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Fragmentation of supply chains and impact on the cost of living

(own-initiative opinion)

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PREAMBLE

This opinion is part of a wider package of EESC opinions on the cost-of-living crisis. With this package, the EESC is examining the different facets of this policy challenge and presenting a comprehensive and wide-ranging set of recommendations to European and national policy-makers, civil society organisations and other stakeholders. The package includes seven 'sectoral opinions' ([1]), each dedicated to issues in a specific relevant policy area. In addition, an 'umbrella opinion' ([2]) presents the overarching policy recommendations to address the cost-of-living crisis as a whole and build resilience against future crises.

1. Conclusions and recommendations

1.1. Supply chain disruptions and trade distortions are increasing costs for businesses and consumers, leading to higher production and transportation costs, increased prices for essential goods and labour market disruptions, key drivers of the current cost-of-living crisis. The EU must strike a balance between strengthening economic resilience and national security, while mitigating the risks associated with growing protectionism.

([1]) EESC opinions on *Reindustrialisation of Europe – opportunity for businesses, employees and citizens in the context of the cost-of-living crisis* (OJ C, C/2025/4206, 17.8.2025, ELI: http://data.europa.eu/eli/C/2025/4206/oj), *Leaving the crises behind – Measures for a resilient, cohesive and inclusive European economy* (OJ C, C/2025/3195, 2.7.2025, ELI: http://data.europa.eu/eli/C/2025/3195/oj), *How single market dysfunctionalities contribute to the rising cost of living* (OJ C, C/2025/3189, 2.7.2025, ELI: http://data.europa.eu/eli/C/2025/3189/oj), *Phasing out fossil fuel subsidies while ensuring European competitiveness, mitigating the cost-of-living crisis, and promoting a just transition* (OJ C, C/2025/3191, 2.7.2025, ELI: http://data.europa.eu/eli/C/2025/3191/oj), *Fragmentation of supply chains and impact on the cost of living, How to address the loss of purchasing power and the risk of rising inequalities, exclusion and marginalisation* (OJ C, C/2025/4208, 17.8.2025, ELI: http://data.europa.eu/eli/C/2025/4208/oj), *Price hikes in transport, energy, housing: role of quality public services in tackling high cost of living* (OJ C, C/2025/3192, 2.7.2025, ELI: http://data.europa.eu/eli/C/2025/3192/oj).

([2]) ECO/660 *Recommendations of organised civil society to address the cost-of-living crisis* (ongoing).

1.2. The EESC stresses that to maintain competitiveness, the EU has to:

— reduce import dependencies for critical goods and materials, particularly in high-tech industries and essential sectors such as pharmaceuticals and semiconductors;

— diversify supply chains by fostering partnerships with multiple trade partners and reducing overreliance on a single supplier;

— strengthen economic resilience through targeted investments in strategic industries and infrastructure;

— develop a well-coordinated, comprehensive and adequately financed industrial policy to bridge productivity and competitiveness gaps among European producers.

1.3. To mitigate the risks of economic isolation, the EESC recommends:

— expanding trade agreements with new and reliable partners, particularly in the Global South, based on equal partnership to enhance supply chain resilience while respecting existing and new sustainability, human rights and women's rights commitments;

— advancing regulatory efficiency to streamline complex EU frameworks and administrative requirements while maintaining high standards for workers and consumers;

— promoting World Trade Organisation (WTO) reforms, as well as multi- and plurilateral agreements to improve global trade governance and dispute resolution mechanisms.

1.4. While pursuing trade diversification as part of its reaction to current trade trends/tariffs, the EU must also safeguard itself from unfair competitive practices stemming from abnormally low production costs and standards. It must therefore continue to promote binding and enforceable Trade and Sustainable Development (TSD) chapters in existing and new trade partnerships.

