

EU supply chains in the era of trade fragmentation

Impacts, policies and current debate

SUMMARY

A series of recent economic and geopolitical shocks have led to rising fragmentation of global trade, whereby countries tend to boost economic ties with those sharing similar political values, economic policies and security interests. While a broad retreat from globalisation is not taking place, there are some signs of reconfiguration of supply chains along geopolitical lines.

This is likely to have pronounced effects for EU economy due to its openness and high level of integration into global value chains. The full consequences are unclear at this point and firms' responses vary, but mitigating the changing trade environment leads to heightened costs, stronger regional flows of goods and priority for measures that could reduce uncertainty.

The EU's policy focus is on de-risking supply chains, boosting their resilience and creating opportunities through access to global markets. Increasing domestic production and access to inputs as well as diversifying supplies is coupled with supporting multilateralism and targeted partnerships. Many experts, as well as the European Parliament, see the unrealised potential of the single market, easier access to finance, stimulating innovation and digitalisation, as ways forward.

Managing global trade fragmentation is a complex process full of risks and opportunities, which requires crosscutting policy action and a strategic approach. The EU is striving to find a balance between trade openness and the necessary economic security measures. Furthermore, while proposed and launched solutions require a medium to long-term time horizon to deliver, geopolitical developments often happen swiftly, further complicating matters.



IN THIS BRIEFING

- Geoeconomic fragmentation
- Reconfiguration of supply chains
- EU dimension
- Supply chain policies
- Policy debate
- European Parliament

EPRS | European Parliamentary Research Service

Author: Marcin Szczepański; Graphics: Nadejda Kresnichka-Nikolchova

Members' Research Service

PE 779.227 – November 2025

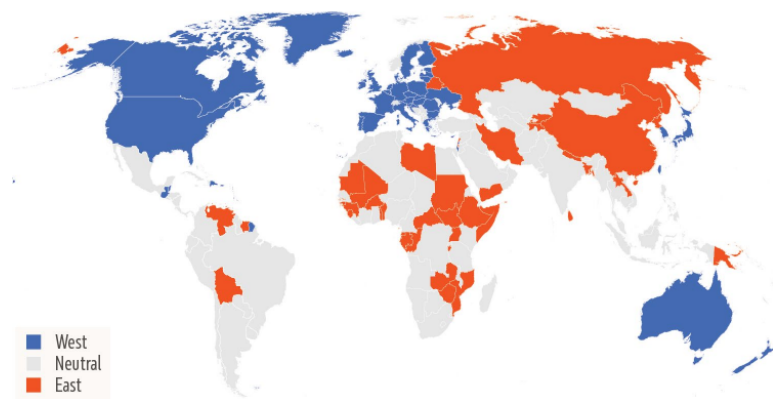


Geoeconomic fragmentation

Geoeconomic [fragmentation](#) is on the rise due to major global economic and geopolitical shocks threatening trade openness, such as United States-China trade tensions, the recent pandemic and Russia's war on Ukraine. A 2025 [European Central Bank](#) (ECB) report shows that 'although global trade integration has largely withstood recent disruptions and the rise of inward-looking policies, selective decoupling between few trading partners (United States vis-à-vis China, western economies vis-à-vis Russia) and for specific products (such as advanced technologies) is occurring.' A survey based on company-level data shows that, although EU firms are reorganising their supply chains, critical foreign [dependencies](#) persist.

The ECB report also notes that according to research findings, the world economy is divided into three distinct geopolitical blocs: western, eastern and neutral (Figure 1). This geoeconomic fragmentation reflects ongoing ideological and geopolitical rivalries and an increased weaponisation of economic interdependencies, when countries tend to boost economic ties with those sharing similar political values, economic policies and security interests. China is leading the eastern bloc and the United States the western bloc.¹ While this is a simplifying assumption and the division's precise contours are debatable, the 'process of trade reconfiguration along geopolitical

Figure 1 – Geoeconomic fragmentation into the three main blocs



Source: [European Central Bank](#), 2025.

fault lines is ongoing amid stable global trade integration'. The western and eastern blocs appear to have become more self-reliant in terms of import sourcing and, at the same time, they have raised the share of imports from third economies in the neutral bloc.

