

European Trade Policy Day | Oct. 11, 2020

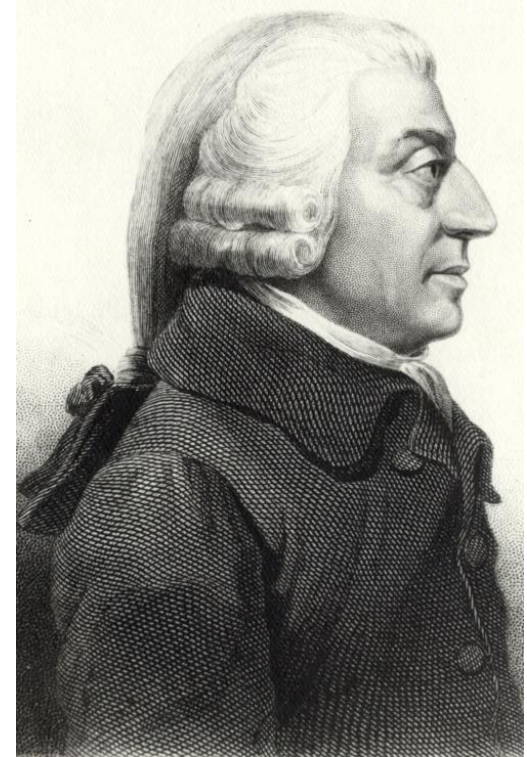
Fostering the Resilience of EU Trade Links

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Risks affecting extra-EU trade links

- Classical **business risks** (competition, bankruptcies, ...)
 - **Natural or health related hazards** (climate change, Covid 19)
 - **Political risks** (weaponization of trade and currencies)
 - Political and technical risks affecting **critical infrastructures** (internet, power supply, ...) and thus national security
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- Different risks, different policies
 - Policies aiming at mitigating risks, and adapting to materialized risks
 - Economic foresight and business intelligence

