

## THE RECONFIGURATION OF GOODS IMPORTS BY THE EU AND ITALY AT A TIME OF INCREASING GLOBAL FRAGMENTATION

The growing international tensions in recent years have led to a gradual reconfiguration of international trade in goods. Specifically, trade between blocs of politically more distant countries declined,<sup>1</sup> partly as a result of governments and firms' efforts to limit exposure to adverse geopolitical shocks (see the box 'The impact of geopolitical risks on firms' financial conditions', Chapter 1). This initially reflected above all the tariff hikes between the United States and China and the ensuing trade tensions, which then gradually spread to other economies; the situation was subsequently exacerbated by the Russian invasion of Ukraine.<sup>2</sup>

Between 2021 and 2023, EU imports from China and from the group of countries politically closest to it fell by almost 3 percentage points, to 9.3 per cent (see panel (a) of Figure A), while total imports as a share of GDP remained broadly stable. More than 70 per cent of this reduction was due to the decline in imports from Russia, especially of energy products, as a result of the sanctions introduced by the international community. The share of imports from China and from countries aligned with it contracted to a greater extent in the United States, by more than 5 percentage points, to 15.0 per cent, remaining much higher overall than the EU's share, although the decline already observed between 2017 and 2021 became more intense following the rise in tariffs (see panel (b) of Figure A).

The weight of imports from China is much higher in the United States than in the European Union, although it has been declining since 2018 (see panel (a) of Figure B); it only began to decrease in the EU and Italy in 2023, bringing to an end a period of growth driven above all by demand for advanced technology products.<sup>3</sup> The recent reduction has been greater for these goods in particular (see panel (b) of Figure B): in the EU and in Italy, the share of advanced technology products supplied by China fell by 2 and 1 percentage points in 2023, to around

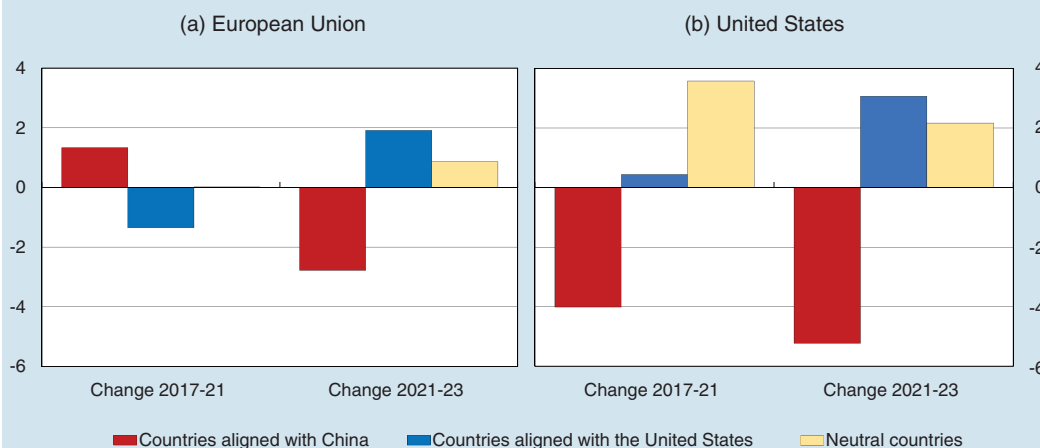
<sup>1</sup> The geopolitical alignment across countries is based on the indicator proposed by T. den Besten, P. Di Casola and M.M. Habib, 'Geopolitical fragmentation risks and international currencies', in the ECB, 'The international role of the euro', 2023, supplemented with data from the Global Fracturing Dashboard of Capital Economics. Each country is given a score between 0 (aligned with the United States) and 1 (aligned with China), based on variables such as: the number of times it was sanctioned by the United States or China in the period 1950-2022, the importance of these two economies in the country's military imports, the granting of official loans to the country by China and the votes of the country at UN General Assemblies, including that on the resolution of the UN General Assembly on 23 February on peace in Ukraine. The countries aligned with the United States score below 0.25 and include, in addition to the United States, mainly EU members, and Australia, Canada, Japan, South Korea, Taiwan and the United Kingdom; those aligned with China score above 0.75 and include, in addition to China, countries such as Iran and Russia; the remaining group of neutrals includes, among others, Argentina, Brazil, India, Indonesia, Mexico, Saudi Arabia, South Africa, Türkiye and Vietnam.

<sup>2</sup> F.P. Conteduca, S. Giglioli, C. Giordano, M. Mancini and L. Panon, 'Trade fragmentation unveiled: exploring recent European import trends in a shifting global economy', Banca d'Italia, *Questioni di Economia e Finanza* (Occasional Papers), forthcoming.

<sup>3</sup> Advanced technology products (ATPs), classified by the United States Census Bureau, cover various sectors, such as biotechnology, medical science, optics and electronics, communications, advanced high-tech materials, aerospace science, weapons and nuclear technology. The version of the ATP classification currently used is based on the 2017 edition of the six-digit harmonized system nomenclature. Conversion to previous editions would lead to the loss of information important for analysis.

