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Without further ado, I will give the floor to Gabriel Felbermayr.

Gabriel Felbermayr, Director of the Austrian Institute of Economic Research (WIFO), former President of the Kiel Institute for the World Economy (IfW)

Thank you very much, Jean-Claude, and thank you Thierry for having us here again, it is always a great pleasure and privilege. My job is to talk a little bit about Europe in a fragmented world and as an economist I would like to provide you with some data. I am saying in a “fragmenting” rather than a fragmented world, which I think is a first sign of hope. When we mention Europe, fragmentation and the world, we should also not forget that Europe has its own governance problems and its own fragmentation in both ideological space as well as in terms of economic outcomes.

I will take a European perspective on the world, and I think this is important because if we look at what holds us together, besides conferences like this, it is international trade and finance. If you look at trade, including services we still see that the European Union is an important player and more or less at the same level as the United States and China. If we follow the European debate, we sometimes get the impression that Europe has forgotten the fact that we still are a huge player. The numbers I show are actually from 2023, which was not a good year for trade. Nonetheless, if you do the accounting the EU has a larger share of exports and imports of goods and services than the United States and China, just by a sliver. That means we have a huge responsibility and if the Brits had not left the European Union, it would be even larger. That is the first factor I would like us to remember.

The second is if we look at the world today, we can see that it has changed. Again, this slide is for 2023, and the color scheme shows the most important trade partners for all the countries. Blue means that the European Union is the most important partner, green is the United States, and the yellow/orange is China. You can see that for the South American space, large parts of Africa, and Southeast Asia, China is now the largest trade partner and there are actually more countries in the world where that is the case. If we look back to previous years, the picture would be different. In 1995, the world was still largely blue. That is not only a matter of numbers, of data, it is also something that affects psychology and the idea of European decline. I am a proud European and I think that as Europeans we do the world no favor by being so convinced of our own diminishing role. This does not help solve global problems. Europe is a cosmos on its own with many of the problems in governance that we

also see at global level. We have offered solutions in the past and we might do the same again in the future. However, the dynamics are moving from being the global trade hegemon to Europe now being second to China if we count the number of countries, and that has had an impact on the state of thinking in the European Union.

The EU has engaged with many countries around the world and there too, Europe is a leader because there is no other bloc or political entity that has so many trade agreements. We have around 42 trade agreements notified to the World Trade Organization covering something like 74 foreign countries and of course, this is important when we talk about governance because all those trade agreements have legal texts and political compromises between all the partners. Let us look at the regions with which the European Union is right now trying to write new trade agreements or get them passed. For example, Mercosur, which has been on the agenda in recent years with my own country, Austria, as well as yours, Jean-Claude, which is quite skeptical unfortunately because international law is the only way we can improve governance, reduce uncertainties and make progress. The EU is also speaking to many other countries in the world from Australia to Indonesia to India and has been doing so for a while, but the progress is stuck and it is not easy to find new agreements. That is not so much a problem of the world itself, it is something that starts within Europe as well. So, when you say that the world is fragmenting, Europe is both itself fragmented and a factor of fragmentation as well.

There is a big discussion about trade or international economic relations being weaponized to become instruments in big power rivalries and in that sense, the question of trust is crucial. When we ask this question in Europe, we might turn to the balance of payments data and ask where our economic partners are and what sizes and quantities are involved. What we see when we do that is that the European economy is still a transatlantic one and by wide margins. This is a matter of fact and sometimes the discussions in our European Union are misleading because if you take the United States and the United Kingdom together, those two economic partners dominate the statistics quite dramatically. It is not just the goods trade, it is also the trade in services and there are also a lot of financial interactions between the transatlantic partners. When we talk about services, that is where we still see the world converging and globalizing. That might not be true anymore in the goods trade, but it is still true in the services space.

When the global value chains are interrupted, economic damage occurs, and that damage can be quite substantial. I will only talk about Europe here, but I was involved in a recent study of the whole world which looked at what countries would lose in terms of their economic welfare if they were disconnected from global value chains. Global value chains relate to trade in inputs and raw materials, not to trade in final goods. The analysis shows that all the European countries would suffer dramatically, but there is a lot of heterogeneity, so Europe serves as an example for the whole world, we are not all affected the same when the global regime crashes. Places like Luxembourg or Ireland would see losses up to minus 70%, so disconnecting them from global value chains would be devastating. When I say disconnecting, I also mean that European global value chains would be destroyed, which I hope is very unlikely. I believe in the single market. If global value chains are interrupted but the European single market stays intact, losses are very much smaller. I would say that the big lesson to the world that Europe offers here is that our free trade at continental level protects us from shocks



that happen around the world. I think this is important for Africa, the Gulf regions and Southeast Asia to realize that regional integration is probably the most important protection against what is going on at the larger world scale.

I will stop here but there is a lot more to be said and I am looking forward to the whole conference and our conversation.