



EUROPEAN CENTRAL BANK

EUROSYSTEM

Background slides to Policy Panel

“Trade and Financial Linkages in the Era of
Geopolitical Fragmentation”

CEBRA ITM/IFM joint Program Meeting, hosted by
the Central Bank of the UAE, the Emirates Institute
of Finance, and NYU Abu Dhabi

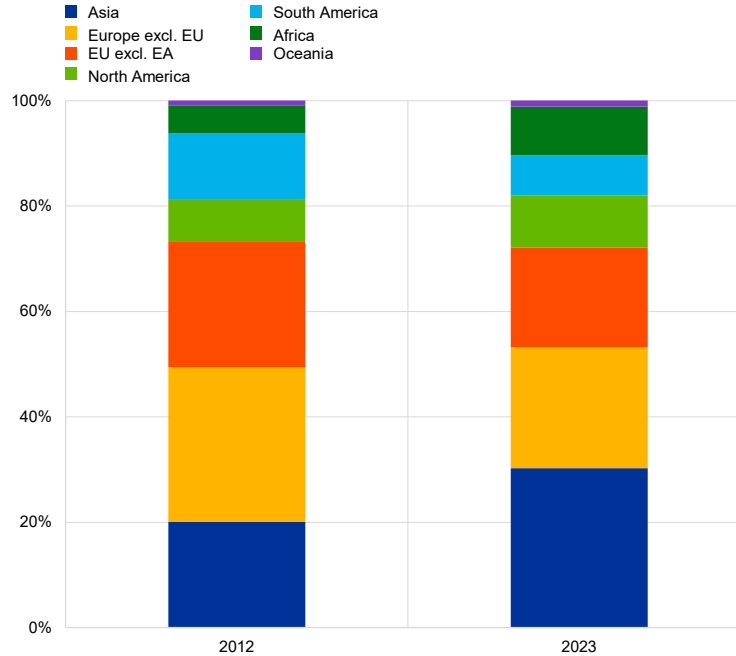
20 November 2023



Philip R. Lane
Member of the Executive Board

Euro area imports of intermediate goods by region

(shares of total imports, deflated)



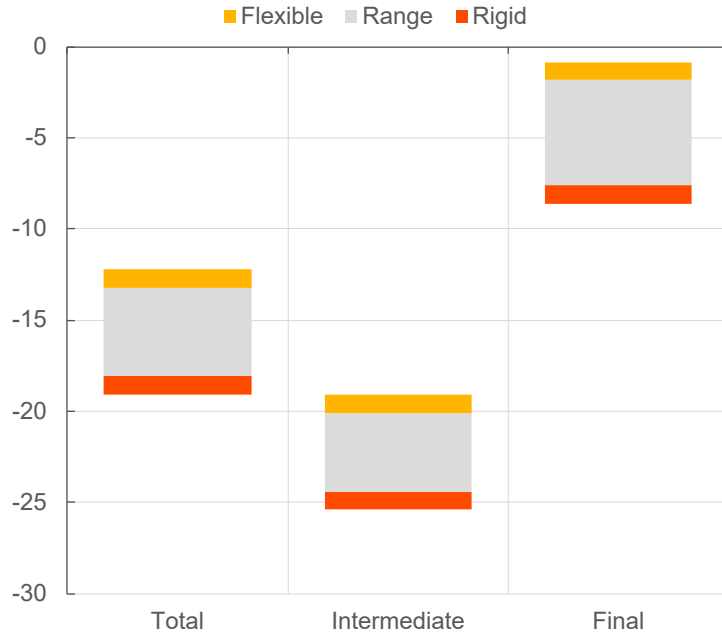
Sources: Eurostat and ECB staff calculations.

Notes: See also Di Sano, M., Gunnella, V. and Lebastard, L. (2023), "Deglobalisation: risk or reality?", *The ECB Blog*, 12 July. The definition of intermediate goods is based on classification by Broad Economic Categories (fifth revision). Europe excluding EU includes Russia. For 2023, the data covers January-August 2023.

