogenous risks:

Sudden disruptions in the supply of critical inputs from high-risk countries can lead to significant, though heterogeneous, economic losses

4. Risks of higher inflation and output losses from trade fragmentation:

e.g. (output losses) US between 2% and 6%, EU between 2.4% and 9.5% and China up to 20% → factors include trade openness, GVC integration, size of the bloc

5. Trade fragmentation amplifies inflationary pressures:

the exposure to large relative price shocks (also output volatility) may increase due to the decreased geographical diversification of inputs sources and final demand

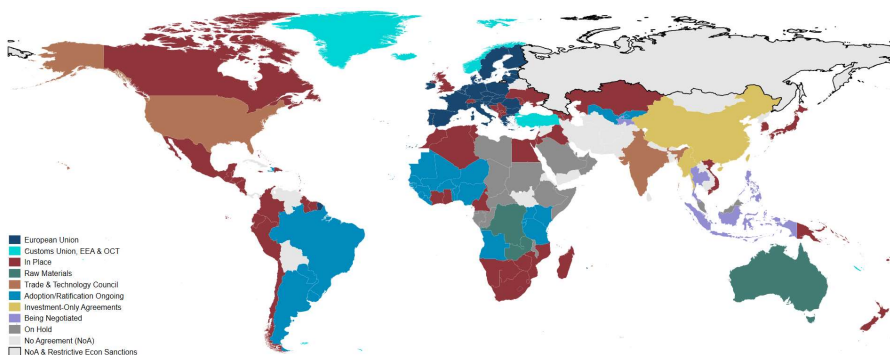
6. This topic extremely relevant for Central Banks due to the various risks associated



Related European Commission work

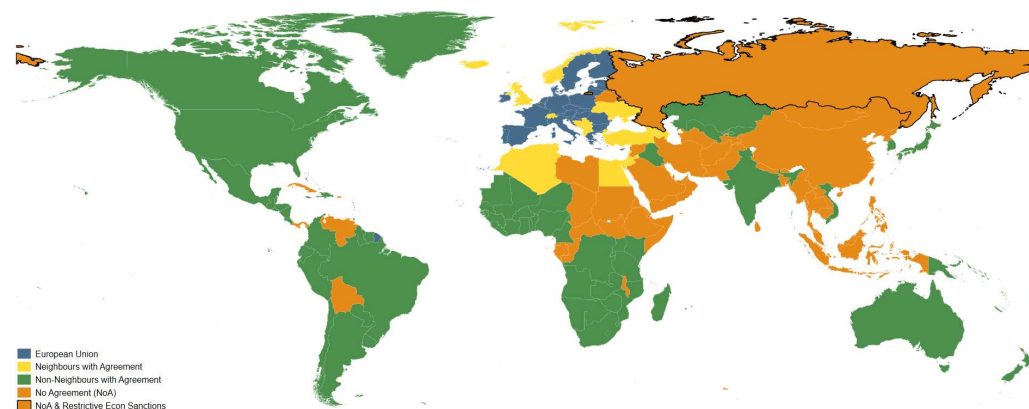
Message 1: Evidence of selective trade decoupling

Different classification of trade blocs focused on EU...