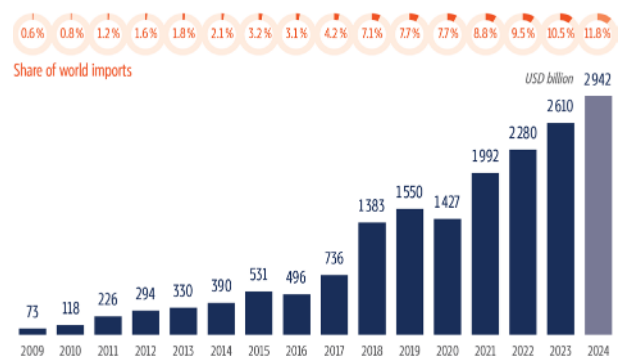
Reconfiguration of supply chains

[Industrial economists](#) have examined the ensuing changes in supply chains and have concluded that, while a broad retreat from globalisation is not taking place, there is indeed a **selective decoupling** along geopolitical lines, driven mostly by the weakening of specific trade relationships (such as between the US and China). The EU has also experienced some **decline in trade intensity** with China over the last few years, largely driven by some advanced technology products.² However, the EU's dependence on selected Chinese goods critical for the green transition have increased. Similarly, the aforementioned ECB report estimated that between 2021 and 2023 the eastern bloc's share in western imports decreased by more than three percentage points, mainly due to lower trade flows between the US and China, as well as between the EU and Russia. The [World Trade Organization](#) found trade flows are becoming more sensitive to geopolitical distance since the start of Russia's war on Ukraine, leading to the first signs of overall trade fragmentation along geopolitical lines, i.e. increased '**friendshoring**'.

Importantly, corporate surveys reveal that some EU manufacturers are shifting critical input sourcing away from China to within the EU (**onshoring**), to increase supply chain resilience and mitigate risk of disruption. The data comes with a caveat, however: to a certain extent, parts of this decoupling from China may mask a [lengthening of supply chains](#) occurring through higher imports of Chinese products via third countries.

To better understand these changes, the [World Bank](#) set up a dedicated Trade Fragmentation Research Initiative. It underlined that the main feature of trade fragmentation is the division of global trade into **distinct regional blocs**, which leads to disruption of integrated and established supply chains due to strategic considerations. In some cases, it may even lead to the reversal or stagnation of globalisation, which is particularly concerning for developing countries as this has negative consequences for global poverty, development, and the diffusion of modern technologies. Accordingly, the World Bank noted that, since 2009, cumulative import restrictions have skyrocketed and now concern nearly 12 % of global trade (Figure 2).

Figure 2 – Cumulative import restrictions



Source: [World Bank](#), 2025

An accompanying weakening of global export-led growth after the period of 'hyper-globalisation' (2002–2007) ended with the global financial and economic crisis. High-income countries have relatively low tariffs, but impose comparable or even higher [ad valorem equivalents](#) for non-tariff measures, which indicates an ongoing change towards **regulation-heavy trade regimes**. In addition, as the [World Economic Forum](#) notes, US tariffs are redrawing the global trade map, fuelling uncertainty and stalling long-term decision-making. [McKinsey](#) sees the tariffs as a driving factor for increasing fragmentation, with trade corridors linking advanced economies to China and Russia shrinking sharply over the next decade. Realisation of a scenario under which geopolitically distant economies trade less and less could wipe out a quarter of the possible US\$12 trillion in maximum trade growth projected to materialise by 2035. A fall in welfare and rising prices would accompany the resulting [loss in trade](#).

The [Bruegel](#) think tank argues that the nature of globalisation is essentially changing. This is due to the post-pandemic realisation of the high risks of relying on a system based on just-in-time production, minimal inventories and extended supply chains. This realisation is coupled with a long-term process of a hollowing-out of the manufacturing ecosystem in many Western economies, leading to voter dissatisfaction and further exacerbated by the war in Ukraine and an increasing risk of further wars and US-China confrontation. All these factors have led to the erection of trade barriers, inward-looking policies and the rise of a supply chain model in which efficiency has given way to security of supply. Consequently, trade fragmentation is accelerating, with global growth projected to slow due to rising barriers and **policy uncertainty**.