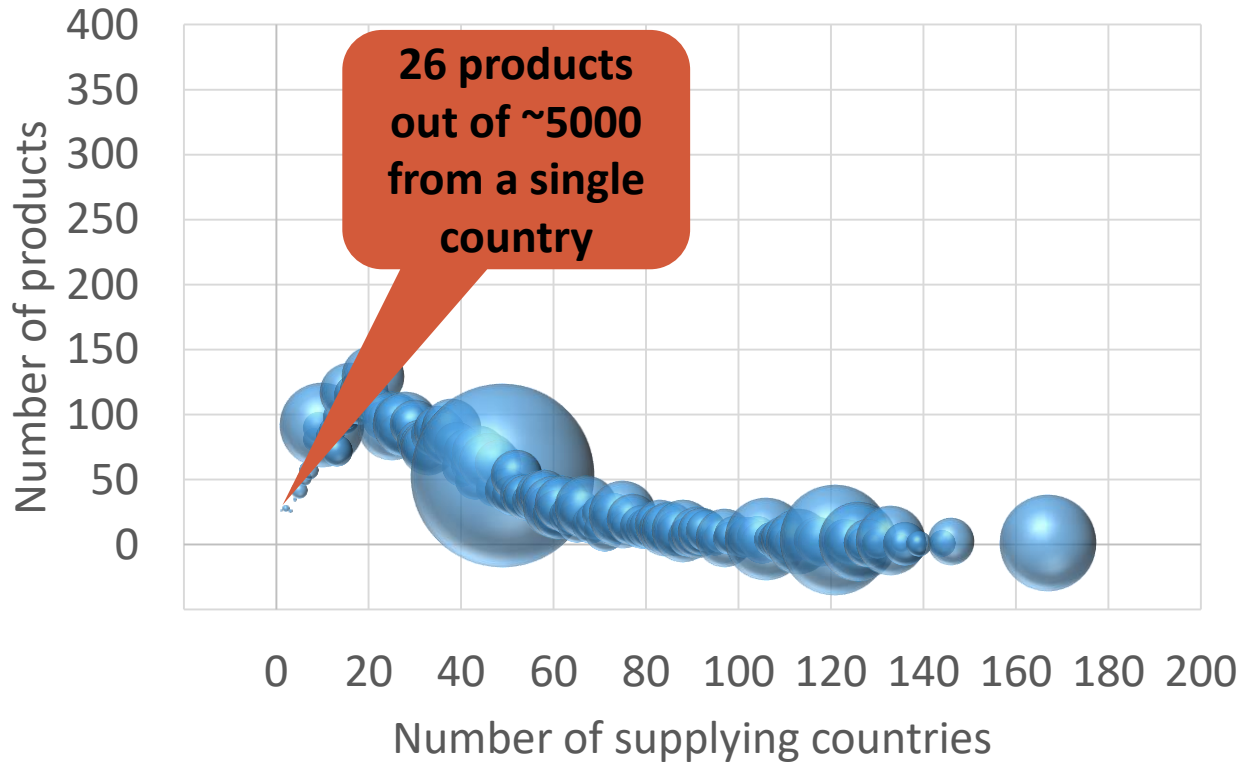


Some general insights from economic research

- **Does higher trade openness and specialization increase GDP volatility?**
 - Theory: possible, if shocks are industry-specific; **not, if shocks are at country-level**
 - Empirics: Shocks are predominantly country-level
- **Trade openness helps speed up recovery after natural disasters**
- When all countries are hit by same shock at the same time, trade openness is not useful (but also not harmful)
 - Corona:** Shock highly but not perfectly correlated over geographies; not fully synchronized over time

Source: Caselli, Koren, Lisicky, and Tenreyro (2020), Diversification through Trade. The Quarterly Journal of Economics 135(1): 449–502.

How diversified are EU27 imports across suppliers?



Very diversified supplier base

- 91% of all products (HS6) are imported from at least 10 countries, amounting to about 99.3% of the EU27 import value
- 80 products out of about 5000 stem from at most 3 countries, amounting to about 350 mn US\$

(see also: <https://ecipe.org/blog/how-survive-trade-apocalypse/>)

Source: BACI (CEPII), own calculations and illustration. Bubble size is proportional to US\$-value of imports. Data for 2018.

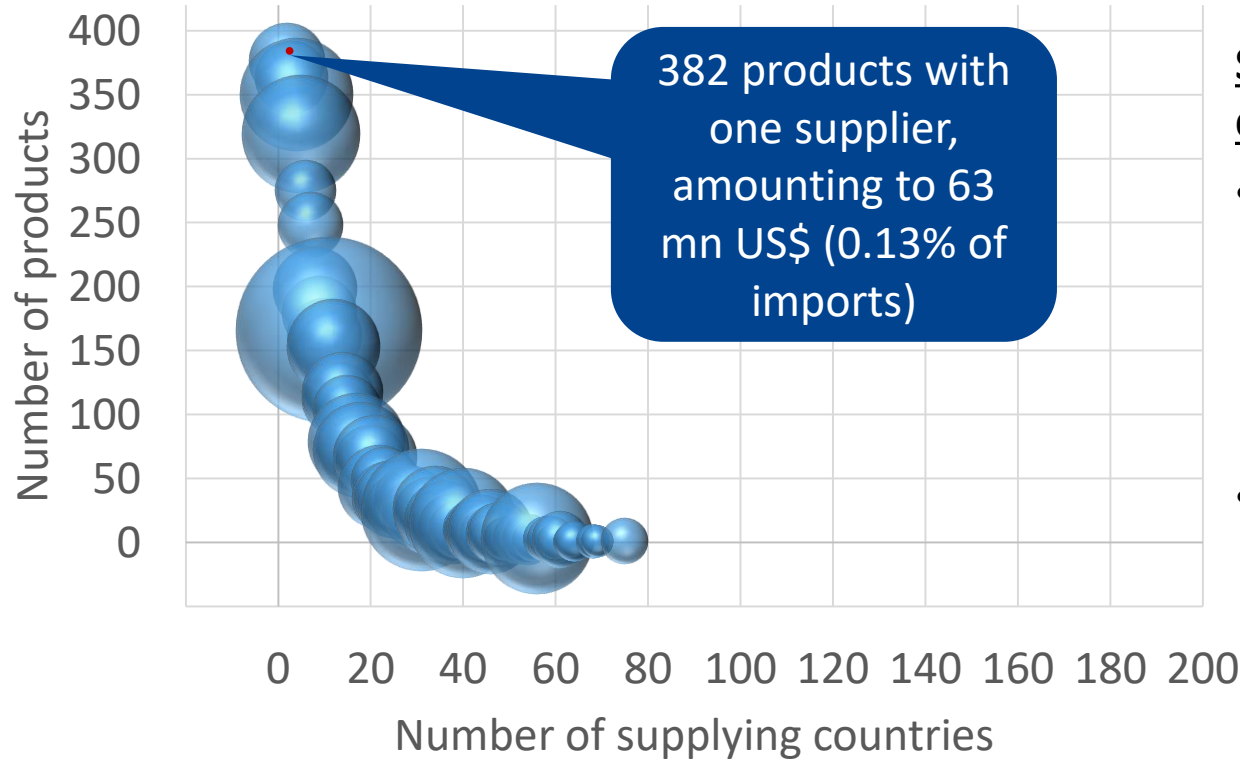
80 Products with less than three supplying country