Figure A

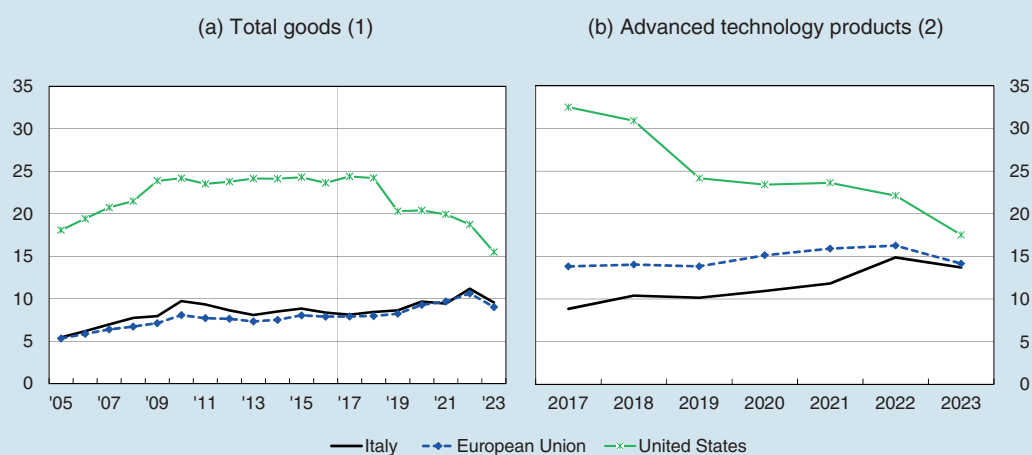
**Changes in the shares of goods imports of the European Union and the United States by country of origin (1)**  
(percentage points)



Sources: Calculations based on Trade Data Monitor, UN Comtrade, and T. den Besten, P. Di Casola and M.M. Habib, 2023, op. cit. (1) Imports at current prices from more than 100 economies are considered, excluding gold and some categories of residual goods. For Vietnam, UN Comtrade data were used for the years prior to 2019. For the allocation of countries to individual groups, see footnote 1.

Figure B

**Shares of goods imports from China for Italy, the EU and the United States**  
(annual data; per cent)



Sources: Trade Data Monitor and Eurostat for data for Italy and the European Union. (1) Fossil fuels, gold and some categories of residual goods are excluded. The shares are calculated by taking into account imports at current prices. – (2) For the classification of advanced technology products, see footnote 3.

14 per cent in both areas, compared with a five-point contraction in the United States, to 18 per cent.

For Italy, the decline in the importance of advanced technology product imports from China mainly concerned laptops, mobile phones and other communication

apparatus.<sup>4</sup> For these three types of goods, there has been an increase in the share of purchases from other Asian countries, such as India, Taiwan and Vietnam, which are also among the biggest beneficiaries of the geographical reallocation of US imports, in part following the relocation of some production activities of multinational firms in recent years.<sup>5</sup> Some European economies, such as the Netherlands, are also now playing a more important role in Italian imports, although Dutch electronics exports include an increasing share of goods of Chinese origin.<sup>6</sup>

A continuation of geopolitical tensions could lead to a more thorough reorganization of trade relations and production structures in the future, which has so far been held back by the high costs associated with the relocation of plants and with changes in the sourcing of foreign goods.<sup>7</sup> Last year, the Bank of Italy's Business Outlook Survey of Industrial and Service Firms, had already found that the share of manufacturing firms that had adopted strategies to reduce their direct dependence on supplies from China over the previous 12 months was greater among those that imported products deemed to be critical (30 per cent, against 14 per cent for other firms); in addition, the most frequently adopted measure was to obtain supplies from other European countries (near-shoring).<sup>8</sup>

<sup>4</sup> In absolute terms, Italy's imports of other communication apparatus from China in 2023 were significantly lower than prior to the pandemic, while purchases of laptops and mobile phones were respectively comparable to and significantly higher than in 2019.

<sup>5</sup> See H. Qiu, H.S. Shin and L.S.Y. Zhang, 'Mapping the realignment of global value chains', in *BIS Bulletin*, 78, 2023.

<sup>6</sup> Unlike the other sources used for this box, the data on Italy's trade flows collected by the Customs Agency also include an indication of the country of origin of the imported goods, as well as of the shipping country. In 2022, the latest year for which they are available, the data show that more than 90 per cent of laptop imports from the Netherlands were of Chinese origin (57 per cent in 2017). There are also similar trends for mobile phones, for which this share increases from 30 to more than 70 per cent.

<sup>7</sup> E. Di Stefano, G. Giovannetti, M. Mancini, E. Marvasi and G. Vannelli, 'Reshoring and plant closures in Covid-19 times: evidence from Italian MNEs', *International Economics*, 172, 2022, pp. 255-277.

<sup>8</sup> I. Balteanu, M. Bottone, A. Fernandez Cerezo, D. Ioannou, A. Kuttan, M. Mancini and R. Morris, 'European firms facing geopolitical risk: evidence from recent Eurosystem surveys', *VoxEU CEPR*, 18 May 2024.