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Research Briefing | EU

The EU hasn't managed to de-risk its supply chain

- **EU supply chains remain highly exposed to external risks. In the past six years, the bloc hasn't materially reduced its exposure to imports from non-politically aligned countries, nor has it cut the average distance its imports travel. Furthermore, its dependence on Chinese imports has broadened across more sectors.**
- **However, the sectoral picture isn't homogeneous. Trade in mineral fuels and pharmaceutical products has increased within the EU, while the vehicles and machinery sectors now rely more on non-Western providers.**
- **More sectors depend on Chinese imports than six years ago, and the EU's exposure to the US has remained broadly stable. But the bloc's reliance on the UK and Russia has decreased since Brexit and Russia's invasion of Ukraine, respectively. Meanwhile, the EU's attempts to strike deals with countries in other blocs, including India, aren't a game-changer, as they account for only a small fraction of EU trade.**
- **The EU now relies much more on non-Western countries for more complex goods. This points to heightened risks from increased protectionism and a much more challenging outlook for reshoring – more complex products are harder to substitute.**

De-risking, aimed at making EU supply chains more resilient to external shocks, has been a major policy objective in the wake of the pandemic and the new geopolitical realities. However, the EU hasn't managed to reduce its supply-chain vulnerabilities, despite modest progress in some areas, while the direct impact of the Iran conflict on European inflation remains a key risk in the short term.

Table 1 shows the four indicators we use to assess the degree to which the EU has deployed the four main de-risking strategies – 'nearshoring' (moving supply chains to a close, or closer, location), 'homeshoring' (moving supply chains to the EU), 'friendshoring' (moving supply chains to countries that are political and economic allies), and the 'China+1' strategy (where firms diversify their supply chains by adding another country that isn't China).

Table 1: Europe's dependence on global supply chains

	Indicator	2019	2025	Difference
Nearshoring	Average distance of one euro of an imported good	1,969km	2,083km	5.8%
Homeshoring	Intra-EU trade as a share of total trade ex-fuels (%)	70.7	71.3	0.6ppts
Friendshoring	Share of imports from Western countries (%)	82.3	83.5	1.2ppts
Dependence on China	The number of sectors where Chinese imports account for more than 10% of total imports in that sector	31	37	6

Source: Oxford Economics

Paolo Grignani - Senior Economist - pgrignani@oxfordeconomics.com

Nicola Nobile - Chief Italy Economist - nnobile@oxfordeconomics.com

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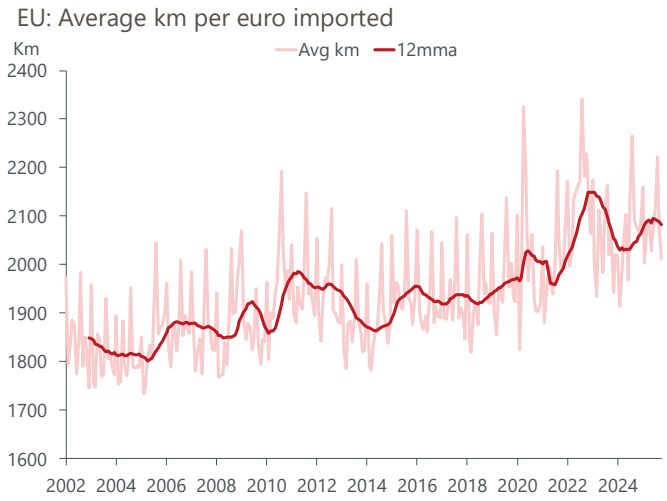
Despite the recent economic and geopolitical shocks, EU companies haven't significantly changed their habits: over the past six years, the average distance that imports travel has increased by nearly 6%; EU companies have reduced their exposure to non-politically aligned countries only slightly and have increased their intra-EU trade by a similarly small degree; and their exposure to China has risen materially.

The cost advantages of global value chains in day-to-day business, especially those linked to China, are too large for companies to forsake. Inertia also plays a role, given the high fixed costs associated with firms setting up in other countries and establishing stable commercial relationships.

Nearshoring: EU goods imports travel 114km more than in 2019

'Nearshoring' (transferring business processes to a nearby or closer location) hasn't occurred in the EU. One euro of imported goods in 2025 is travelling well over 100km more than in 2019 (**Chart 1**). This indicator weights EU imports by distance from the EU, with intra-EU trade weighted zero. The trend since 2002 shows an upward dynamic and the 2025 value is more than 10% higher than in the mid-2000s. Over the past six years, the distance has increased by 5.8%.