- **Raw materials:**
e.g. Uranium ore [240 mn US\$, 2 suppliers], Thallium, Barium, Beryllium, ...
- Some very **specialized chemical substances:**
e.g. anthraquinone, fenproporex, ...
- Some very **specialized agri-food products:**
e.g. live goats, live fowl weighing > 185g, ...)



Source: BACI (CEPII), Data for 2018.

How diversified are **Austrian** imports across suppliers?



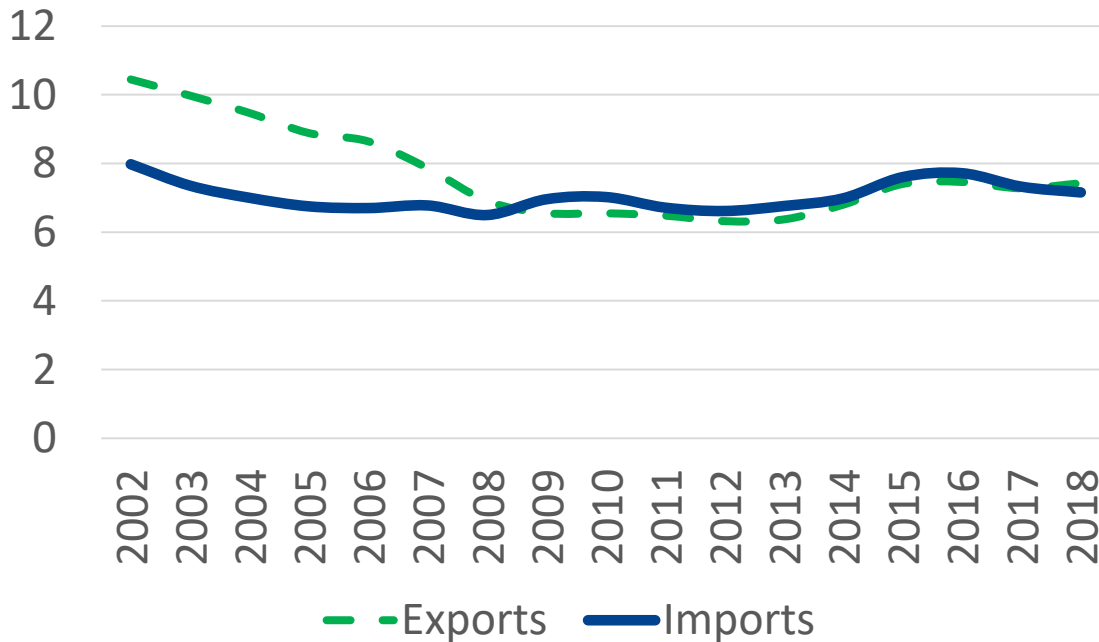
Single market guarantees diversification

- 37% of all products (HS6) are imported from at least 10 countries, amounting to about 82.9% of the Austrian import value
- 1121 products out of about 5000 stem from at most 3 countries, amounting to about 1612 mn US\$

Source: BACI (CEPII), own calculations and illustration. Bubble size is proportional to US\$-value of imports. Data for 2018.