Real imports and sourcing of intermediate inputs

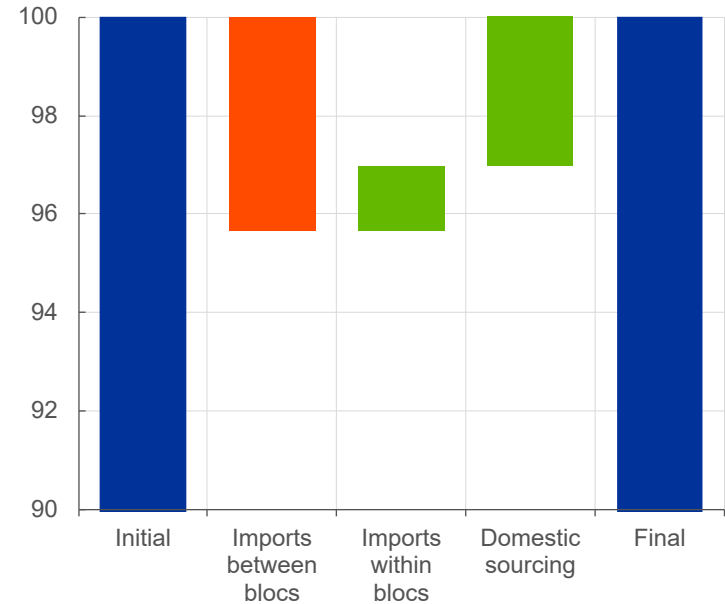
Global imports by type of trade

(percentage deviation from steady state)



Sourcing of intermediate inputs (world)

(percentage points, market share)



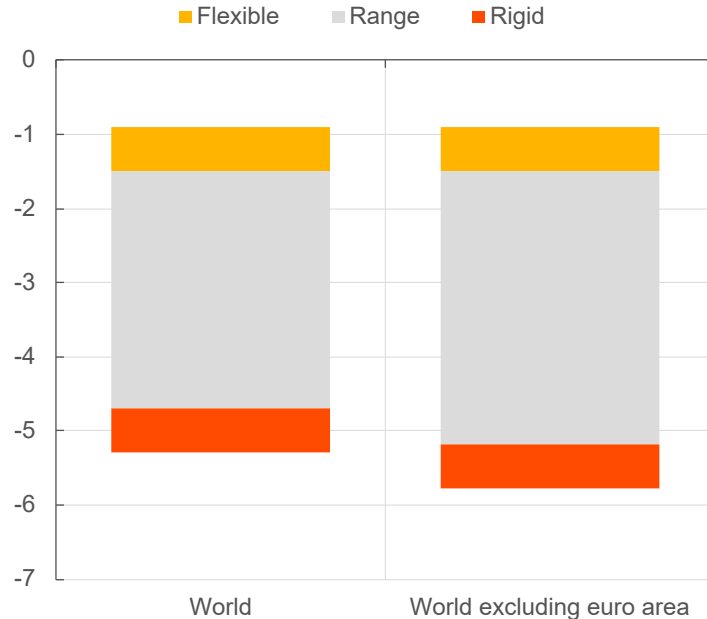
Sources: Baqaee and Farhi, Asian Development Bank, FPS database and ECB calculations.

Notes: See also Attinasi, M.-G., Boeckelmann, L. and Meunier, B. (2023), "Friend-shoring global value chains: a model-based assessment", *Economic Bulletin*, Issue 2, ECB. Non-linear impact simulated through 25 iterations of the log-linearised model. In the left chart the grey areas indicate the range between the flexible setup (yellow line) and the rigid setup (red line) and provide an illustration of the scope of the effects associated with the trade shock. The right chart refers to the flexible setup. The red bar indicates losses in market share while the green bars indicate gains in market share.

Change in Gross National Expenditure

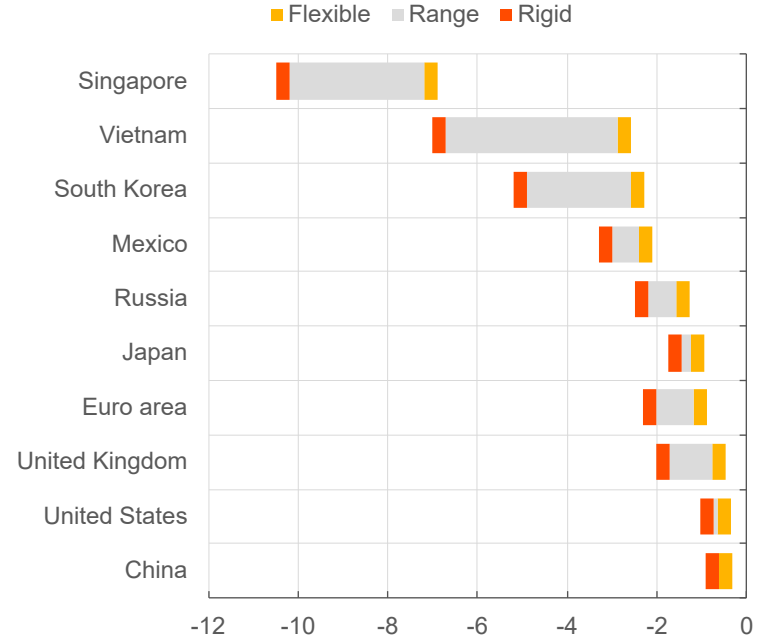
Global GNE

(deviation from steady state, percentages)



