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ECIPE PRESS RELEASE - NEW OCCASIONAL PAPER

Globalization Comes to the Rescue: How Dependency Makes us More Resilient

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Brussels, Belgium, 28th September 2020 - A new consensus is growing across the European Union – and other parts of the world too: that globalization has gone too far. As the crisis deepened, the EU's Internal Market Commissioner Thierry Breton conceded that Europe may have gone "too far in globalization" and become too reliant on "one country, one continent." This conclusion may sound intuitive, but it is fundamentally wrong.

This paper debunks the idea that the EU is too reliant on other countries. Instead, our analysis shows that imports from the rest of the world make every EU member state more resilient by diversifying its sources of supply.

Europe is not overly dependent on the rest of the world because most trade in the EU is done within its own borders. New evidence presented in this paper shows that there were only 112 products, making just 1.2% of the value of EU total imports, for which the four largest suppliers were non-EU countries as compared to more than two thousand products for which the four largest suppliers were from EU member states. And while not every product is equally important in the face of a global pandemic, there is not a single Covid-19 related good for which all EU imports only came from non-EU countries.

This paper also analyzes EU imports on more than 9,000 products and concludes that Europe should not build its resilience by the mandatory re-shoring of economic activities. That is the opposite of diversification. Besides, re-shoring will increase costs and hit citizens in the poorest countries the hardest.

Preparing for a future crisis like Covid-19 is extremely complex. Nobody knows which type of shock will come after Covid-19, which economic activities will be impacted, or what kind of goods will be needed to protect our citizens.

Because of their geographical location and economic integration, groups of EU countries are likely to be hit simultaneously. Having sources of supply outside the EU is, therefore, critical to reduce Europe's vulnerability to these shocks. Europe's recent experience has shown that international trade is a strength, not a weakness, and the EU was blessed to be able to tap into the manufacturing capacity of the rest of the world to buy urgently needed medical goods from abroad during the hardest months of the pandemic.

An economy that is served by multiple firms across multiple locations is more resilient to random shocks than one where goods are produced by fewer firms in the same location. This is why globalization and the EU's reliance on the rest of the world is what makes the EU more resilient.

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