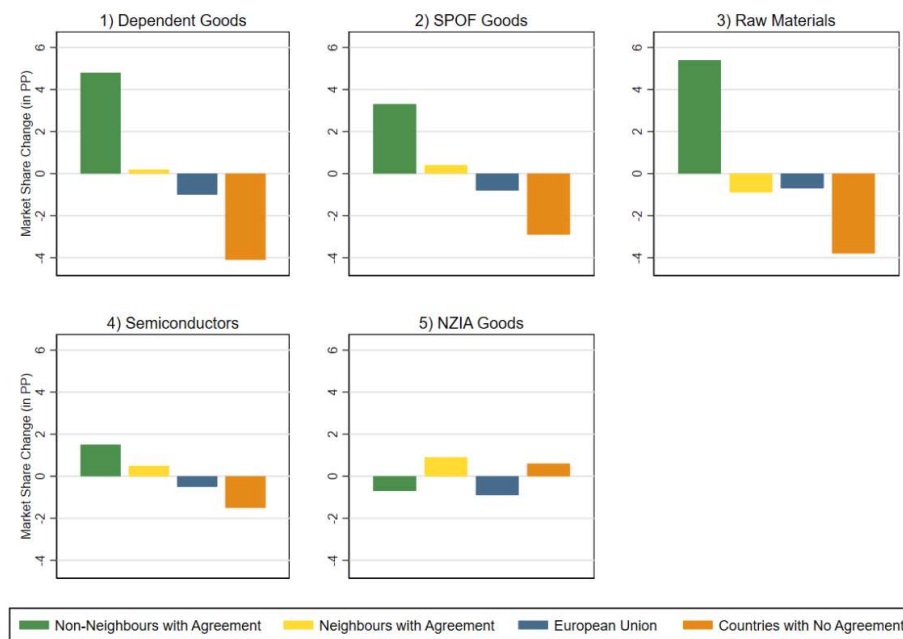
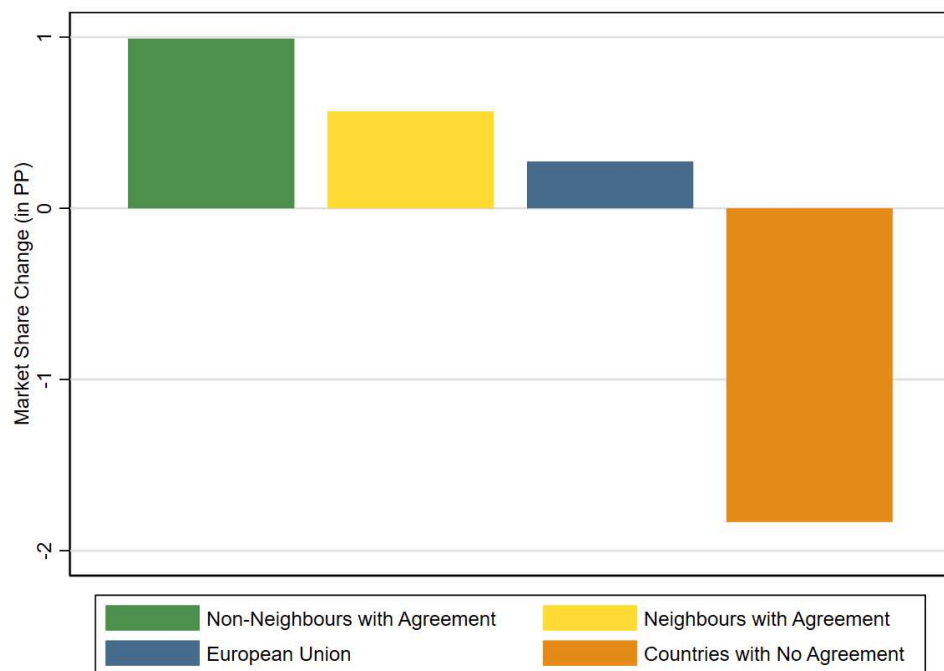
Source: Own elaboration based on European Commission documents covering EU trade relationships with other countries, complemented with raw materials partnerships and ongoing Trade & Technology Councils

- **Agreement partners:** This classification relies on the EU's various trade cooperation agreements. It includes countries with established or provisionally applied trade agreements and those that have recently signed Raw Material Partnerships or the 2022 Joint Statement on Cooperation on Global Supply Chains.
- **EU Neighbours:** Besides the UK and EFTA countries, EU neighbours are identified based on information regarding European Neighbourhood Policy and Enlargement



But similar messages...