EU trade: getting more concentrated over time?

Herfindahl index of concentration

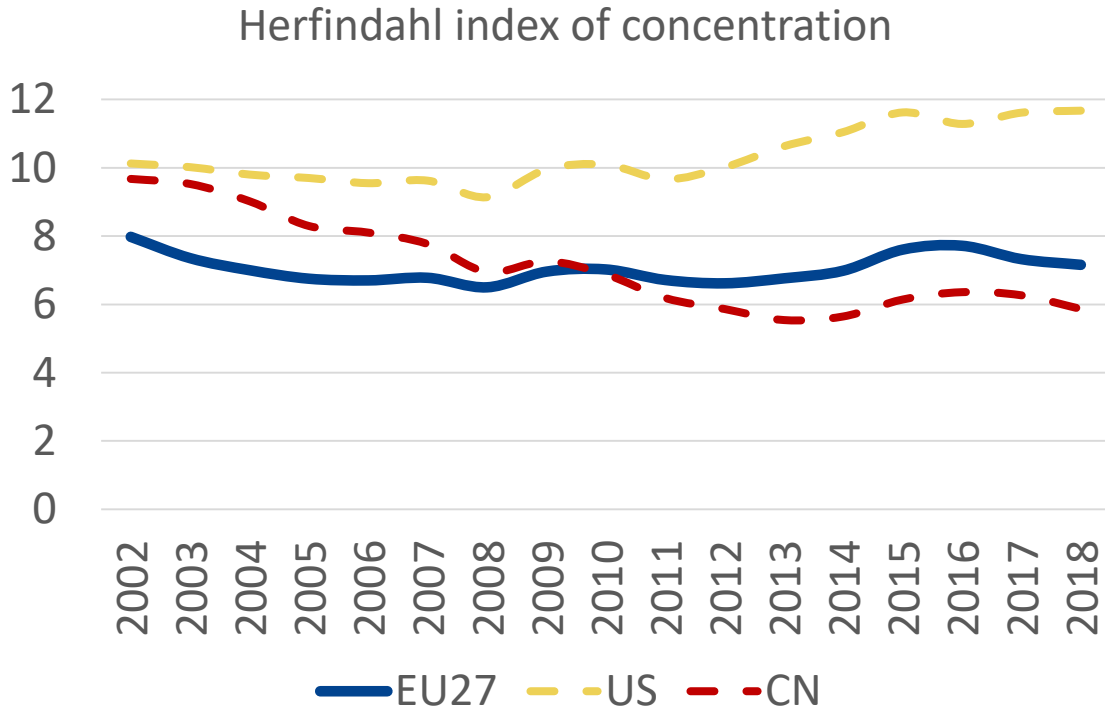


At the macro level, EU extra-trade is strongly diversified

- True for both exports and imports
- Concentration has not increased over time
- Index overestimates concentration, as internal trade is neglected

Source: BACI (CEPII), own calculations and illustration. Herfindahl index takes value of 100 if trade is fully concentrated on 1 foreign country.

How concentrated are EU27-imports in comparison?

