

Maria Demertzis and Alejandro Fiorito

Protect Imports, Rebalance Exports: The Future of Extra-EU Trade

Debates on the EU's economy focus on the competitiveness gap, a narrative that encourages export-first policies. This is the wrong focus, as prosperity depends mainly on domestic productivity. Therefore, the EU's key challenges are weak productivity and, more recently, economic security. Trade can help address both issues primarily via imports: access to capital goods, intermediates and energy raises efficiency and reduces vulnerability. Hence, "protecting trade" should prioritise keeping critical import channels open, diversified and contestable, with export-oriented policy only becoming primary under binding external financing or hard-to-rebuild market presence. This article assesses EU measures – limited tariffs, diversification partnerships and trade deals – as well as strategic domestic capacity, and proposes rebalancing away from surplus-led growth.

The EU's economic woes are often described in terms of a competitiveness gap with the other big economies, stemming from higher energy costs, insufficient innovation and investment, a heavy regulatory burden and unfavourable demographics. But such a framing treats competitiveness as an objective, as if the EU's prosperity depends on beating others in an export race. In his seminal paper, Krugman (1994) cautioned that pursuing competitiveness can be a dangerous obsession that leads to a policy trap. The growth of living standards is primarily determined by the growth of domestic productivity, rather than productivity relative to competitors.

The EU's binding constraints are therefore better understood as weak productivity growth caused by all the factors described above¹ and a deteriorating economic

security environment. Draghi's (2024) report on the future of European competitiveness is explicit that the EU faces an *existential* challenge and that *the only way* to preserve its social model is to grow by becoming more productive. It identifies three linked areas for action: closing the innovation and investment gaps within the EU, a joint decarbonisation-and-competitiveness plan, and enhancing security and reducing dependencies, in a world where trade openness and import reliance create exposures that must be actively managed.

Demertzis et al. (2025) argue that since the Draghi report at the end of 2024, the issue of economic security has become a first-order problem. Increasing resilience requires diversifying critical inputs, suppliers and technologies, and reordering the policy agenda so that reducing dependencies takes precedence over performance optimisation.

What is the role of trade then in an EU that needs to prioritise economic security and increase productivity? Contrary to a competitiveness narrative that emphasises the need for safeguarding exports, when one concentrates on productivity, the most important contribution of trade is the quality, cost and reliability of what one can import. Trade enhances productivity through channels that run disproportionately through imports: access to superior capital and intermediate goods, including energy, know-how and technology embodied in inputs, and tougher competitive pressure on domestic suppliers.

Protecting imports does not mean shielding foreign suppliers from competition or defending any particular trade balance. It means protecting Europe's capacity to im-

¹ See how this weak productivity growth is expected to weigh on the EU's ability to grow, absent of decisive policy changes (Demertzis & Panitsas, 2025).

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Maria Demertzis, European University Institute, Florence, Italy; and The Conference Board Europe, Brussels, Belgium.

Alejandro Fiorito, The Conference Board Europe, Brussels, Belgium.

port – keeping critical import channels open, diversified and contestable – because that is what sustains production, innovation and ultimately strategic autonomy and economic security. Draghi explicitly links the EU’s need to “increase security and reduce dependencies” to its “dependence on imports ranging from raw materials to advanced technology”, calling for a genuine foreign economic policy that combines trade agreements, investment, stockpiles in selected critical areas, and partnerships to secure key supply chains.

The macroeconomic logic is straightforward: exports are a means of payment; imports are the real resource gain. As Krugman (1993) puts it, “imports, not exports, are the point of international trade” – a lesson made vivid when sanctions and controls constrain a country’s access to essential imports. From an economic-security perspective, policies that tax, deter or unpredictably restrict imports (especially intermediates and energy) can reduce downstream competitiveness by raising costs and slowing diffusion of frontier technologies – while also increasing vulnerability to external shocks.

Finally, promoting imports implies rebalancing away from a posture in which external demand and net exports carry too much of the growth burden. Demertzis (2024) notes that recent crises exposed “an unbalanced reliance on exports instead of domestic consumption and investments”. Rebalancing towards domestic investment and resilient import access complements the EU’s internal competitiveness agenda (Single Market deepening, scale, innovation finance) and reduces the temptation to respond to insecurity with blunt protectionism.

The remainder of the paper develops this argument as follows: it describes the theoretical arguments about why protecting trade involves protecting imports first and also discusses the economic conditions under which exports need to come first. The paper also focusses on how the EU aims to sustain imports and shows that the policies pursued are designed to protect imports, as the only way to advance productivity improvements. The paper concludes with a policy discussion.

