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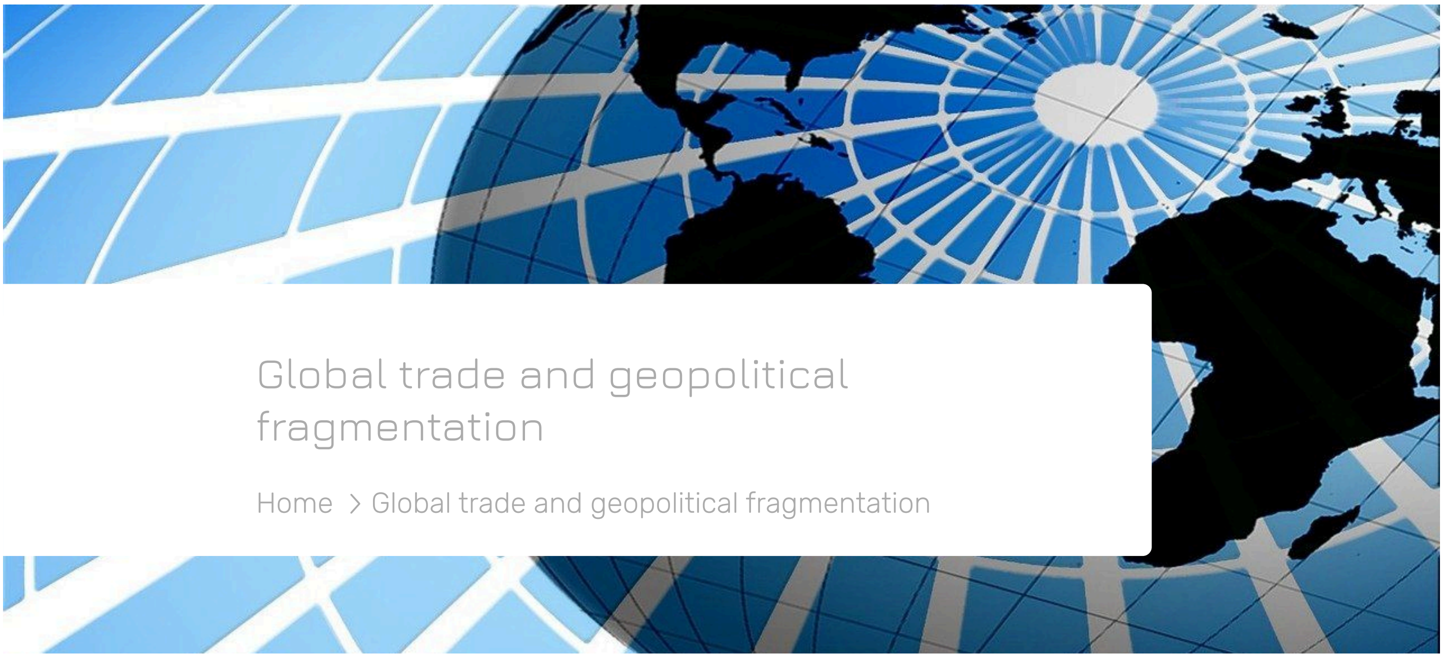

Global trade and geopolitical fragmentation

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A few countries account for the bulk of global trade flows. Recently emerging geopolitical country groups, such as BRICS, account for about one fifth of global exports, although this share is mostly due to China. Grouping countries into a Western group (including the US and European economies) and a group oriented towards China shows that the former accounts for almost two thirds of world trade and the latter for less than one third. As some recent literature shows, increasing geopolitical fragmentation could have strong negative impacts.

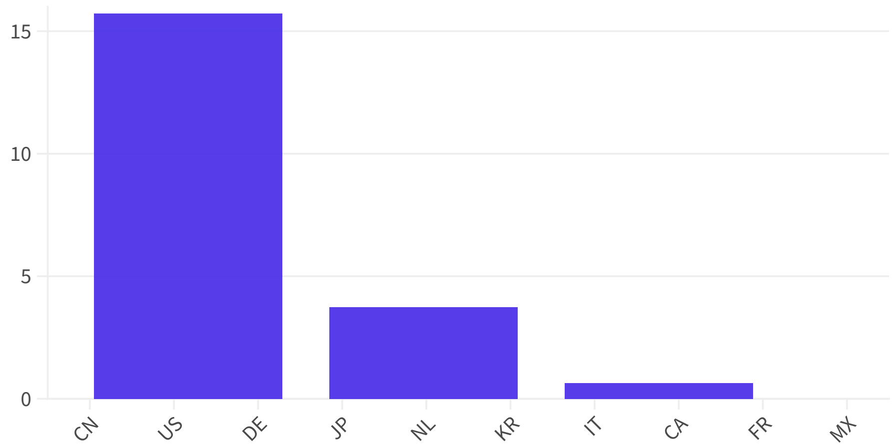
In addition to the traditionally considered forces shaping bilateral trade (e.g. the size of the trading partners, distance in geographic or cultural terms, language barriers or bilateral trade policy measures), geopolitical developments are prone to increasingly determine global trade flows (see Bosone et al. 2024). Specifically, since Russia launched its illegal, full-scale war of aggression on Ukraine in 2022, geopolitical alliances have been growing more important and the trend towards a bi- or multi-polar geopolitical and economic world order seems more and more irreversible. In this spotlight, we provide selected evidence on the patterns of bilateral trade flows between country groups defined from a recent geopolitical perspective.