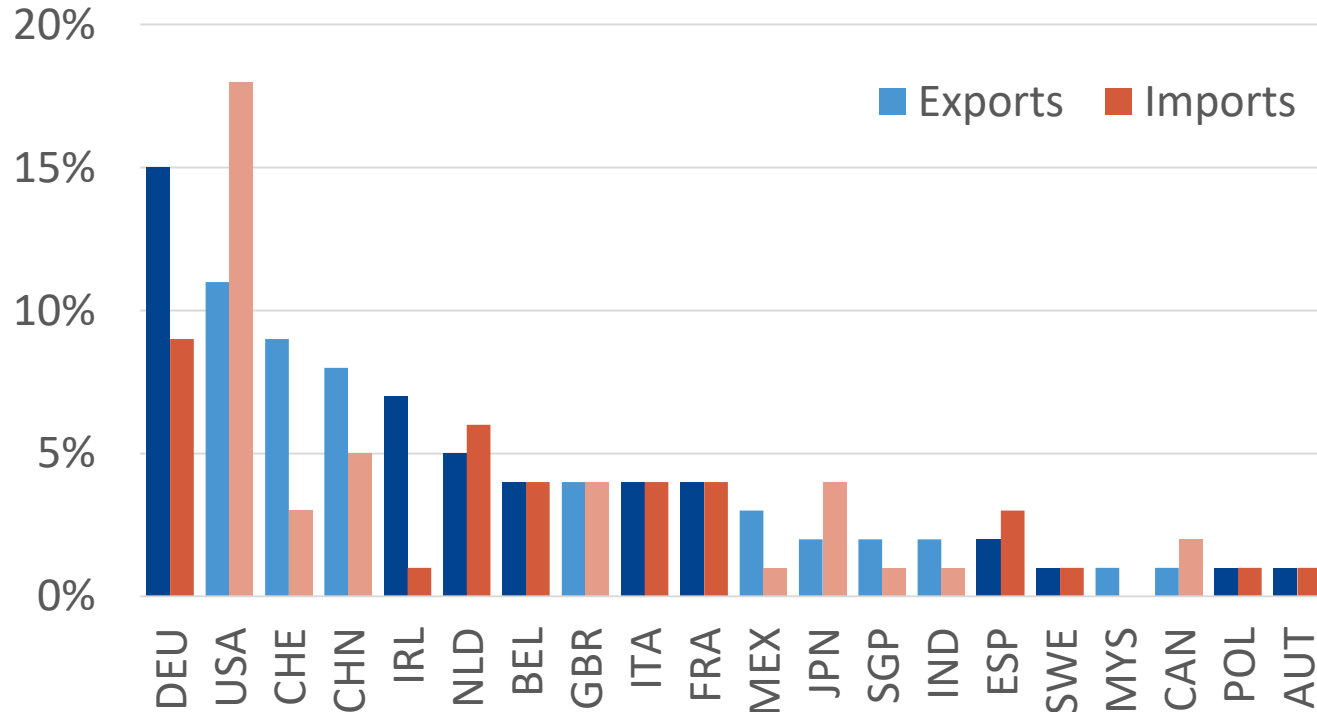


- **Extra-EU import concentration** has remained approximately constant over last two decades
- Concentration went down strongly in **China**
- Concentration went up in the **US**

Source: BACI (CEPII), own calculations and illustration. Herfindahl index takes value of 100 if trade is fully concentrated on 1 foreign country.

Top-20 exporters of Covid-19-goods

Country shares (%) in total global trade of Covid-19 related goods, 2018



- 10 EU countries in top-20 of world exporters
- **EU27 has a trade surplus in Covid-19 goods**
- Strong two-way trade
- **Generalized move to self-sufficiency harms EU**

Source: OECD, own illustration. Covid-19-goods de-fined by World Customs Organisation.

Fostering resilient trade links

Supporting the diversification of the supplier base

- Crucial role of **Single Market**
- **Trade agreements**: Example of EU-Korea FTA. Importance of flexible rules of origin.
- Right **incentives** in (quasi-)public procurement (e.g. medication, security equipment, ...)
- Expand trade credit guarantee systems to imports
- **Policy consistency**: Overly ambitious supply chain act would be counterproductive

Where diversification is overly costly (raw materials)

- Incentives and structures to promote **circular economy**
- Incentives for maintaining **stocks** (fiscal rules)
- Trade **diplomacy** and strategic partnerships
- Joint strategic **reserves** at EU-level

1. Risk of counterproductive effects

- Reshoring must not lead to reduced supplier diversification, else it increases vulnerability to domestic shocks
- Public interference into supply chains reduces competitiveness of domestic firms, thereby weakening their resilience

2. Have no illusions

- Full insurance through trade against highly correlated shocks is not possible
- Stockpiling is costly and possibly quite wasteful, in particular in relation to black-swan events

Discussion



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