The [International Monetary Fund](#) has attempted to quantify the **costs** related to trade fragmentation. Estimates vary widely, with the longer-term cost ranging from 0.2 % of global output in a limited fragmentation scenario to almost 7 % in a severe scenario, which would be roughly equivalent to the combined annual output of Germany and Japan. If technological decoupling is

added, some countries could experience [losses](#) of up to 12 % of GDP, as the negative consequences are heavily amplified. A complex process of fragmentation occurs through many channels. Apart from trade restrictions and barriers to the spread of technology, fragmentation could increase restrictions on cross-border migration, reduce capital flows, and lead to a significant weakening of international cooperation. This would have a detrimental impact on the ability of international businesses to address the intensifying challenges of a more shock-prone world. As global trade and supply chains readjust and become tied to [blocs of countries](#), significant economic costs are likely to arise. These would include higher import prices, segmented markets, diminished access to technology and labour, and ultimately reduced productivity, which may lower living standards.

EU dimension

The changing nature of global trade is likely to have pronounced effects in the EU. Firstly, the EU has an exceptionally open economy: total extra-EU trade accounted for 45 % of EU GDP in 2024, compared with 25 % in the United States and 37 % in China. Secondly, its firms are more deeply integrated into [global value chains](#) than many of their competitors, which means that fragmentation could hurt the EU economy more than other economies. As '90 % of [global economic growth](#) is expected to be generated outside Europe in the coming years', the EU economy needs to remain open to tap into this growth.

A [survey of EU enterprises](#) found that around 80 % experienced global value chain (GVC) shocks between 2021 and 2023, with 75 % reporting a moderate level of impact, and 57 % reporting a high level. The most prevalent GVC shocks were rising input costs related to energy (63 % of enterprises), increases in other input costs (59 %), and limitations related to the pandemic (57 %). The three most common strategies to mitigate these shocks were boosting digitalisation, nearshoring within the EU, and prioritising trusted suppliers.

The [European Commission](#) published an analysis of trade fragmentation from a European perspective in 2023. It noted the relative exhaustion of many traditional trade-facilitating levers (such as lower transportation and communication costs). It also recognised that the 'shift from a rules-based order to a more power-based international system, where economic and trade relations are increasingly used to pursue geopolitical goals, is an emerging headwind to global trade'. The Commission expects subsidies and non-tariff trade barriers to increase considerably in the next decade and to link to further trade distortions. Regional integration of supply chains remains robust: integration of the EU with the wider region (including the United Kingdom and European Free Trade Area (EFTA) countries) was deeper than EU integration with the rest of the world. The paper says that efforts to rearrange supply chains appear to lead to greater trade diversification. However, stronger trade fragmentation could leave trade flows more exposed to shocks, particularly those affecting regional supply chains. The more intense fragmentation becomes, the larger the economic losses would be, limiting the gains from specialisation and efficient resource allocation. The report suggested that EU trade and global value chain integration remain strong, despite the intensifying obstacles to trade.

A paper by members of the Commission's [Chief Economist Team](#) found that far from being static, EU supply chains can be characterised as dynamic networks with significant capacity for adaptation. While there are some sectoral differences, a general recent trend is of EU imports shifting away from countries without any bilateral trade agreements. Instead, they are moving towards the EU (**reshoring**), and partners with valid free-trade arrangements, whether neighbouring (**nearshoring**),

or more distant (**friendshoring**). This leads to higher diversification in EU imports, which puts upward pressure on prices in the short term, with longer-term effects still unclear.

Researchers from the [Bank of Italy](#) found early signs of reduced **EU dependencies on China**, which are somewhat limited – products essential for the green transition are characterised by stable or even growing dependencies on Chinese products.

A 2025 report by the [European Investment Bank](#) (EIB) showed that EU firms are widely exposed to **trade tensions**, which propagate through entire supply chains, also affecting non-importing firms.