Individual countries GNE

(deviation from steady state, percentages)



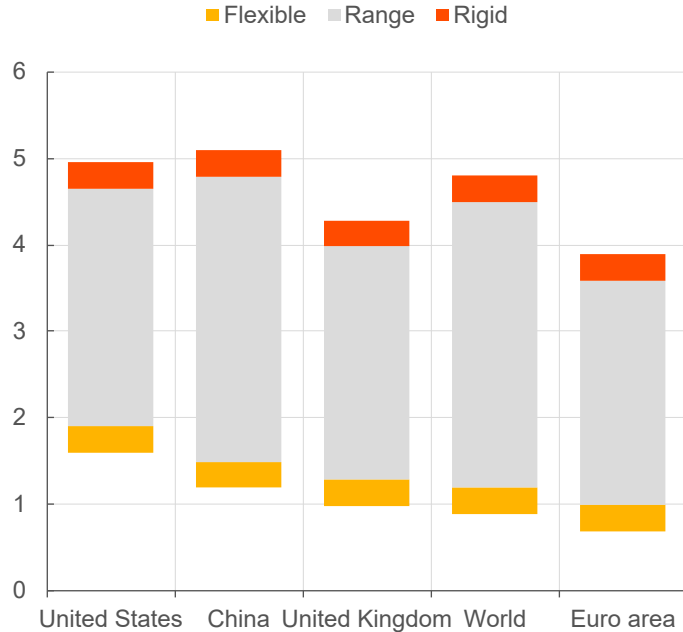
Sources: Baqaee and Farhi, Asian Development Bank, FPS database and ECB calculations.

Note: See also Attinasi, M.-G., Boeckelmann, L. and Meunier, B. (2023), "Friend-shoring global value chains: a model-based assessment", *Economic Bulletin*, Issue 2, ECB. The non-linear impact is simulated through 25 iterations of the log-linearised model. In both charts, the grey areas indicate the range between the flexible setup (yellow line) and the rigid setup (red line) and provide an illustration of the scope of the effects associated with the trade shock.

Nominal impact of trade fragmentation

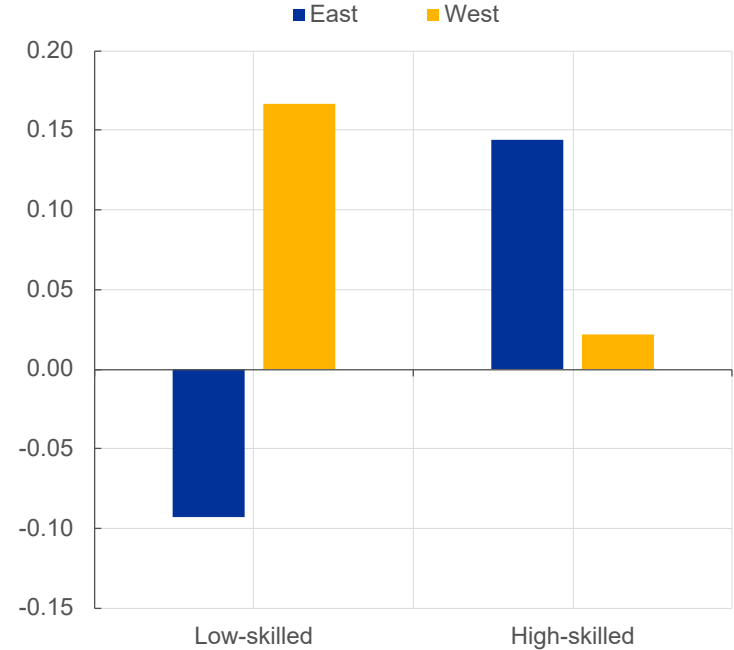
Consumer prices

(deviation from steady state level, percentages)



Wages

(deviation from steady state level relative to medium-skilled labour, percentage points)