1.5. To foster technological advancement and reinforce the industrial competitiveness of EU businesses, the EU must prioritise:

— increased investment in R&D for high-tech industries and sustainable manufacturing to enhance EU innovation;

— greater use of artificial intelligence (AI) and blockchain in supply chain management to optimise forecasting, logistics and procurement;

— a unified EU industrial strategy to bridge productivity gaps and maintain competitiveness in key global markets.

1.6. The EESC calls for policies that mitigate risks to EU producers and MSMEs by:

— enhancing financial and technical assistance to help MSMEs expand into new markets and adopt sustainable business models;

— implementing trade support mechanisms to assist small businesses in diversifying suppliers and navigating regulatory complexities;

— encouraging digital adoption by promoting AI-driven supply chain management systems to improve efficiency and reduce operational costs.

1.7. The EU should implement targeted education and training programs to enhance upskilling and reskilling initiatives, promote labour mobility within the single market, and attract and retain talent, strengthening the EU's innovation capacity.

1.8. The European External Action Service should strengthen its coordination with DG Trade to leverage the positive impact of existing and upcoming trade and investment partnerships.

1.9. The EESC stresses the need for an urgent and strategic response to global supply chain fragmentation. Strengthening economic security, reinforcing trade resilience, and prioritising industrial innovation will be critical in ensuring the EU remains competitive while protecting businesses and consumers from escalating costs and supply disruptions.

2. **Introduction and general comments**

2.1. The world order is transitioning to a new multipolar era, accompanied by escalating challenges to socioeconomic and environmental sustainability. The global economy is facing significant systemic risks, marked by increasing geo-economic fragmentation, driven by geopolitical tensions, and economic and currency-related, energy and food security concerns, as well as crucial policy shifts such as the green and digital transitions.

2.2. The COVID-19 pandemic, the Russian invasion of Ukraine, the conflict in Gaza and the widening crisis in the Near and Middle East, as well as electoral turbulences in the EU and globally, have further intensified these dynamics, exposing the vulnerabilities of global supply chains and prompting the EU to prioritise de-risking and economic security as core strategies.

2.3. The 2022 Joint Statement on Cooperation on Global Supply Chains ([3]), signed by 17 countries and the EU, confirmed the need to address disruptions, enhance transparency and build resilient, sustainable and secure supply chains, making its full implementation essential.

2.4. The incomplete integration of the EU single market, for which the main responsibility lies with both the European institutions and the Member States, has created considerable obstacles to global business expansion and to the ability to attract foreign direct investment, limiting benefits for citizens. Reports by Enrico Letta and Mario Draghi in 2024 emphasise the urgent need for substantial reforms, warning that prolonged fragmentation threatens competitiveness and drives companies abroad, making productivity growth a critical challenge for Europe.

2.5. This opinion explores the risk of gradual isolation of EU supply chains within a fragmented global economy and its impact on the cost of living. It evaluates existing EU strategies and policies and considers pathways for mitigating the associated costs and ensuring the competitiveness of the EU's goods and services.

3. **Impacts of geo-economic fragmentation and possible ways forward**

3.1. As global supply chains fragment, the EU faces growing risks of disruption, potentially leading to shortages of essential goods and raw materials. Protectionist measures, along with strategies like 'friendshoring' or 'nearshoring', lead companies to relocate production closer to their markets and increase costs, thereby generating additional inflationary pressures and increasing the risk that European producers will shut down.

3.2. The risk of gradual economic isolation is hampering the EU's capacity to shape global standards and trade policies, reducing its influence on international governance. Additionally, the EU's dependence on a small group of trade partners for vital goods and services exposes it to higher geopolitical risks, increasing its vulnerability to economic and political leverage from major competitors such as the US and China.

([3]) The 2022 Joint Statement on Cooperation on Global Supply Chains.