Changes in EU import market shares across trading groups for all products (and sensitive products) from 2021 to 2023



Source: Own calculations based on Eurostat-Comext. Energy related products are excluded

We also looked at the angle of diversification...

$$\Delta HHI_k^{23-21} = \alpha_1 \Delta(NAPshr)_k^{23-21} + \alpha_2 \Delta HHI_k^{21-17} + D_{hs4} + \varepsilon_k$$

change in the HHI of
EU's imports
(k =CN8 product)

change in the share of
non-agreement
partners in EU
imports

lag of changes in
the HHI of EU's
imports

HS4 fixed
effects

Change in the concentration of EU imports

	Δimport concentration (2021-23)	
	All Partners (1)	Agreement Partners (2)
ΔNAP import share (2021-23)	0.292*** (0.034)	-0.103*** (0.039)
Lag Δimport concentration (2017-21)	-0.303*** (0.016)	-0.317*** (0.016)
Observations	9259	9259
Adjusted R ²	0.139	0.119
HS4 FE	Yes	Yes

Note: The regression estimates rely on weighted least squares (WLS), with the 2021 EU import values of CN8 products from the NAP trading group used as weights. NAP stands for non-agreement partners. Standard errors in parentheses, with * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$ denoting significance at the 10%, 5% and 1% levels, respectively.

Main message:

Shifting away from non-agreement partners has led to greater diversification of imports when considering all partners. At the same time, we observe an increase in import concentration when the HHI index is restricted to the subgroup of agreement countries

And the potential impact on prices...

$$\Delta imp_price_{ik}^{23-21} = \alpha_1 \Delta(NAPshr)_k^{23-21} + \alpha_2 \Delta imp_price_{ik}^{21-17} + D_{hs4} + f_i + \varepsilon_k$$

change in the
avg. unit price of
EU's imports
(k =CN8 product
 i =country in a trading
group)

change in the
share of
non-agreement
partners in EU
imports

lag of changes in
the avg. unit
price of EU's
imports

HS4 fixed
effects

country fixed
effects

Change in the EU import unit price

	Δimport unit value (2021-23)		
	EU27	Agreement partners	
	(1)	(2) Neighbours	(3) Non-Neighbours
ΔNAP import share (2021-23)	-0.081* (0.044)	-0.127 (0.101)	-0.260*** (0.095)
Lag Δimport unit value (2017-21)	-0.391*** (0.004)	-0.416*** (0.006)	-0.436*** (0.005)
Observations	197786	60903	76274
Adjusted R ²	0.193	0.205	0.222
Country FE	Yes	Yes	Yes
HS4 FE	Yes	Yes	Yes

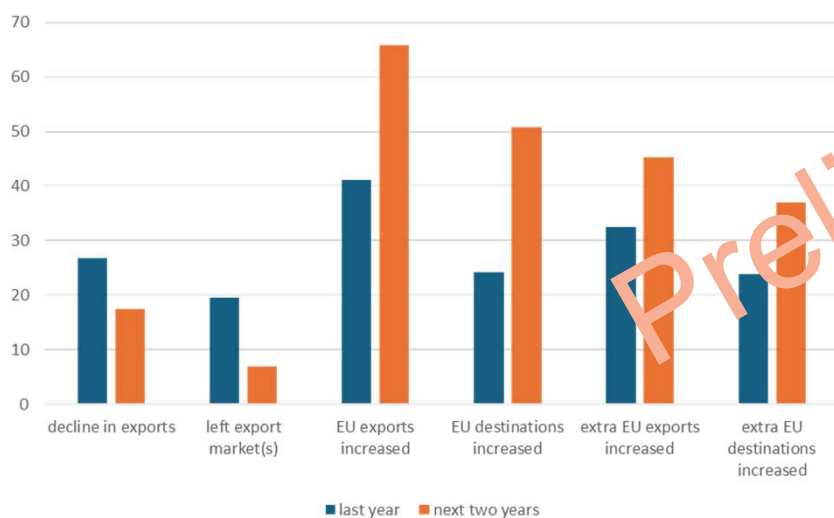
Note: The regression estimates rely on Ordinary Least Squares (OLS). NAP stands for non-agreement partners. Standard errors in parentheses, with * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$ denoting significance at the 10%, 5% and 1% levels, respectively.