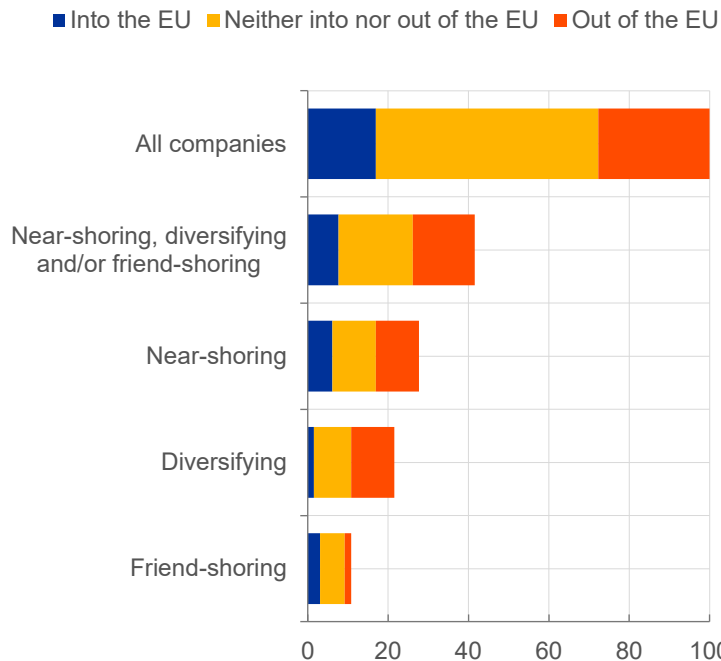
Sources: Baqaee and Farhi, Asian Development Bank, FPS database and ECB calculations.

Notes: See also Attinasi, M.-G., Boeckelmann, L. and Meunier, B. (2023), "Friend-shoring global value chains: a model-based assessment", *Economic Bulletin*, Issue 2, ECB. Non-linear impact simulated through 25 iterations of the log-linearised model. In the left chart the grey areas indicate the range between the flexible setup (yellow line) and the rigid setup (red line) and provide an illustration of the scope of the effects associated with the trade shock. The right chart refers to the flexible setup.

Past and future trends in location of production/operations

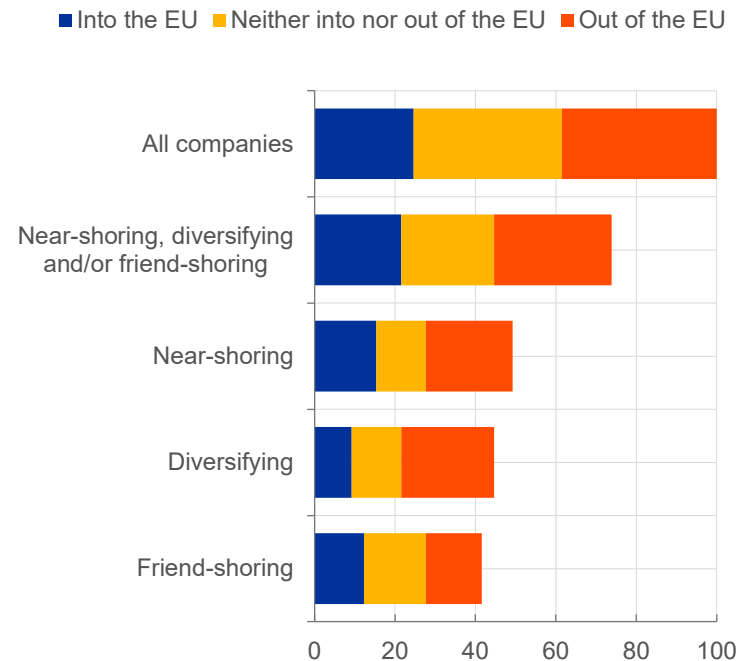
Last five years

(percentage of respondents)