These problems vary across the sectors, and include limited access to raw materials, disruptions in logistics as well as new regulations and tariffs. The need to decarbonise also affects the structure of supply chains. EU companies have undertaken **mitigating measures** to address the problems in the GVCs, although this takes time and financial resources. Investing in digital tracking of inputs, increasing stocks and inventory, and diversifying import partners were the most common adjustment strategies. The share of firms reporting that they have abandoned international trade and reduced imports or had plans to do so remained relatively small. Firms also reported that the single market has become a crucial element in deepening European GVCs and sustaining EU demand through coping strategies such as substituting extra-EU imports with intra-EU imports.

The [Twin Seeds](#) research consortium funded by Horizon Europe argued that faced with significant geopolitical and economic disruptions, EU multinational enterprises (MNEs) responded in far more nuanced ways than reshoring and nearshoring. Instead of uniformly moving towards these strategies, they are 'adopting a **range of approaches** tailored to specific conditions and long-term objectives. Strategies such as maintaining robust supply chains while enhancing flexibility reflect a careful balancing of risk management and cost efficiency'. This entails **strategic positioning** of those functions to optimise efficiency, value, and new knowledge. It is achieved by '**balancing** high-value, complex tasks with lower-value, specialised activities, and leveraging both local and international resources'. The researchers underline the persistent tension between regional integration and global connectivity, with the latter manifested as a choice to maintain extensive global networks.

While these global networks operate within intensifying geopolitical and trade tensions, they also provide **cost advantages** and enable access to diverse **pools of knowledge and innovation**, as well as [technologies](#). EU companies therefore have a dual focus on resilience and global reach and operate within 'a dynamic system where actions and decisions are continually influenced by the interconnectedness of global markets, suppliers, and customers'. The Twin Seeds paper shows that these firms adopt a cautious approach to resilience, tending to choose less costly strategies and prioritising measures that could reduce uncertainty. They do this by collecting more information to enable swift reactions to new developments.

Airbus: Complex supply chain in action

Approximately 8 000 direct and 18 000 indirect [suppliers](#) from more than 100 countries supply parts, components, systems and services to [Airbus](#). Managing the supply chain [effectively](#), including material [shortages](#) and logistical disruptions, helped to make the A320 the [most delivered plane](#) in the world.

Supply chain policies

While most decisions on supply chains are taken at the level of [individual companies](#), the EU also plays an important role. It focuses mostly on cross-policy measures to **de-risk the supply chains** and **boost their resilience**, and on **creating opportunities** through access to global markets. In

addition, following the COVID-19 pandemic and Russia's war on Ukraine, the EU added a **security dimension** to its supply chain policy – seeking to reduce disruption probabilities in case of a similar pandemic crisis, and to minimise the chances of weaponising supply chains to exert geopolitical pressure on the Union. Limiting trade fragmentation while pursuing open strategic autonomy are also [policy goals](#).³

A 2024 EIB [survey](#) of EU enterprises shows that apart from disruptions in logistics and transport, restricted access to commodities and raw materials (including critical raw materials), semiconductors and other components have all become major **obstacles** to the smooth functioning of their supply chains. With geopolitical tensions, these problems have become even more acute, as evidenced by the difficulties caused by China's recent export controls on [rare-earth elements](#). The EU has a handful of policies to help in these aspects. A case in point is EU legislation such as the [Critical Raw Minerals Act](#) and the [European Chips Act](#), which aim to improve security of supply and access to these key inputs.⁴

One way of mitigating the negative consequences of trade fragmentation is **increasing domestic production**. The [Net-Zero Industry Act](#) and [Clean Industrial Deal](#) will decarbonise industries and strengthen the manufacturing capacity for net-zero technologies and facilitate scaling up of domestic production. The EU also supports dedicated industrial alliances, and the important projects of common European interest ([IPCEI](#)) tool offers the scale and vision necessary to overcome persisting industrial weaknesses. For example, there are IPCEI in the critical value chains of batteries and microelectronics (including semiconductors). [Industrial alliances](#) seek to create entire ecosystems and cover some key value chains, including photovoltaics, raw materials, batteries, processors and semiconductors, connected and autonomous vehicles and critical medicines.