Main message:

Mixed evidence when it comes to the correlation and the intensity between decreases in the share of non-agreement partners and the changes in import prices from trading groups

We share the view on the importance of business surveys...

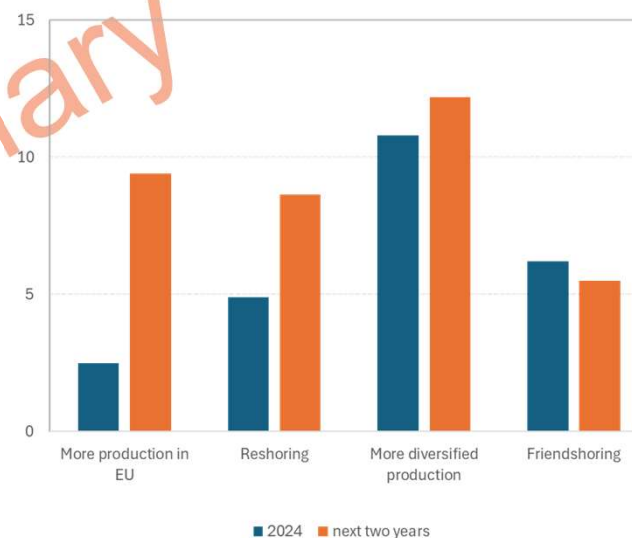
Export adjustments in 2024 and expectations for the next two years
(% of Firms)



Question to exporters:

- (1) How did your **company's exports** change in the **last two years**?
- (2) How do you expect your **company's exports** to change in the **next two years**?

Production adjustments in 2024 and expectations for the next two years
(% of Firms)



Question to multinationals:

- (1) How has the location **strategy of production/operations** of your international group changed in the **last two years**?
- (2) How is the location **strategy of production/operations** of your international group expected to evolve in the **next two years**?

Source: Forthcoming - Navigating Supply Chain Disruptions (2025)





Conclusion



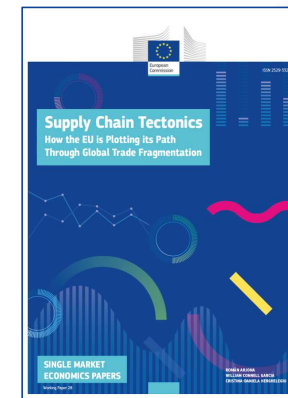
1. A timely, comprehensive analysis that aligns closely with many of our own findings
2. Two main questions:
 - *Are EU policy initiatives best understood as efforts to promote diversification? Considering that sectoral concentration remains high in some industries, should current EU strategies be interpreted primarily as diversification-driven responses to global fragmentation risks?*
 - *In Section 4.1 of the report, you outline a scenario of selective decoupling. Could you elaborate on how this modeling is achieved given the level of aggregation in OECD Input-Output (IO) Tables?*
3. When do we expect the next report? 😊