Next five years

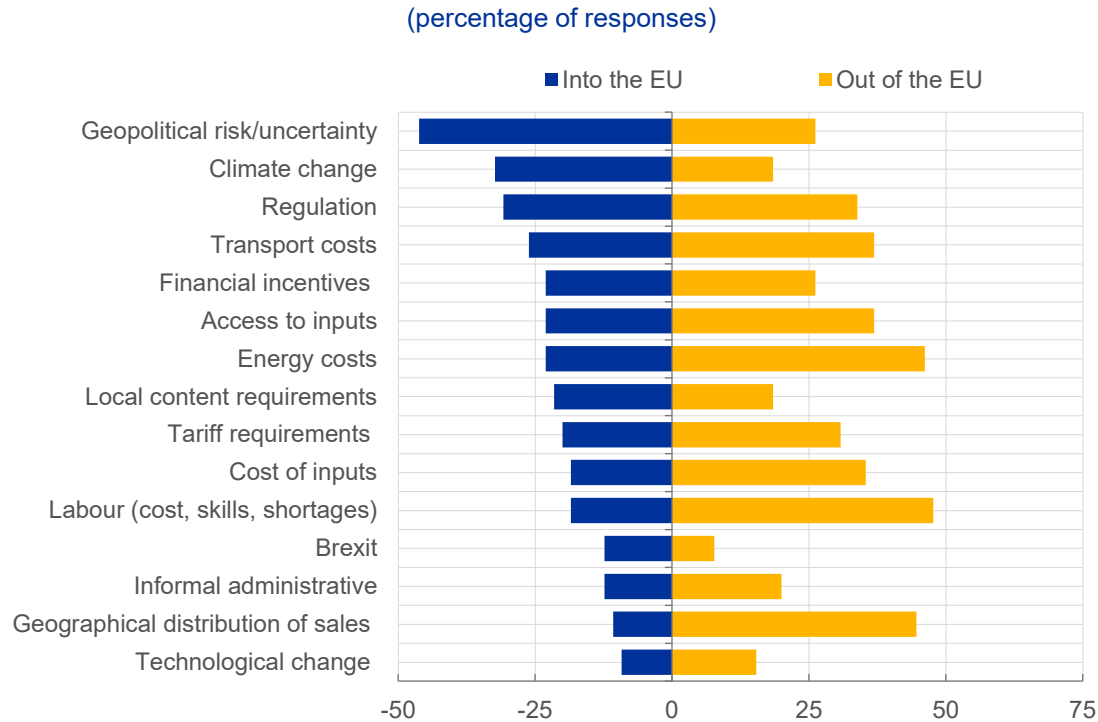
(percentage of respondents)



Source: ECB.

Notes: See also Attinasi, M.-G., Ioannou, D., Lebastard, L. and Morris, R. (2023), "Global production and supply chain risks: insights from a survey of leading companies", *Economic Bulletin*, Issue 7, ECB. Responses to the question "How has the location of your company's production/operations changed in the last five years and how do you expect it to evolve in the next five years?" Respondents could choose one or more of the following replies: Tendency to (i) move more production/operations into the EU, (ii) move more production/operations out of the EU, (iii) (re)locate more production/operations geographically closer to the final production location or country of sales ("near-shoring"), (iv) diversify production/operations to a greater extent across countries, (v) (re)locate more production/operations to countries politically closer to the main country of sales ("friend-shoring"). The category "Neither into nor out of the EU" captures the responses of firms which did not signal a tendency to move production either into or out of the EU.

Importance of factors for moving production/operations into or out of the EU



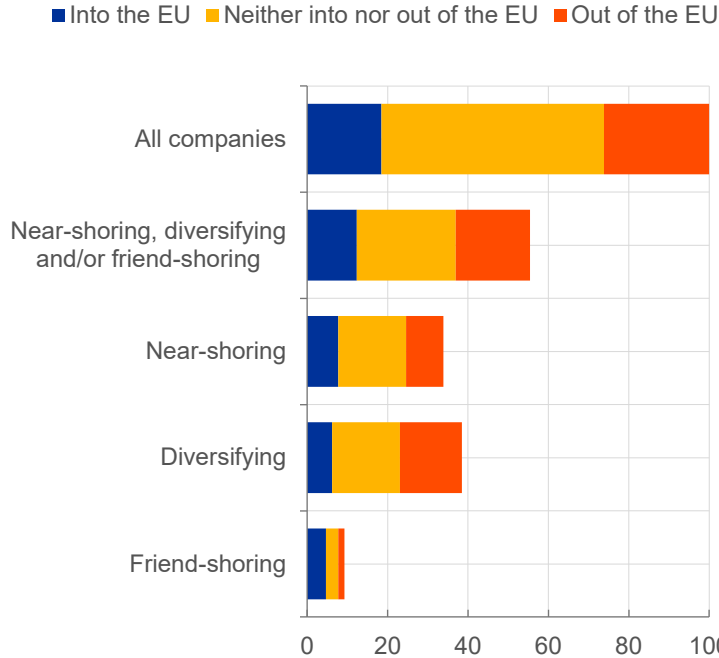
Source: ECB

Notes: See also Attinasi, M.-G., Ioannou, D., Lebastard, L. and Morris, R. (2023), "Global production and supply chain risks: insights from a survey of leading companies", *Economic Bulletin*, Issue 7, ECB. Responses to the question "Which of the following factors do you consider particularly important in relation to recent or planned future moves of production/operations into or out of the EU?" Respondents could choose any of the above replies that applied to their company. Responses are ranked according to the net score ("into the EU" less "out of the EU").