The 2028-2034 multiannual financial framework (MFF)

The Commission unveiled its [proposal](#) for the MFF in July 2025. It promised a 'powerful competitiveness boost' to secure supply chains, scale up innovation and lead the global race for clean and smart technology. The MFF proposal regroups and merges a multitude of existing programmes to simplify the budget structure and streamline funding processes. Notable for supply chains is the **European Competitiveness Fund** (ECF), which seeks to invest strategically in the EU's long-term productivity, resilience and security with a proposed funding envelope of €409 billion (including Horizon Europe). It focuses on investment across four policy priorities: clean transition and industrial decarbonisation; health, biotech and bioeconomy; digital leadership and resilience; the defence industry and space. The ECF will aim to create the conditions for critical sectors and companies to thrive and scale up, taking into account recommendations from the Draghi and Letta reports. Key priorities will also include support for EU 'made in Europe' 'clean' products and technologies and strengthening **economic security** to ensure that key sectors remain resilient and competitive when faced with geopolitical and technological shifts.

The external action heading, with a total envelope of €190 billion, and its main instrument **Global Europe**, will offer partnership packages and advance a new **European economic foreign policy**. This aims to strengthen the alignment of external and internal EU priorities, bringing together economic security, trade and competitiveness, energy security and access to raw materials.

A host of **EU programmes and funding vehicles** also support research and innovation in strategic areas, reducing strategic dependencies, accelerating the green and digital transition, and strengthening and de-risking key value chains. These include [Horizon Europe](#), the [Connecting](#)

[Europe Facility](#), [Digital Europe](#), the [European Defence Fund](#), the [Innovation Fund](#) and the [European space programme](#), and the [Recovery and Resilience Facility](#).

While these initiatives are designed to address weaknesses across entire supply chains with cross-policy actions, they also require ample time (**mid- to long-term horizon**) to deliver.

To mitigate risks to supply chain resilience, critical infrastructure, technology security and address the weaponisation of economic dependencies and economic coercion the EU has been developing its [economic security policy](#) since 2023. It is based on **three pillars**: (i) promoting EU competitiveness and its scientific, technological and industrial bases; (ii) protecting the EU from economic security risks including through new instruments; and (iii) partnering with like-minded countries who share the same concerns and interests. On 3 December 2025, the Commission is planning to release a new [economic security doctrine](#) to optimise the use of its many tools, such as [export controls](#), to respond more effectively to urgent risks to the EU's economy and supply chains. In the words of Commissioner for Trade and Economic Security [Maroš Šefčovič](#), the new doctrine 'will prepare the EU for more contingencies, for stockpiling, for looking at different suppliers and adjusting our economic model'.

The second von der Leyen Commission implements pillar one mostly through the [competitiveness compass](#), based on the timely and widely discussed [Draghi report](#) (see box). Some of the adopted initiatives will have an effect on supply chains: action plans for [cars](#), [steel](#), and [chemicals](#), investments in cutting-edge technologies ([InvestAI](#)), supporting innovative firms ([TechEU](#)) and technology-driven companies with high potential ([start-up and scale-up strategy](#)), and facilitating funding through the [savings and investment union](#). This will be accompanied by deepening the single market with the new [strategy](#) and an array of simplification measures ([omnibus packages](#)).

Pillars two and three are implemented mostly through **EU trade policy**. It supports the pursuit of the EU's economic security strategy through development and implementation of a toolbox of autonomous instruments relevant to supply chains and the EU's multilateral and bilateral agenda. The EU's autonomous instruments have significantly expanded over the last six years. They now include the level playing field measures (such as the [Foreign Subsidies Regulation](#), the [International Procurement Instrument](#)), economic security tools (such as the [Anti-coercion Instrument](#), proposal on [foreign investment screening](#) and [Export Controls](#)), as well as the instruments that promote decarbonisation and sustainability (such as the [Carbon Border Adjustment Mechanism](#),

Delivering on the Draghi report

The September 2024 Draghi report suggested a series of measures to boost Europe's competitiveness. On supply chains for example, it recommended using artificial intelligence for optimisation and fully aligning trade policy with industrial strategy to ensure their security. Digitalisation should go hand-in-hand with reliable access to critical inputs, technologies and raw materials, ensured by a series of cross-policy action and investment.

