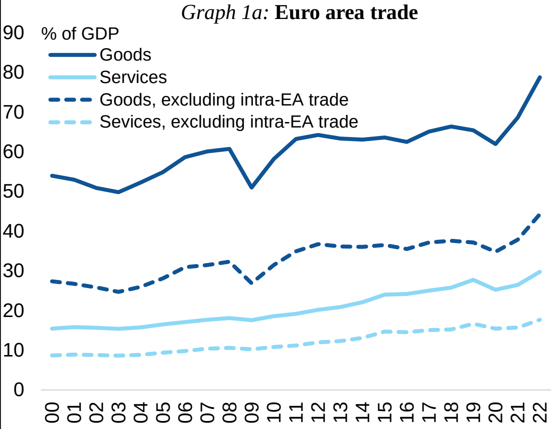
Box 5.1: **Risks of geoeconomic fragmentation**

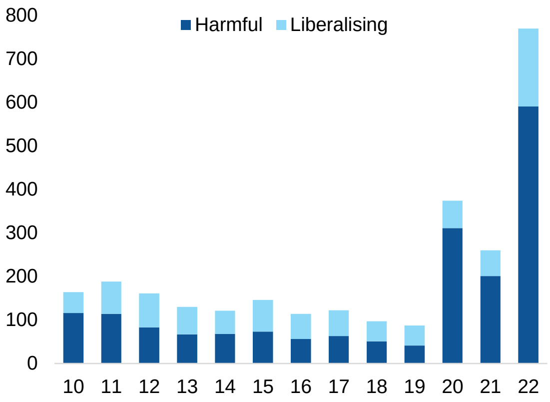
The euro area economy is strongly integrated in global markets. Europe represented about 16% of the world's trade in 2022. The euro area trade-to-GDP ratio is significantly higher today than in 2000. Conversely, trade is a critical contributor to growth in the euro area, with trade flows between the euro area and the rest of the world reached more than 60% of euro area output **(Graph 1a)**. Two thirds of the EU's imports are inputs, such as raw materials, that contribute to downstream activities in domestic production processes (IMF, 2023).

Graph 1a: **Euro area trade**



Notes: This data consists of exports plus imports as a percentage of GDP.
Source: Eurostat

Graph 1b: **Trade policy interventions**



Source: Global Trade Alert

Geopolitical tensions and post-COVID supply chains realignments risk future adjustments of trade flows. The number of non-tariff barriers to trade has risen significantly since 2020 (Gaal et al., 2023) and countries are increasingly using foreign investment screening measures for reasons of national security (Panetta, 2023). Harmful interventions to trade increased in 2020 due to the pandemic crisis and in 2022 **(Graph 1b)** as a result of Russia's war against Ukraine and the ensuing food and energy crises. These tensions have already contributed to reorienting of trade flows, in particular between the United States and China, and companies need to undertake measures to increase the resilience of supply chain in the face of geopolitical uncertainty (EBRD, 2022).

Such global trade fragmentation is likely to produce high economic costs. Recent tensions between the US and China, the COVID-19 pandemic, and the Russian war of aggression against Ukraine have put pressure on trade integration efforts. The ECB estimates that a global trade fragmentation scenario would lead to welfare losses, captured by the change in gross national expenditure, of around 1% to 2% in the euro area with losses in the euro area would be somewhat greater than those of the United States or China owing to its greater trade openness (ECB, 2023c).