Past and future trends in input sourcing

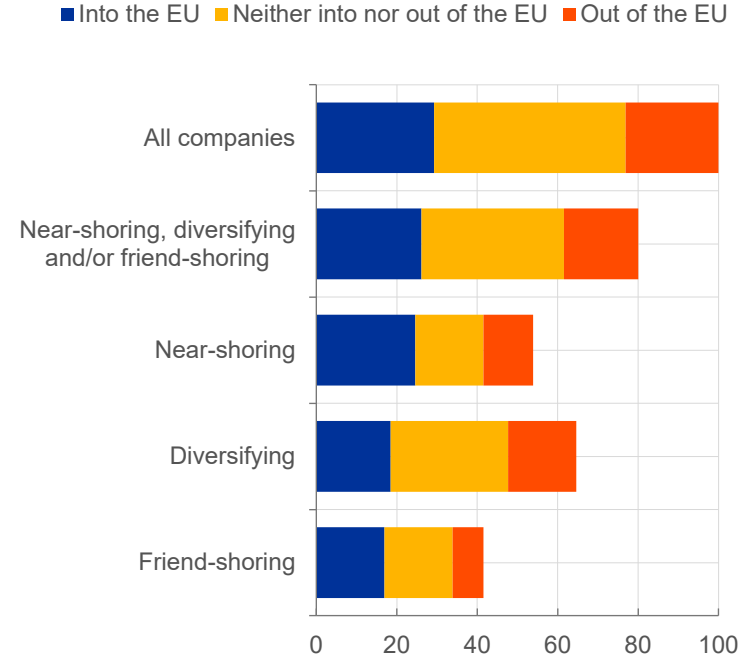
Last five years

(percentage of respondents)



Next five years

(percentage of respondents)

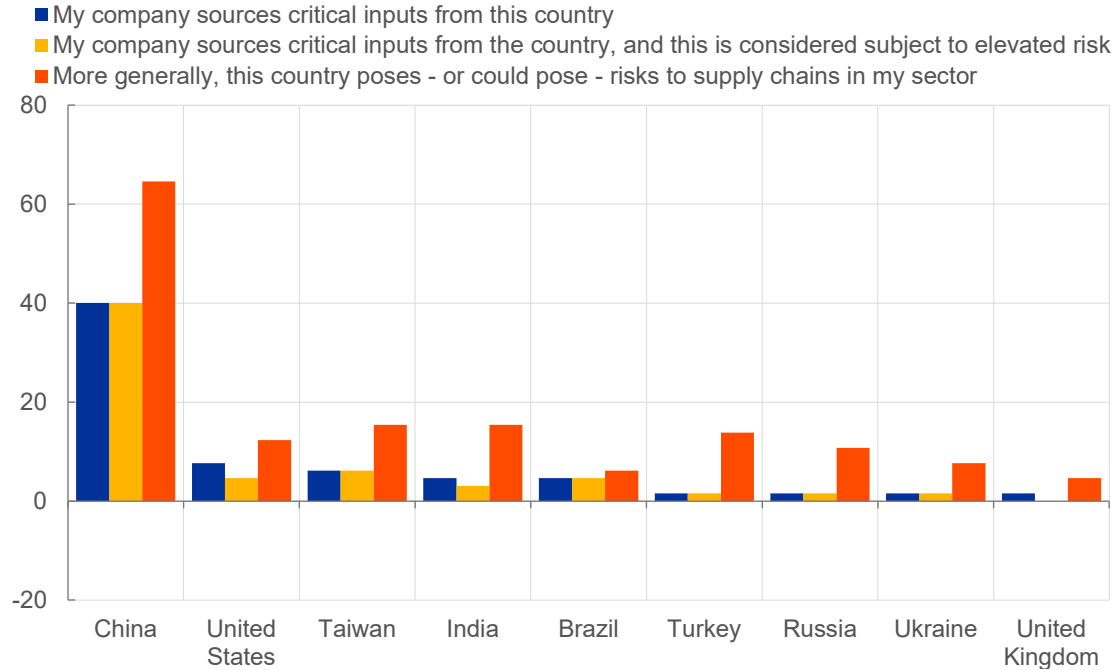


Source: ECB.