In January 2025, the Commission presented a [competitiveness compass](#), an economic framework to guide its work in the coming years. Some 90 % of Compass flagship initiatives are directly inspired by the Draghi report's most pressing recommendations.

In September 2025, the Commission reported the delivery of more than half of the Compass's initiatives and that it is on track to meet its 75 % adoption target by end-2025. However, other [assessments](#) point to only 11 % of the report's recommendations having been implemented and [mixed results](#) – success where Member States' interests align ('low-hanging fruit') and a reluctance to undertake harder structural reforms.

the proposal on [corporate sustainability and due diligence](#)).⁵ It is often this last group, which has direct effects on foreign economic actors, that is perceived as 'interventionist' by many of the EU's [trading partners](#) and has recently led to [heightened tensions](#). Other '[de-risking](#)' instruments, such as the Foreign Subsidies Regulation or [International Procurement Instrument](#) are being [deployed successfully](#), most often affecting Chinese companies. All these instruments have impacts on supply chains, whether by securing them and shielding them from unfair competition, helping them to diversify or to become more sustainable.

By **strengthening and diversifying external trade**, the EU [reinforces](#) its position in global value chains, which can help to mitigate the negative effects of trade fragmentation. This is carried out by developing **partnerships** with like-minded countries and stronger engagement with markets and third countries. The EU's bilateral agenda accelerated significantly in recent times, particularly after Donald Trump's re-election: the Commission has concluded negotiations on, signed [trade agreements](#), or modernisations of agreements, with Chile, Kenya, Mercosur, Mexico and New Zealand. Negotiations continue with India, Indonesia, Malaysia, the Philippines, and the United Arab Emirates. This is complemented by other kinds of **targeted partnerships** ('mini deals'), which are quicker to conclude but less comprehensive, such as those on [digital trade](#) and [clean trade and investment](#), which help to modernise, secure and diversify EU supply chains.

Foreign investments with benefits

Press reports indicate that the Commission plans to table new foreign direct investment ([FDI](#)) rules on 10 December 2025. They would require greater benefits for local workers and technology transfers when foreign companies invest in Europe. Commissioner for prosperity and industrial strategy Stéphane Séjourné noted the new regime should 'ensure that foreign investments don't just go into components that are assembled abroad', but contribute to 'the functioning of the whole European value chain'. The rules are likely to require that foreign investors recruit local workers and provide technological transfer in critical sectors such as batteries.

At multilateral level, the EU remains [committed](#) to the future of a reformed and strengthened **World Trade Organization (WTO)**. Trade fragmentation is likely to further weaken the WTO and multilateralism and the EU will pursue its [agenda](#) of increasing the relevance of a modernised WTO during the next ministerial conference in Cameroon in March 2026.⁶

Policy debate

A paper by the [European Investment Bank](#) argues that, in times of supply-chain recalibration and trade fragmentation, **the single market** is an important source of strength, which can lessen disruptions in the supply of essential inputs. The report calls for increased investment in key areas such as innovation and digitalisation, to set the foundation for resilient global value chains and increased productivity. The EIB claims that digital and innovative firms are more resilient, more agile and better able to react to shocks.

This is in line with the [Twin Seeds](#) project's findings, which argued that some **digital technologies**, particularly logistic technologies and robots, contribute positively to companies' productivity and export performance. Digital technologies and tools such as data analytics also contribute to stronger integration of EU firms in global value chains. To help multinationals navigate a fast-changing environment, policy makers should support technologies that improve real-time information flow and the transparency of global value chains.

[Twin Seeds](#) also warns that factors such as price, quality, and supply chain flexibility are often more important for firms than geographic proximity and as such policy makers should consider these carefully, to avoid any unnecessary costs caused by suboptimal interventions promoting nearshoring. Public policies should instead encourage local firms to establish **global connections** to benefit from the external knowledge vital to regional innovation. The EU must also avoid a scenario in which reshoring or nearshoring exacerbates regional inequalities.