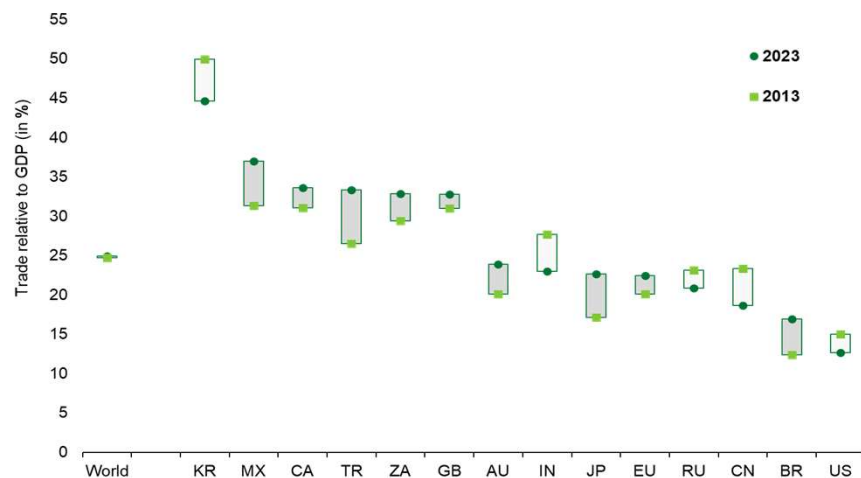
Annex

Related European Commission work

Message 1: Evidence of selective trade decoupling

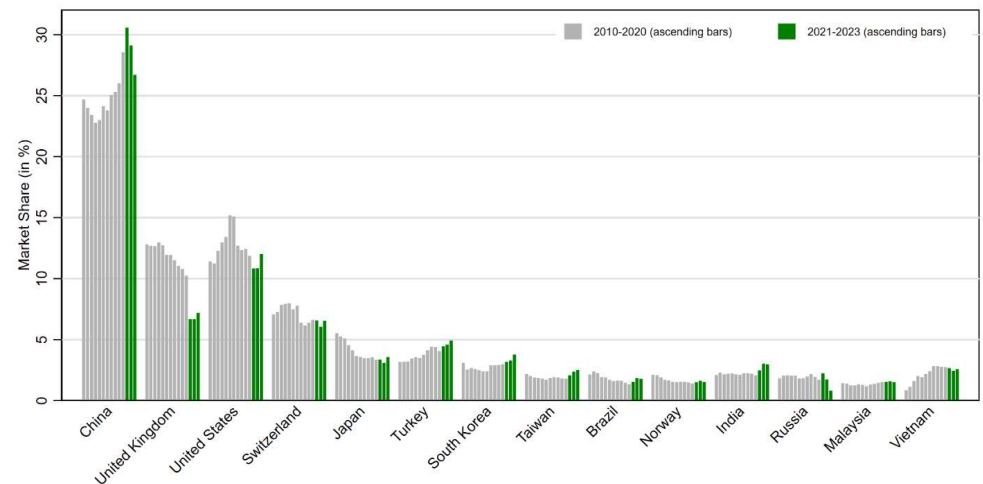


Trade in goods and services over GDP for major trading entities in 2013 and 2023



Source: Eurostat (online data codes: bop_eu6_q and nama_10_gdp), International Monetary Fund (Balance of Payments and International Investment Position Statistics) and the World Bank (Databank – World Development Indicators). The EU figures exclude intra-EU trade.

Evolution of market shares held by the EU's top 15 partners in total EU imports of all goods over 2010-2023



Source: Own calculations based on Eurostat-Comext. Energy related products are excluded



Short summary

1. Trade fragmentation: where do we stand?

Explores current globalisation trends and evidence of trade fragmentation across geopolitical blocs and firms

- *e.g. looking for instance at trade dynamics using “western”, “neutral” and “eastern” countries or corporate surveys*

2. Exposure to trade fragmentation risks: evidence from granular data

Uses firm-level data and surveys to assess trade fragmentation risks, focusing mainly on China.

- *e.g. a stress test exercise looking and Foreign Critical Inputs (FCI)*





Short summary

3. Trade fragmentation: general equilibrium effect

Counterfactual analysis are performed to simulates trade fragmentation scenarios to evaluate impacts on global growth, trade patterns, and inflation

- *e.g. including an exercise simulating trade fragmentation within the Western Block*

4. Trade fragmentation and relative price shocks: a harbinger of inflation?

It explores whether a fragmented global trade environment makes economies more vulnerable to volatility in output and prices

- *e.g. including an exercise looking at how fragmentation affects the propagation of shocks*