Notes: See also Attinasi, M.-G., Ioannou, D., Lebastard, L. and Morris, R. (2023), "Global production and supply chain risks: insights from a survey of leading companies", *Economic Bulletin*, Issue 7, ECB. Responses to the question "How has the geographical distribution of your company's cross-border sourcing of inputs changed in the last five years and how do you expect it to evolve in the next five years?" Respondents could choose one or more of the following replies: Tendency to increasingly source inputs (i) from inside the EU, (ii) from outside the EU, (iii) geographically closer to the country of production ("near-shoring"), (iv) from a more diverse range of suppliers in different countries, and (v) from countries politically closer to the country of sales ("friend-shoring"). The category "Neither into nor out of the EU" captures the responses of firms which did not signal a tendency to source a higher share of inputs from within or outside the EU.

Supply chain dependency and risks by country

(percentage of responses)



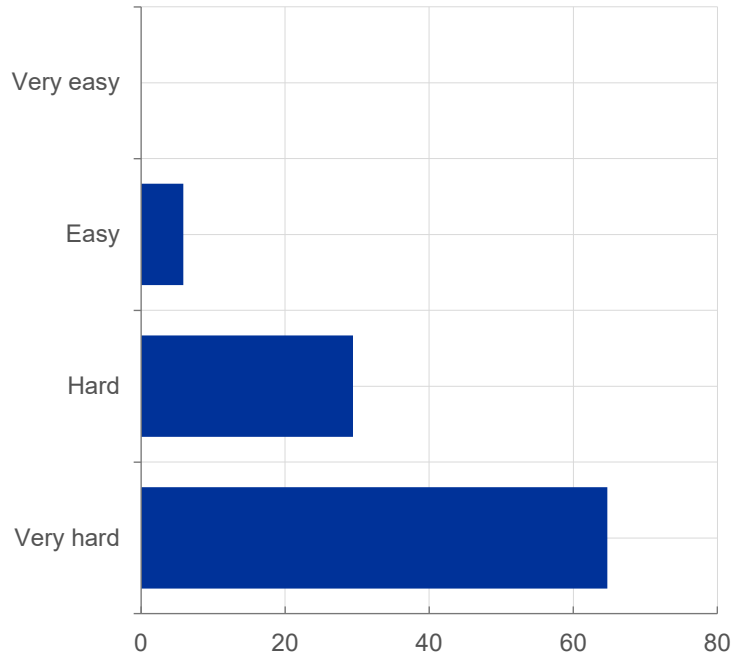
Source: ECB

Notes: See also Attinasi, M.-G., Ioannou, D., Lebastard, L. and Morris, R. (2023), "Global production and supply chain risks: insights from a survey of leading companies", *Economic Bulletin*, Issue 7, ECB. Responses to the questions (i) "Does your company presently source critical inputs which depend (fully or heavily) on supply from a specific country; and if so, which one(s)?", (ii) "Do you consider the supply of critical inputs from this country or any of these countries to be subject to elevated risk?", and (iii) "More generally, which countries (if any) pose – or could pose – risks to supply chains in your sector?" Countries mentioned by three or more respondents are included in the chart. Many more countries were mentioned by just one or two respondents.

Ease of substitution of inputs and strategies to reduce country exposure

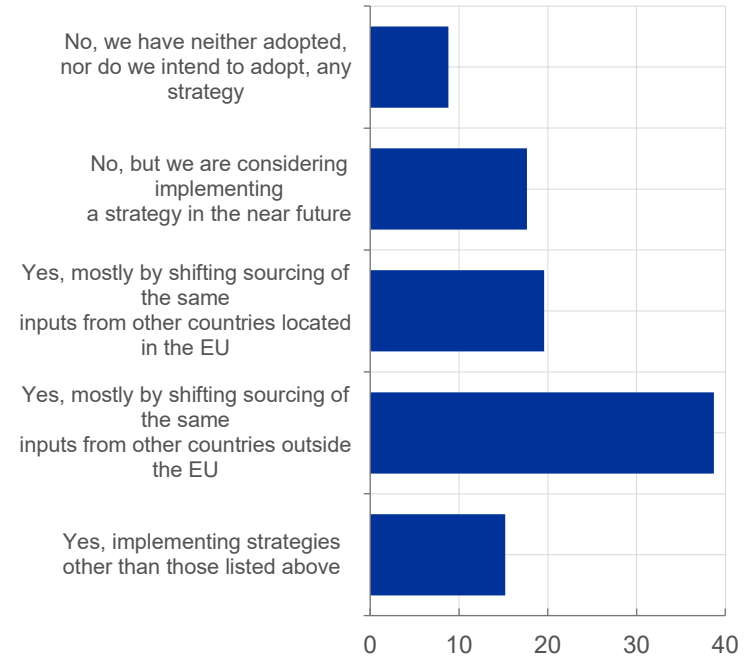
Ease of substitution with inputs originating elsewhere