The Organisation for Economic Co-operation and Development ([OECD](#)) warns of the **suboptimal design** of some policies aiming to minimise trade risks and boost supply chain resilience, noting they may unnecessarily undermine the benefits of international trade. Since trade interdependency with China remains high, policy makers need to consider any measures affecting the supply chains carefully, as the resulting fragmentation is likely to pose high economic costs.

The [Fondation Robert Schuman](#) sees building on Europe's strengths as the best way to deal with a fragmenting global economy. This should be carried out by leveraging the EU's key asset, the single market. Two areas require immediate attention: firstly, **completing the single market** in services is necessary to increase business entry rates, technology creation, dissemination and productivity growth. Secondly, rebooting the **Capital Markets Union** is urgently needed to succeed in completing the EU's digital and green transition. This should be complemented with joint permanent funding instruments for industrial policy, which would leverage the benefits of the single market.

Similarly, the [International Monetary Fund](#) (IMF) suggests protecting and deepening the single market to cope better with fragmentation pressures. **Eliminating remaining internal barriers** would increase capital, labour, and services mobility, facilitating a transition to new technologies and enabling common risk sharing in response to shocks. Completing the capital

Contemporary Amperex Technology Co. Ltd (CATL) factory in Zaragoza

The launch of a Chinese battery gigafactory in Spain (with [Stellantis](#)) recently made headlines, highlighting the technological dependency of some EU industries on Chinese technologies. While European company [Northvolt](#) halted production in June, after filing for bankruptcy, [Chinese groups](#) are making inroads in European markets. The CATL project is particularly controversial for two reasons: the [Pentagon](#) blacklisted CATL for its ties to Chinese military, and its plans to send 2 000 workers to Spain to build a €4 billion plant, to be run by Spanish workers thereafter. This raises questions regarding CATL's willingness to share its technological knowledge to the benefit of local people and businesses – and about the EU's growing vulnerability to China.

markets union and the banking union is necessary to **fund climate and digital investment needs**. Deepening the **single market for services** (making it easier to supply services across borders), and reciprocal recognition of qualifications earned in one Member State by others would enhance competition, lower prices, and reduce the cost of adapting to economic shocks.

Interestingly, the IMF indicates following **protectionist policies** in Europe would contribute to increased global fragmentation. This could prove very costly to the EU, given its strong global trade links, including with countries that do not share similar geopolitical views. Due to the complexity of global supply chains, the EU is likely to be more integrated into foreign trade than the bilateral data suggests. In a worst case scenario, a world composed of a few strict autocratic blocs would be very costly for the EU and other regions, since it would significantly reduce cross-bloc exchange of goods, knowledge and multinational production. The IMF therefore notes that refraining from actions taken

by others that **restrict trade or subsidise domestic manufacturing** would be less costly for the EU than replicating those measures. Instead, it should firmly support an **open, rules-based trading system** and, wherever possible, address concerns within that framework. These [challenges](#) of balancing openness and security are however well known and not easy to overcome.

The [European Economic and Social Committee](#) suggests a number of ways in which the EU can tackle increasing geoeconomic fragmentation. These include expanding trade agreements, **targeted investment** in strategic industries, and enhanced financial and technical support for micro, small and medium-sized enterprises (MSMEs) to expand into new markets – all with **diversification of supply chains** in mind. Furthermore, the Union needs to increase **investment in research and development** for the high-tech and sustainable manufacturing sectors, including greater adoption of artificial intelligence and blockchain technologies to optimise supply chain management.

European Parliament

In its resolution on [trade-related aspects and implications of COVID-19](#) adopted in July 2021, Parliament called for incentives, including through State aid, for EU businesses to make their value chains more sustainable and to shorten or adjust their supply chains where it could benefit the EU's economy, resilience, geopolitical objectives and strategic autonomy.

In its resolution of February 2023 on an [EU strategy to boost industrial competitiveness, trade and quality jobs](#), Parliament called on the Commission to assess current dependencies and find alternative sources to diversify supply chains for critical technologies and raw materials. The Parliament also highlighted the need for improved coordination and joint efforts to create resilient supply chains.