3.3. Non-tariff trade restrictions have surged globally since 2020. Additionally, the new US administration has started imposing new tariffs, violating WTO rules, including both universal and country-specific measures. Increased trade barriers will drive up prices and reduce households' real income. The EU must balance economic resilience and national security against the risk of rising protectionism. The EESC advocates open trade and investment policies, while strategically strengthening economic resilience to protect individuals and producers against future supply disruptions.

3.4. The EU must take proactive measures to address the risks of geo-economic fragmentation. To minimise the immediate and severe costs to supply chains, it is crucial to support producers in adapting to new trade realities and ensure a smooth transition. As economic coercion and trade restrictions grow, supply security must be strengthened and the EU must assume leadership in navigating an increasingly adversarial global trading system.

3.5. The EESC recommends reducing import dependencies, especially with respect to innovation and know-how, semi-finished products and critical raw materials, as Europe is more vulnerable than China or the US in these areas. EU and national policy makers must prioritise diversifying supply chains by considering multiple objectives and key performance indicators to enhance resilience against global disruptions.

3.6. Fragmentation can increase inequality and poverty, jeopardising the sustainability of fair and effective trade, thereby reinforcing global recession and migration trends. The European External Action Service should be strengthened with the creation of an economic and commercial branch, aimed at fostering new trade and investment partnerships.

4. **Direct and indirect effects on the competitiveness of EU producers**

4.1. Global GDP could decline by 6 % if trade barriers target strategic products, and by up to 9 % in a severe decoupling scenario affecting all products. Trade fragmentation would also increase inflation by up to 4 % globally in the first year, with lasting impacts ([4]). According to IMF's latest outlook, global GDP growth forecast for 2025 has been lowered to 2,8 % – 0,5 % less than was expected in last January.

4.2. Rising tariffs, transport costs, the impact of the energy crisis and the reorganisation of supply chains driven by geopolitical events are increasing operational expenses, disproportionately affecting MSMEs and businesses with narrow profit margins.

4.3. The European economy is currently characterised by slow growth, volatile inflation and high energy prices, low innovation capacity, insufficient investment, and tight financial conditions, as well as an incomplete internal market. Geopolitical shifts, trade fragmentation and the climate and energy crisis are amplifying global uncertainty, while technological advancements in the digital economy pose new challenges. Rising protectionism and uncoordinated industrial policies are escalating trade barriers, undermining global welfare and price stability. Reduced trade diversification is likely to result in greater output volatility and persistent inflation.

4.4. Fragmentation can hinder the flow of knowledge and innovation, increase uncertainty, discourage investment in R&D and production capacity and limit the ability of EU companies to innovate. Adopting advanced technological solutions that include machine learning and AI could provide key solutions.

4.5. Unexpected exogenous events, along with supply chain disruptions, increase the risk of product shortages, delayed deliveries and reduced quality. Therefore, European producers may struggle to adapt to consumer needs and market conditions, with their reputation and global market share suffering. Fragmentation can make it harder to secure critical raw materials and high-tech components. A combination of regionalisation, digitalisation, policy support, and sustainability initiatives will help mitigate these risks and ensure long-term economic strength for EU industries.

([4]) ECB – Navigating a fragmenting global trading system.

5. **Direct and indirect effects on the cost of living in European societies**

5.1. Fragmentation drives up production and transportation costs, reduces competition and causes supply shortages, which directly impact the final price of goods reaching consumers. Stagnating revenues limit wage growth, further straining households' purchasing power. Disruptions in steel, lumber, and cement supply chains increase housing prices and rent, while fragmentation in global manufacturing causes delays in real estate development, worsening housing shortages.

5.2. Global supply chain decoupling raises prices for both imported final goods and domestically produced goods that rely on foreign inputs, particularly in trade-intensive manufacturing sectors, while also redistributing labour across different skill levels. Consumers face fewer choices and higher prices for goods, disproportionately impacting low-income households. To mitigate long-term risks, the EU should promote the diversification of supply chains, despite any related short-term costs, to alleviate consumer price pressures in the future.