Protecting trade: Imports vs exports

Countries that rely heavily on trade to sustain growth and welfare, such as most EU member states, are particularly affected by the emergence of trade wars and the weakening of the multilateral system. While aiming to adjust, countries are also having to find ways to protect trade. In the literature, “protecting trade” typically refers to prioritising import continuity, unless a country faces a binding external financing constraint that renders export earnings

crucial to its economy. The primary reason for this is that imports are used to enhance welfare gains, whereas exports serve as a source of income.

Why imports are usually the priority

The first reason why supporting trade means protecting imports is that they deliver the most direct welfare gains, either in the form of better goods or increased resilience. Households access cheaper or higher-quality goods, and firms obtain vital inputs such as machinery, chemicals, components, energy and embedded know-how, which in turn support productivity growth. As argued by Friedman and Friedman (1997), the primary purpose of exporting is to facilitate importing. Imports also support resilience because diversified sourcing reduces vulnerability to shocks.

A second reason is that exports often depend on imports. Arend et al. (2024) employ a trade-in-value-added approach that emphasises that many exports incorporate imported intermediate inputs and services. In modern global value chains, firms often require foreign components, equipment and logistics capabilities to produce competitively for international markets. If imports are disrupted, export capacity can also collapse, so preserving imports can indirectly preserve exports.

Third, import disruptions tend to have broad macroeconomic consequences. Finck et al. (2024) show that bottlenecks in inputs can propagate through production networks, raising costs and prices, and reducing output across many sectors. Export losses, on the other hand, can be severe, but they are often more concentrated in specific industries or regions.

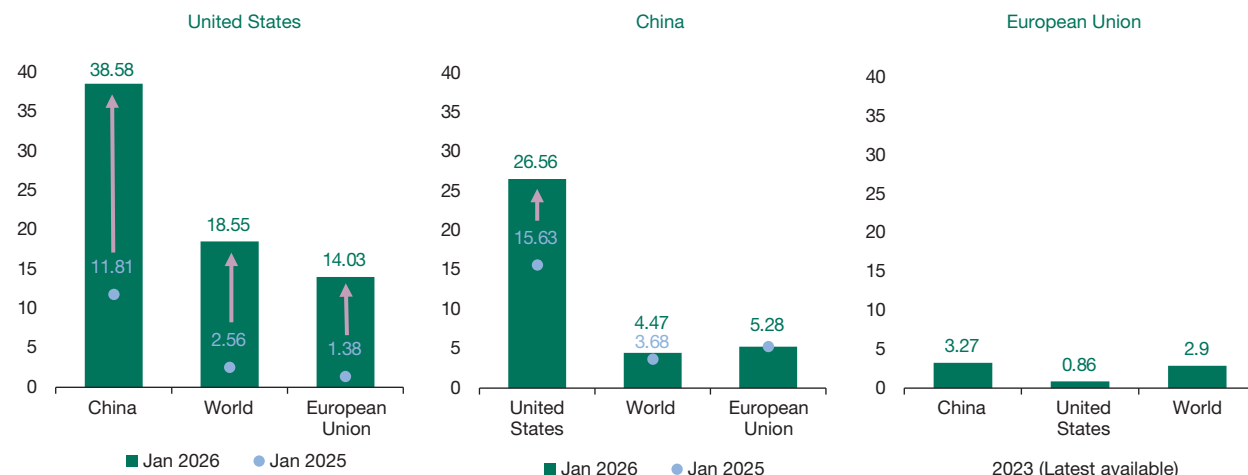
Similarly, Comin et al. (2023) analyse recent inflation dynamics and highlight how constraints affecting foreign input supply can amplify price pressures while also weighing on output. This kind of mechanism is exactly why preserving imports of key intermediates can be more “system-protecting” than preserving export volumes in the abstract: bottlenecks in imported inputs can raise economy-wide costs and stall production, which then undermines both domestic supply and export performance.

Gordon and Clark (2023) discuss how both demand factors and supply-chain disruptions contributed to elevated inflation after 2021, reinforcing the practical point that supply disruptions are macro-relevant and not merely a sectoral inconvenience. If a country’s priority is stabilising prices and avoiding broad shortages, import preservation – particularly for essential goods and critical industrial inputs – often dominates as the first-order “protect-trade” objective.

Figure 1

Effective tariff rates imposed by the United States, China and the European Union

in %



Notes: Data for the effective tariff rates imposed by the US and China is from the WTO. Data for the rates imposed by the European Union is from the World Bank for rates on China and from the WTO for rates on the US and the world.

Source: WTO and World Bank.

Finally, as argued by Benigno (2026), in a world of geo-economic competition – where, first, certain goods have become critical and, second, the risk of disruption on the provision of these goods is increasing – comparative advantages should no longer fully determine trade policy. In such a setting, economic security not only comes first, but reshapes how we think about trade.

When should exports come first?