Parliament adopted a resolution on [old challenges and new commercial practices in the internal market](#) on 8 May 2025. The Members called to tackle the remaining unjustified barriers to the free movement of goods and services. They also stressed that eliminating regulatory fragmentation, promoting simplification, significantly reducing administrative burdens, enhancing enforcement and ensuring resilient supply chains are critical to maintaining the EU's competitive edge, fair market conditions and boosting the single market.

On 10 July 2025, Parliament adopted a resolution on [China's critical raw materials export restrictions](#). It called for stronger engagement to conclude clean trade and investment partnerships and bilateral strategic partnerships on raw materials and highlighted the importance of free trade agreements and the Global Gateway initiative in enhancing access to critical raw materials. Members also called for greater coordination with like-minded international partners, particularly within the G7 and NATO frameworks and with the Japan Organization for Metals and Energy Security, in order to improve knowledge transfer, align supply chain security, joint investment and stockpiling strategies, and to develop trusted-source standards for strategic sectors and projects.

In its resolution of 10 September 2025 as a [follow up to the Draghi report](#), Parliament called for concrete measures to make financing more available and affordable, especially for SMEs and

Supply Chain Intelligence Hub

To inform policy and better understand structural dynamics and real-time developments across supply chains, the Commission launched a [Supply Chain Intelligence Hub](#). It helps to map the EU's strategic dependencies across industrial ecosystems, set up an early warning system to monitor distress in supply chains (SCAN), and is evaluating broader shifting patterns in EU supply chains.

innovative ventures. The text also calls for the rapid completion of the banking union, the capital markets union and the savings and investments union. In addition, Members stated that joint borrowing through the issuance of EU bonds presents a viable option to ensure that the EU has sufficient resources to respond to acute Union-wide crises.

MAIN REFERENCES

Grieger, G., [Understanding the EU trade defence toolbox](#), EPRS, European Parliament, 2025.

Various authors, [Navigating a fragmenting global trading system: insights for central banks](#), European Central Bank, 2025.

Charlotte André, M., Delanote, J., Di Raimondo Metallo, L., Harasztosi, P., Weiss, C. and Reuter, A., [Shock waves from turbulent times: How EU businesses recalibrate supply chains](#), European Investment Bank, 2025.

ENDNOTES

- ¹ The [western, US-allied bloc](#) has a larger share of the world's GDP, stronger purchasing power parity, is more economically diverse and controls more fundamental technologies. The eastern, China-allied bloc has a larger population.
- ² [Trade intensity](#) determines 'whether the value of trade between two countries is greater or smaller than would be expected on the basis of their importance in world trade. It is defined as the share of one country's exports going to a partner divided by the share of world exports going to the partner'.
- ³ From the trade policy perspective, open strategic autonomy means that the EU, which has always promoted multilateralism and open trade, will continue to do so wherever possible, while increasing its capacity to act independently.
- ⁴ For example, in March 2025, the Commission selected the first batch of [projects](#) under the Critical Raw Materials Act, five of which – located in France, Italy, Poland and Sweden – are focused on the different stages of the rare-earth element (REE) value chain: extraction, processing, manufacturing and recycling. The Belgian [Solvay](#) company inaugurated a line for rare earth production for permanent magnets in its facility in La Rochelle, France – the [only plant](#) outside of China that can process all 17 different rare earths.
- ⁵ For more information on the first two instrument groups, please see G. Grieger, [Understanding the EU trade defence toolbox](#), EPRS, 2025.
- ⁶ Main areas of reform include the [WTO contribution](#) to goals such as the green transition or sustainable development, agreement of new rules on services, digital trade, subsidies and investments, and restoration of the dispute settlement system.

DISCLAIMER AND COPYRIGHT

This document is prepared for, and addressed to, the Members and staff of the European Parliament as background material to assist them in their parliamentary work. The content of the document is the sole responsibility of its author(s) and any opinions expressed herein should not be taken to represent an official position of the Parliament.

Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy.

© European Union, 2025.

Photo credits: © APchanel/ Adobe Stock.

eprs@ep.europa.eu (contact)

<https://eprs.in.ep.europa.eu> (intranet)

www.europarl.europa.eu/thinktank (internet)

<http://epthinktank.eu> (blog)