Just a few countries account for the lion's share of global trade flows

About half of global export flows are generated by only 10 countries, including China (with 16%), the United States (9%) and Germany (8%). The same applies to imports, with the United States also leading (with almost 15%), followed by China (10%) and Germany (7%). In addition, 75% of exports can be attributed to 21 countries and 90% of exports to 38 countries (out of more than 230 countries in total). The same applies to imports, with 20 countries accounting for 75% and 41 countries accounting for around 90% of global imports. In comparison, Austria accounts for roughly 1% of global trade in goods.

Figure 1 – The top 10 countries in global trade flows, in %, 2022

Top 10 export countries | Top 10 import countries



Source: UN COMTRADE; wiiw calculations.

A Flourish chart

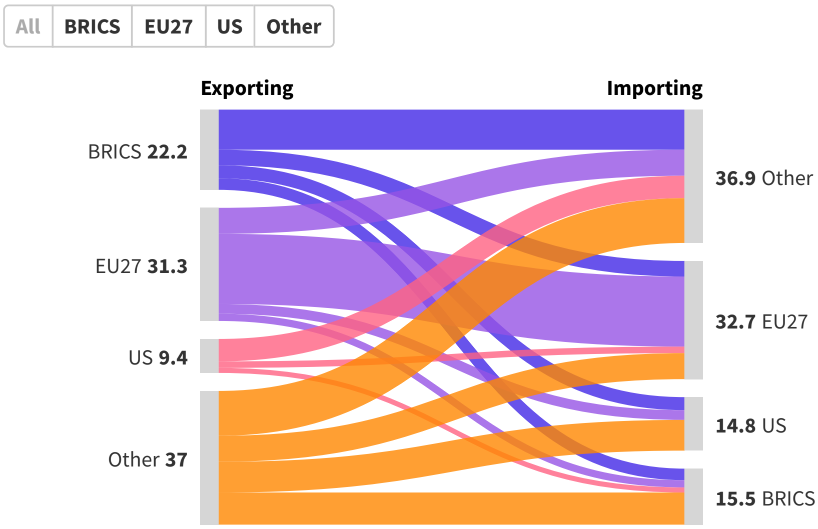
Global trade by geopolitical country groups

From a geopolitical perspective, it is more informative to consider world trade patterns by looking at groups of countries. For example, the Group of Seven (G7) is an intergovernmental political and economic forum consisting of Canada, France, Germany, Italy, Japan, the United Kingdom and the United States, with the European Union (EU) being a 'non-enumerated member'. According to our data, the G7 countries account for around a third of global exports, or roughly twice as much as China.

One country group that is gaining in terms of geopolitical relevance is the one known as BRICS[1] (comprising Brazil, Russia, India, China and South Africa), which aims at breaking the dominance of the Western economies and changing the geopolitical and economic orders (see also Holzner 2024). But how important is BRICS trade compared to that of other large groups or economies? In Figure 2, which shows the shares of bilateral trade flows in global trade, BRICS accounts for about one fifth of global exports and 15% of global imports. One should note, however, that these shares are dominated by China, which is responsible for three quarters of BRICS exports (remainder: India 9%, Brazil 7.5%, Russia 6.3%, and South Africa 3%). The EU27 still accounts for almost one third of global exports and imports, with about 20% being intra-EU27 trade flows. The United States accounts for about 10%

of global exports (which is roughly equivalent to the share of the EU27 excluding intra-EU27 trade) and 15% of global imports. For the remaining countries (which including some of the top 10 exporters mentioned above, such as Canada, Japan, South Korea and Mexico), the share is about 38%.

Figure 2 – Shares of global bilateral trade for BRICS, the EU27, the US and other countries, in %, 2022



Source: Source: UN COMTRADE; wiiw calculations.