Chart 1: Average distance EU imports travel



Sources: Oxford Economics, Haver Analytics

China is the country with by far the largest contribution to overall kilometres travelled. The US, in light of Europe's dependence on its LNG imports, and Asian countries such as Taiwan and Vietnam have also contributed positively. Lower trade with Russia and, to an extent, Japan, the UK, and Nigeria has lowered the distance, but not enough to offset the overall increase.

The series is in value terms, and it's possible that inflation played a role in the 2022-2023 pick-up, pointing to an overestimate in the past few years, but only to the extent that the prices of the imported goods are positively correlated with the distance the imports have travelled. However, this indicator, taken in conjunction with the others, provides a clear picture of the EU's continued high dependence on imports from outside its borders.

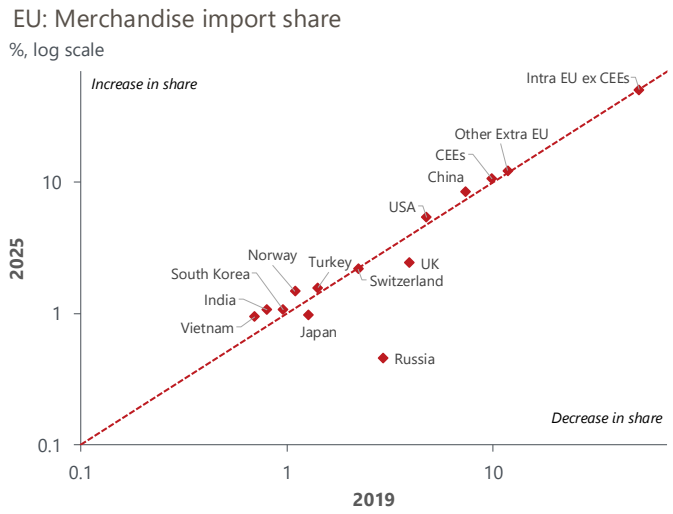
Homeshoring: Only a marginal increase in intra-EU imports

Moving to 'homeshoring', we haven't seen a major shift in the intra-EU share of imports versus extra-EU imports. Intra-EU trade has increased only marginally, whereas the share of Chinese imports in overall imports to the EU increased from 8% in 2019 to almost 10% last year. What's more, exposure to China has increased even more in real terms, thanks to its relatively low rate of inflation and aggressive pricing.

As with nearshoring, the EU's reliance on the UK fell after Brexit, exposure to the US has remained broadly stable, and exposure to Russia has decreased since the start of the war in Ukraine.

Paolo Grignani- pgrignani@oxfordeconomics.com

Chart 2: Intra-EU trade remains highly relevant, but it has increased only marginally

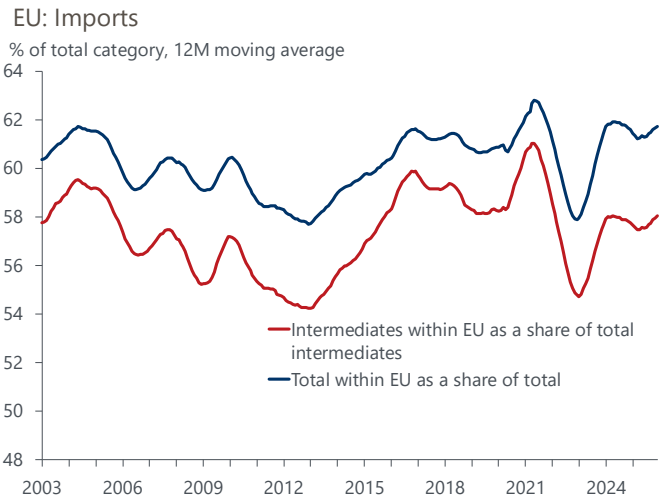


Sources: Oxford Economics, Haver Analytics

A look at the importance of intermediate goods imports within the EU shows that this category has posted a larger decrease in intra-EU imports than in goods imports overall (**Chart 3**). And with intermediate goods particularly relevant for supply-chain dynamics and second-order impact on production, this adds to the vulnerability of EU supply chains.

A deep dive into two-digit HS products shows some relevant underlying shifts. Among the top 20 products the EU imports, which account for about 75% of its goods imports by value, there has been a marked increase in intra-EU trade in pharmaceuticals and miscellaneous chemical products. Conversely, firms importing aircraft and organic chemicals have shifted significantly toward non-EU imports.