5.3. The shift towards resilience and sustainability requires new skills. Therefore, the EESC recommends more targeted education and training systems to expand up- and reskilling and promote greater mobility within the EU. Policies should also focus on attracting and retaining talent to boost the EU's innovation capacity.

5.4. Shortages of critical imports (e.g. semiconductors, fertilisers, pharmaceuticals) disrupt markets, creating price volatility. On the other hand, food security concerns arise due to fragmented agricultural supply chains, leading to higher grocery prices. The fragmentation of supply chains also increases the cost of construction materials, making housing more expensive.

5.5. In general, imposing tariffs, quotas and other trade restrictions also directly results in higher prices for consumers. Rising costs of living can lead to social unrest and political instability that negatively affect overall quality of life in EU societies. It is vital to protect purchasing power and thus support internal demand within the EU.

6. **Enhancing trade partnerships**

6.1. The EU relies heavily on non-EU imports across various sectors, with notable dependencies in mining and quarrying (89,6 %), textiles and apparel (45,6 %), electronics (42,3 %), chemicals and pharmaceuticals (32,4 %), non-metallic minerals (30,7 %), metals and fabricated metal products (26,8 %), agriculture (26,8 %) and transport equipment (21,8 %) ([5]). The recent change in the US administration poses new challenges by further undermining multilateralism, particularly in trade.

6.2. The EU needs a clear strategy for diversifying trade, focusing on identifying key sectors and goods. Forming strategic economic partnerships with resource-rich countries that share EU values on socioeconomic and environmental sustainability is the optimal way to reduce dependencies on single sources and create alternative trade routes, especially for critical raw materials.

6.3. The EU should adopt a proactive strategy to support European producers in: (i) diversifying their suppliers and clients while ensuring security through sustainable alternative business relations, (ii) effectively implementing strategies for vertical (re-)integration and (iii) expanding the geographical scope of trade and financial relations.

6.4. Similarly, policies are needed to support the existing, economically justified trends of reshoring and onshoring and to foster the inter-industry open strategic autonomy of European economies. However, these essential micro- and macro-oriented policies should be carefully and effectively implemented to avoid the risk of self-isolation.

([5]) European Parliament – Global value chains.

6.5. As a countermeasure against rising global tariffs, the EU should recognise the central role of the WTO, be prepared to raise the issue of unilateral tariffs, and proactively propose a comprehensive reform blueprint for it, focusing on key areas such as governance and dispute settlement to enhance global trade effectiveness and resilience. Additionally, plurilateral agreements are emerging as a viable alternative, being particularly effective for critical issues, like the Joint Statement Initiative on E-Commerce and the Multi-Party Interim Appeal Arbitration Arrangement (MPIA).

6.6. The EU should strengthen and leverage its extensive network of bilateral and regional free trade agreements (FTAs) to foster deeper integration, while maintaining an open and non-discriminatory approach towards other nations and coherence with its own policies ([6]) so as to remain a credible international partner. The EESC is in favour of finalising the current negotiations for FTAs, while also strengthening existing ones and immediately creating new trade routes with reliable partners.

6.7. The EU must prioritise forging trade relationships with key partners in the Global South to promote multilateralism and support their climate transitions, while guaranteeing universal values, international standards, sustainability commitments and economic interests in future partnerships. The 'Global Gateway' strategy, addressing global challenges such as climate change, healthcare systems and the competitiveness and security of supply chains, should be implemented immediately worldwide, together with impact assessments for the projects supported ([7]).

7. **Streamlining regulatory frameworks**

7.1. The EU's complex regulatory framework can hinder innovation and growth, particularly for small businesses. Prioritising and introducing phased implementation timelines for regulatory reform to simplify processes, lower entry barriers and create fair, safe and competitive conditions, as well as simplifying compliance across Member States, is essential to streamline administrative requirements and allow businesses, especially MSMEs, to adapt and thrive. Simplification must not mean deregulation, and it must be pursued in a way that does not weaken workers' or consumers' rights.