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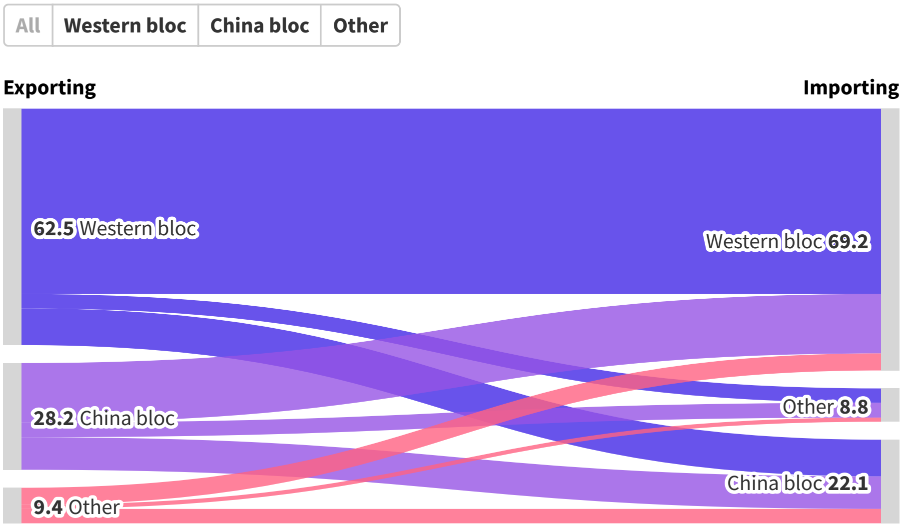
However, the BRICS group is itself a rather heterogenous group of countries (which is even more the case for BRICS+). Given these circumstances, one might group the countries differently into the following groups[2]: 'US allies' (in addition to the United States, these would be: Canada; the EU27 countries; other European economies, including Switzerland, Norway and the United Kingdom; Japan; Australia; and New Zealand); 'US leans' (e.g. Colombia, Mexico, Morocco, Turkey and South Korea); 'China leans' (including many countries in Africa and Asia); and 'China allies' (e.g. in addition to China, these would be Iran, North Korea, Pakistan and Russia). The non-allied countries would be Brazil, India, Indonesia and Nigeria.

In the following, we combine the 'US leans' and 'US allies' to form a 'Western bloc' as well as the 'China leans' and 'China allies' to form a 'China bloc'. The global trade shares according to these blocs are presented in Figure 3. Although these allocations are blurred to a certain extent, the broad patterns are visible: while almost two thirds of global exports originate from the Western bloc, slightly less than 30% originate from the China bloc. The remaining countries account for about 10% of global exports. It is also interesting to note that trade within the Western bloc makes up about half of world exports, whereas trade within the China bloc is only responsible for around 9% of global trade. Another important fact is that more than half of the China bloc exports (or 16% of world exports) are shipped to the Western bloc, whereas only around 16% of Western bloc exports (10% of world exports) are shipped from these countries to countries in the China bloc.

Figure 3 - Shares of global bilateral trade by geopolitical groups, in %, 2022



Source: Source: UN COMTRADE; wiiw calculations.

A Flourish sankey chart

From an import perspective, one finds that the Western bloc accounts for 69% of global imports, which is higher than the share in global exports (62%) and therefore indicates a trade deficit. The opposite is the case for the China bloc, which accounts for 22% of imports (compared to the share of 28% in world exports).

The costs of increasing geopolitical fragmentation

This note shows some stylised facts about the geometry of trade within and between country groups defined along geopolitical dimensions. These bilateral patterns also hint at the existence of strong mutual relationships from both an import-dependency and a foreign-market-reliance point of view for all trading partners involved, as has been documented in some recent literature. Continuing and increasing geopolitical distance will therefore likely backfire for all countries, as indicated by some literature. For example, Góes and Bekkers (2022) find that a potential decoupling of the global trading system into two blocs – namely, a US-centric and a China-centric bloc – would significantly reduce global welfare. Results pointing in the same direction are documented in Campos et al. (2023a, 2023b). Finally, results summarised in Aiyar et al. (2023) indicate that the costs from trade fragmentation will be equivalent to between 0.2% and 7% of GDP, depending on the specific scenario, modelling assumptions and country blocs considered. With the addition of technological decoupling, the loss in output could reach 8% to 12% in some countries. Given these strong negative impacts, it would be of mutual interest to all countries to maintain and secure the rules-based multilateral trading system currently in place.

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[1] The term 'BRIC' was coined in 2001 by Jim O'Neill, then chief economist at Goldman Sachs. The organisation was officially launched in 2006 and expanded to include South Africa in 2010. Since 2024, the organisation has also included Egypt, Ethiopia, Iran, Saudi Arabia and

the United Arab Emirates, leading its name to be changed to 'BRICS+'. Argentina rejected membership in the group after Javier Milei became its president in late 2023.

[2] This is inspired by www.ft.com/content/28f0f57a-df50-442c-9f8e-75672d012742, which is itself based on www.capitaleconomics.com/key-issues/fracturing-global-economy.

Author:

Robert Stehrer is Scientific Director at wiiw. His expertise covers a broad area of economic research, ranging from issues of international integration, trade and technological development to labour markets and applied econometrics. His most recent work focuses on the analysis and effects of the internationalisation of production and value-added trade. Other contributions relate to the connection between digitalisation, demographics, productivity and labour markets. He studied economics at the Johannes Kepler University Linz, Austria, and sociology at the Institute for Advanced Studies (IHS) in Vienna and is lecturer of economics at the University of Vienna.

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