However, there are instances where exports become a financial binding constraint. The balance-of-payments logic implies that if capital inflows dry up and reserves are limited, a country may be unable to finance necessary imports or service external debt. In that setting, protecting export earnings preserves foreign exchange, thereby preserving future imports. This risk is especially acute for commodity-dependent or small economies with concentrated export bases, a vulnerability emphasised by UNCTAD discussions of commodity dependence and volatility.²

Exports may also deserve priority in specific sectors and settings when it is challenging to rebuild market share and trust. Roberts and Tybout (1995) discuss the high sunk costs of establishing export sectors, like the hysteresis in the trade argument by Baldwin (1990), as a way of explaining why export presence can be persistent and costly to reestablish after a disruption.

² See for example the latest on *The State of Commodity Dependence 2025*.

How does the EU protect its trade?

The EU has sought to adjust its trade policy in response to the growing incidence of industrial policies over the last 15 years (Evenett et al., 2024), the increase in the use of tariffs, and the erosion of the multilateral system.

The EU protects the welfare gains from imports in three steps

The EU's approach protects imports by avoiding tariffs as much as possible, diversifying supply to mitigate single-source risk and expanding domestic production in the most sensitive sectors that are vulnerable to abrupt disruptions.

Using tariffs sparingly

Following a rather turbulent 2025, the overall size of EU tariffs imposed across all its trading partners is considerably smaller than those imposed by the US and China (Figure 1), suggesting a less antagonistic and more open approach to trade relations.

Well-documented dependencies on critical imports and a very open economy explain the EU's choice of lower tariffs and not retaliating against US-imposed tariffs in 2025. The euro area alone represents nearly 20% of total global trade – a higher share than that of the US and China (Bertaut et al., 2025) – which makes it particularly vulnerable to trade shocks and disruptions, as exemplified

by the disproportionate impact that trade tensions have had in countries with large export-oriented industries, like Germany or Italy.

However, as previously noted, there is a place for targeted tariffs based on considerations about unfair practices. This is the case of EU-imposed tariffs on fully electric vehicles from China in late 2024 (European Commission, 2024). Although these tariffs are the most significant tariff action the EU has taken in recent years, fully electric vehicles account for only 1.1% of total Chinese imports to the EU (1.6% in 2024). As such, even if the maximum tariff of an additional 35.3% rate were applied to all fully electric vehicles, the effective tariff rate would only increase by 0.4 percentage points (0.6 percentage points, taking into account the 2024 shares).³ This provides an upper-bound for Figure 1 (panel 3), in which EU tariffs towards China would remain below 4%, i.e. still far below the rates imposed by China and the US on others.

Diversifying external suppliers

There is a broad recognition that economic partnerships play a crucial role in the de-risking strategy (García Bercero & Poitiers, 2025; Kristeri et al., 2025). They can help secure necessary imports, strengthen supply chains and offer diversification that reduces threats; but they can also bolster rules that allow the EU to compete on an even playing field and increase its productivity.

The EU trade policy frames import security as a resilience objective. In the 2021 Trade Policy Review, the European Commission (2021) identifies a stable, rules-based trade framework and the opening of markets as means to diversify sources of supply and improve crisis preparedness. For critical raw materials,⁴ the European Commission formalises diversification as a benchmark: by 2030, the Union should not be dependent on a single third country for more than 65% of its supply of any strategic raw material, including at processing stages.

Producing more domestically in strategic value chains

The EU complements diversification with domestic capacity-building to reduce exposure to concentrated import dependencies. The European Commission has established EU-level capacity benchmarks for strategic raw

materials, aiming to enable the extraction of at least 10% of Union consumption by 2030 and achieve a recycling capacity of at least 25%, alongside broader measures to strengthen the value chain. In parallel, the European Commission's Net-Zero Industry Act⁵ establishes a framework to expand EU manufacturing of strategic net-zero technologies, with the objective that EU manufacturing capacity reaches at least 40% of annual deployment needs by 2030.

Rethinking the role of exports in the EU's growth model

The EU is the largest trading bloc in the world,⁶ with a great reliance on exports as a source of income. It is natural, therefore, that the emphasis on competitiveness, which enables sustaining high exports, has been an important topic of discussion in the bloc. The Draghi report, emphasising the need for productivity growth, suggests that the EU should reassess its export policy as a central growth strategy and that it should view strong exports as the result of robust domestic fundamentals. He argues that the EU's high trade openness and persistent current account surplus have increased its exposure to foreign demand and policy changes. In this setting, export performance becomes a source of vulnerability, not just of income. In summary, he puts forward three suggestions.