7.2. Different regional approaches to privacy and national security concerns lead to regulatory fragmentation, particularly in technology and data governance. The EU should lead efforts towards multilateral cooperation to harmonise global standards in data and technology regulation, while reinforcing its position as an open, export-driven economy committed to addressing shared contemporary challenges and maintaining the highest privacy standards in the world.

7.3. At the same time, considering socioeconomic and environmental aspects, ensuring sustainable international trade could become a major advantage and a defining feature of EU economic diplomacy ([8]). By adopting these strategies, the EU could transform fragmentation challenges into opportunities, fostering a resilient and inclusive economy that improves European living standards and benefits all stakeholders.

8. **Promoting innovation and technology**

8.1. The EU faces the dual challenge of achieving decarbonisation goals while reducing critical dependencies on foreign technologies, particularly in the digital economy sector. The EU industrial strategy must be updated to prioritise technological innovation and foster start-ups and innovative companies, leveraging the full potential of the single market to drive sustainable leadership in key industries. Additionally, funding for R&D initiatives focusing on supply chain resilience, such as blockchain for transparency and AI for predictive analytics, must be increased. The EESC also recommends using AI-driven supply chain management tools to optimise inventory, logistics, and procurement and implementing the IoT and predictive analytics to improve visibility and forecasting.

([6]) 2022 EC Communication on The power of trade partnerships: together for green and just economic growth.
([7]) European Commission – Global Gateway.
([8]) For instance, see the EESC opinion on the forced labour products ban:Opinion of the European Economic and Social Committee on 'Prohibiting products made with forced labour in the Union market' (COM(2022) 453 final) (OJ C 140, 21.4.2023, p. 75).

8.2. Global advancements in R&D and innovation are causing a shift from labour-intensive to knowledge-intensive, innovative manufacturing, favouring nations with strong innovation infrastructure and a skilled workforce. The EU must adopt digital tools and platforms to enhance operational efficiency and reduce costs.

8.3. To overcome the challenge of overreliance on imports and a limited number of key trading partners, which undermines economic resilience and strategic autonomy, the EU must promote investment in basic research, as well as the relevant advanced technological applications in European industries. Overall, a comprehensive and adequately financed EU industrial policy is needed to address productivity and competitiveness gaps among European producers.

9. **Support for MSMEs**

9.1. The European Commission acknowledges the challenges MSMEs face and has introduced initiatives such as the European Cluster Collaboration Platform and the Enterprise Europe Network. The EESC appreciates these efforts and calls for greater financial and technical assistance for MSMEs, so they can expand into new markets while adopting sustainable and ethical practices, and upskill their human capital in digital tools and supply chain management.

9.2. EU small importers are disproportionately vulnerable to trade disruptions. The EESC suggests implementing targeted policies providing financial incentives or resources to help them diversify their supply chains and establish broader trade relationships.

9.3. The EESC favours the active involvement of MSME representatives in policy dialogues and decision-making to ensure their needs are effectively addressed. 'Social dialogue plays an important role in skills development, and good VET practices should be promoted and exchanged through relevant EU initiatives in cooperation between SME organisations, the social partners and Member States' ([9]).

9.4. The concept of EU strategic autonomy, originally focused on security and defence, has since broadened to include foreign industrial and trade policies, while avoiding the risk of self-isolation. This push for autonomy is part of a wider global trend, with other major powers also pursuing strategic autonomy, each with its own unique approach. The EU must integrate MSME considerations into all open strategic autonomy-related policies to ensure inclusive growth.

Brussels, 19 June 2025.

The President
of the European Economic and Social Committee
Oliver RÖPKE

([9]) EESC opinion on the Next Generation SME Strategy – Enhancing Effective and Swift Delivery (OJ C 194, 12.5.2022, p. 7).