Chart 3: Intermediate goods are increasingly coming from outside Europe



Source: Oxford Economics, Haver Analytics

'Friendshoring': The complexity of goods imported from the non-Western bloc has progressively risen

To measure 'friendshoring' – i.e., the strategic practice of relocating global supply chains to countries that are political and economic allies – we consider the share of goods imported to the EU from the 'Western bloc' (see **Box 1** for a complete classification of the two blocs), building on a similar methodology used in a WTO paper. There's been only a marginal increase in the share from 2019 to last year, suggesting friendshoring strategies haven't had a meaningful impact on EU companies.

The EU hasn't managed to de-risk its supply chain

Among the three largest EU countries, in absolute terms, Germany is less exposed to non-Western countries, with around 90% of its imports coming from politically aligned countries, and it has seen a much more pronounced adjustment recently than Italy or France, thanks to its higher-than-average exposure to Central and Eastern European countries and the Netherlands. Italy, on the other hand, appears to be more exposed to the 'non-Western bloc' than the other two biggest EU countries, due to its stronger ties with China and North African economies. Admittedly, this statistic is somewhat inflated because EU imports are calculated as the sum of all members' imports, which leads to some double-counting, as intra-EU trade is included. However, a similar trend is still clear when considering extra-EU trade only.

Chart 4: Share of imports from Western countries has increased only marginally

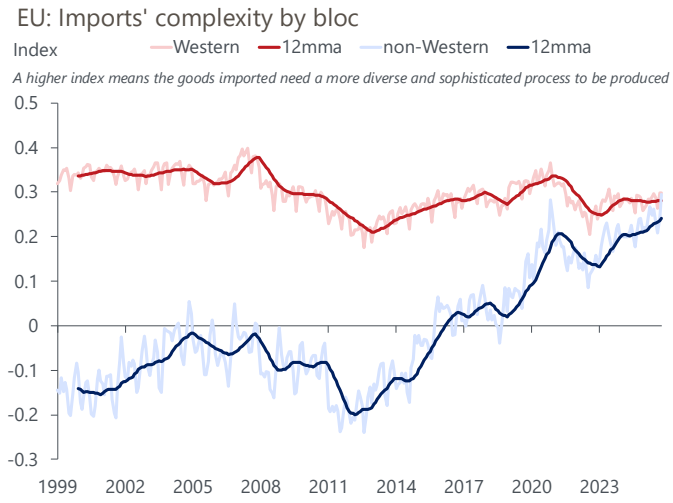
Sources: Oxford Economics, Haver Analytics

Moreover, although the US is part of the Western bloc in this classification, relations between EU countries and the current US administration have been strained, potentially calling into question this division of the world into just two trade blocs.

Energy and pharmaceutical products have driven the marginal increase in exposure to the Western bloc. However, for vehicles and machinery, the EU has become much more exposed to the non-Western bloc.

One reason we haven't seen a sizeable shift towards Western imports is the degree of specialisation that the Chinese manufacturing sector has reached over the past 10 years. As a consequence, the degree of complexity of goods imported from the non-Western bloc has progressively increased (**Chart 5**).

Chart 5: Products imported by the non-Western bloc have become harder to make



Sources: Oxford Economics, Haver Analytics, Harvard Atlas of Economic Complexity

Paolo Grignani- pgrignani@oxfordeconomics.com

For instance, imports from China in the so-called 'new three sectors' (electric vehicles, lithium-ion batteries, and solar cells) have increased massively. The EU has implemented policies supporting demand for these goods, as they're considered vital for the green transition, but without enough domestic supply, this has de facto subsidised imports and production from a non-politically aligned country.

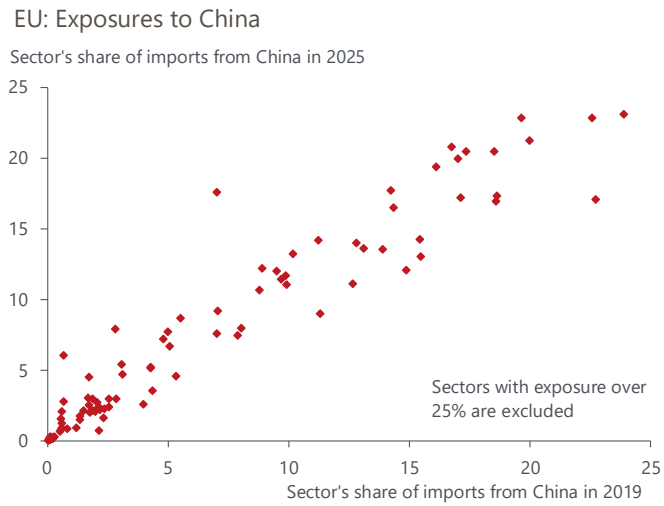
Based on this, we're sceptical that the EU will make its value chain more resilient anytime soon. Moreover, this would render certain protectionist measures counterproductive if they're implemented across the board. Because protectionism typically raises input costs and can reduce efficiency, such policies are likely to be justifiable only for strategically important sectors.