(percentage of respondents)



Implementation of strategies to reduce country exposure

(percentage of respondents)



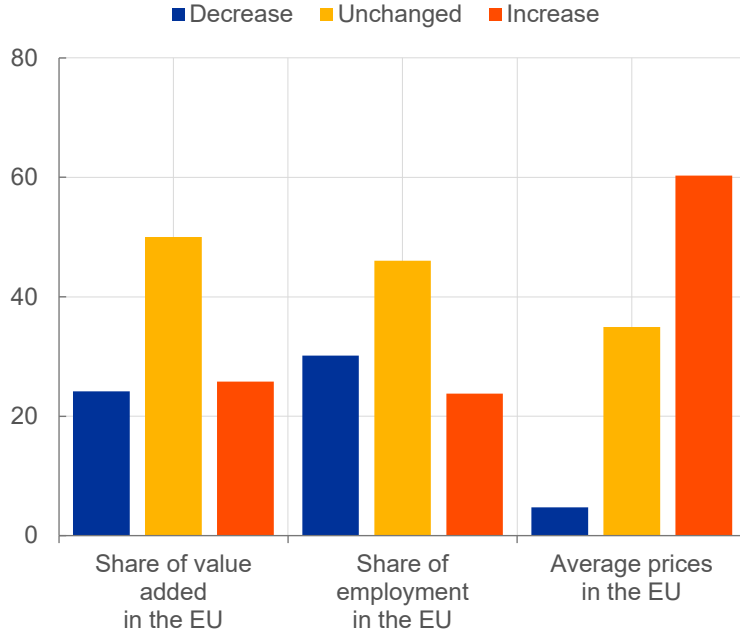
Source: ECB.

Notes: See also Attinasi, M.-G., Ioannou, D., Lebastard, L. and Morris, R. (2023), "Global production and supply chain risks: insights from a survey of leading companies", *Economic Bulletin*, Issue 7, ECB. Responses to the questions (i) "In case these inputs were suddenly no longer available, how easy would it be to substitute them with inputs originating elsewhere?" and (ii) "Is your firm implementing or is it planning to implement a strategy to reduce exposure to the country – or countries – concerned?" The percentages of responses refer only to those who said that their company presently sourced critical inputs which depended (fully or heavily) on supply from a specific country and that they considered to be subject to elevated risk. A small number of respondents gave more than one response to question (ii) and these responses have been weighted accordingly.

Overall impact of production location and input sourcing decisions

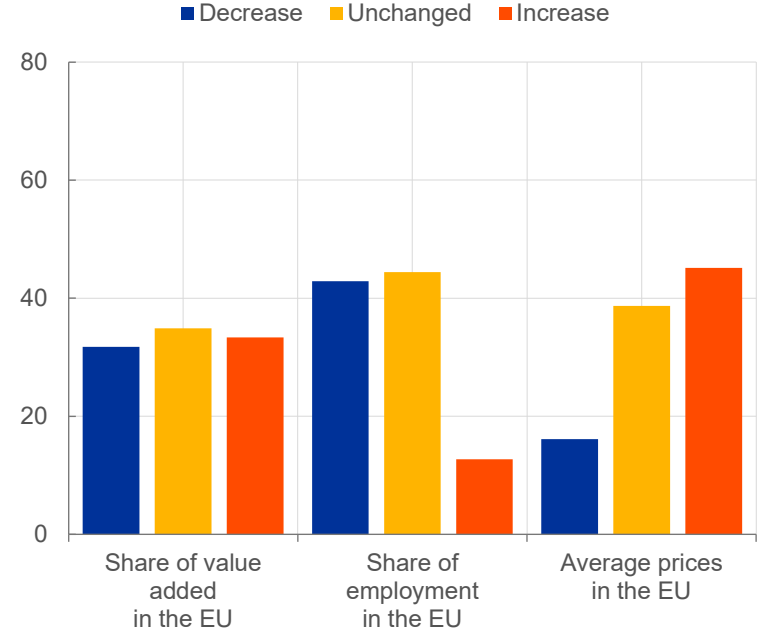
Last five years

(percentage of respondents)



Next five years

(percentage of respondents)



Source: ECB.

Note: See also Attinasi, M.-G., Ioannou, D., Lebastard, L. and Morris, R. (2023), "Global production and supply chain risks: insights from a survey of leading companies", *Economic Bulletin*, Issue 7, ECB. Responses to the question "What has been/will be the impact of changes in production location and/or cross-border input sourcing on your company's activity, employment and selling prices in the EU?"