'China + 1': Little evidence of the strategy being used

Another narrative that has made headlines is the so-called 'China + 1' policy – the strategy in which firms add another country besides China to diversify their supply chain. However, it isn't happening at a scale sufficient to be reflected in the macro figures.

In fact, the EU's reliance on Chinese imports has increased further over the past six years, and not just in electric vehicles and other tech sectors (**Chart 6**). The number of sectors in which imports from China now account for more than 10% of total imports rose to 37 in 2025, up from 31 in 2019, out of 96. And we don't expect this increasing reliance on Chinese imported goods to fade away, with lower prices further incentivising firms and consumers to source from China.

Chart 6: Exposure to China has increased in most sectors



Source: Oxford Economics, Haver Analytics

The EU should step in, but don't expect anything meaningful

Making value chains more resilient by moving production is expensive, and likely unfeasible, especially if it's left up to profit-seeking firms. But we think the EU and its member states could work toward some tangible solutions, as in the EU's recently proposed 'Buy European' plan. Or as it has done in the past with the Critical Raw Materials Act, aimed at building resilient and sustainable value chains for critical raw materials.

For instance, reducing internal fragmentation, with a real single market for products, so shortages in one EU country could at least in part be offset by surpluses in other EU countries. An improved and expanded framework for CBAM could support domestic manufacturers: by reducing the risk of carbon leakage (i.e., foreign producers not paying the EU carbon tax), it would level the playing field for EU firms with international competitors, reducing their competitive advantage. Another option would be a more active industrial policy in strategic sectors, such as defence, but this seems politically and economically costly.

The push for reforms seems to have more impetus than in the past, and we could see some progress in the coming year. But outside of strategic sectors, the economic incentives aren't there, reflecting the increased dependence on China. Moreover, securing political agreement in the EU on which sectors require stronger regulations, while accounting for the backlash from trade partners, will be a huge challenge.

Box 1: Appendix

We use Dajud's (2013) paper to assign a country to a specific bloc, based on a quantitative notion of "political proximity". We moved Finland and Bulgaria to the Western bloc, since they're part of the Eurozone.

Table 2: List of countries by bloc

Country	Bloc	Country	Bloc
Algeria	Western	Luxembourg	Western
Argentina	non-Western	Malaysia	non-Western
Australia	Western	Malta	Western
Austria	Western	Mexico	Western
Bangladesh	non-Western	Morocco	Western
Belgium	Western	Netherlands	Western
Brazil	non-Western	New Zealand	Western
Bulgaria	Western	Nigeria	non-Western
Canada	Western	Norway	Western
Chile	Western	Pakistan	non-Western
China	non-Western	Philippines	non-Western
Croatia	Western	Poland	Western
Cyprus	Western	Portugal	Western
Czechia	Western	Qatar	non-Western
Denmark	Western	Romania	Western
Egypt	Western	Russia	non-Western
Estonia	Western	Saudi Arabia	non-Western
Finland	Western	Serbia	Western
France	Western	Singapore	non-Western
Germany	Western	Slovakia	Western
Greece	Western	Slovenia	Western
Hong Kong	Western	South Africa	non-Western
Hungary	Western	South Korea	Western
India	non-Western	Spain	Western
Indonesia	non-Western	Sweden	Western

Paolo Grignani- pgrignani@oxfordeconomics.com

Country	Bloc	Country	Bloc
Iran	non-Western	Switzerland	Western
Iraq	non-Western	Taiwan	Western
Ireland	Western	Thailand	non-Western
Israel	Western	Tunisia	Western
Italy	Western	Turkey	Western
Japan	Western	UAE	non-Western
Kazakhstan	non-Western	UK	Western
Latvia	Western	Ukraine	Western
Libya	Western	USA	Western
Lithuania	Western	Vietnam	non-Western

Source: Oxford Economics

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