First, the EU should rebalance its policy framework to bolster domestic demand and investment rather than rely on external demand to compensate for weak internal dynamism. Draghi links the EU's post-crisis orientation to contractionary fiscal stances, wage restraint aimed at external competitiveness and insufficient progress in developing the internal market as a growth engine – all of which depressed domestic demand and encouraged a growth model driven by demand imported from abroad. Rebalancing, therefore, requires policies that raise domestic investment and consumption capacity by promoting public investment and enabling productivity-driven wage growth.

Second, export policy should be reframed from just maximising volumes to increasing both value and resilience through competitiveness. Europe must close structural gaps by boosting productivity and undertaking an investment push on a scale not seen in decades, supported by deeper capital market integration to channel Europe's savings into productive investments within the Union. In parallel, he emphasises that competitiveness in the green and digital transitions depends on coordinated action, including

3 Additionally, the European Commission recently issued further guidance under which Chinese firms can avoid tariffs if they sell their vehicles above a minimum price: https://policy.trade.ec.europa.eu/news/commission-issues-guidance-document-submission-price-under-taking-offers-battery-electric-vehicles-2026-01-12_en.

4 Regulation (EU) 2024/1252, i.e. the Critical Raw Materials Act: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32024R1252>.

5 https://commission.europa.eu/topics/competitiveness/green-deal-industrial-plan/net-zero-industry-act_en.

6 <https://www.consilium.europa.eu/en/infographics/the-eu-s-role-in-global-trade/>.

lowering and stabilising energy prices and scaling investment in infrastructure such as grids and interconnectors.

Third, the EU should align export-related trade instruments with a rules-based, strategic approach rather than implicit mercantilism. Draghi argues against blanket protectionism and favours carefully designed measures that level the playing field, while also advocating a more coherent EU “foreign economic policy” that coordinates trade agreements and investment partnerships and reduces critical dependencies. This approach would support exports by securing inputs and market access, but it would also align with the broader objective of building growth at home.

As explained above, the European Commission has addressed some of the recommendations, but there is still much work to be done (Demertzis et al. 2025). Beyond these structural recommendations, the EU is also learning to use coercive economic statecraft instruments, like tariffs, export controls and sanctions. The EU operates standing export controls on dual-use goods in a coordinated way for all member states.⁷ The EU also imposes export prohibitions and licensing limits via sanctions, notably restricting dual-use and advanced technology exports to Russia. During the COVID-19 pandemic, the Commission introduced temporary export authorisation requirements for certain personal protective equipment, which are no longer in operation.

Conclusion

The EU’s productivity challenge and its economic security agenda are often discussed as though they pull in opposite directions: one calls for openness and competition, the other for reshoring and control. There may be instances during which the two are conflicting, but what they do have in common is that both objectives depend on the need to protect the ability to import reliably and cheaply the intermediate goods, capital equipment, technologies and critical raw materials (including energy) that European firms need to innovate and scale.

Imports are necessary to promote productivity and, therefore, also competitiveness. European manufacturing, clean-tech deployment and digital infrastructure rely on globally sourced components and upstream materials. Import openness also disciplines domestic markets by increasing competitive pressure, reducing input costs and accelerating the diffusion of frontier technologies. Blanket tariff increases work directly against these channels: they

raise costs for producers, amplify inflationary pressures, and encourage inefficient reshoring that substitutes higher cost production for higher value specialisation.

The EU has largely resisted the temptation to respond to geopolitical stress with across-the-board tariff hikes – the first step in a slippery move towards import restriction. Instead, it has leaned on a more constructive path: expanding trade deals and partnerships to diversify suppliers, upholding the multilateral system as the only sustainable way to promote imports in the long run, and using tariffs in a targeted way in sectors where unfair competition practices are suspected.

Trade agreements are not only about selling more abroad; they are also about securing access to inputs, establishing predictable legal frameworks and expanding the set of trusted counterparts, at a time when diversification is necessary. The EU, as a clear beneficiary of its existence, continues to uphold the global multilateral system as the only way of engaging with multiple countries predictably and based on a widely accepted set of rules. However, as the global multilateral system becomes increasingly ineffective, the EU may want to continue to support it in theory; but in practice, it needs to pursue bilateral trade deals to ensure business continuity. Additionally, the EU can continue to apply tariffs in a targeted manner and with a view to correcting unfair practices. A good example of proportionate, rules-based action is the EU’s use of tariffs in the electric vehicle case involving China: targeted measures aimed at addressing specific market distortions and unfair subsidies, rather than generalised protectionism. Done carefully, such instruments can defend competition and preserve incentives to innovate – while keeping Europe fundamentally open to trade and integrated supply chains.

Finally, protecting imports also requires a macroeconomic pivot. The EU should reduce its reliance on net exports as the main engine of income growth and instead strengthen domestic demand – raising productive investment, accelerating its rollout of green and digital infrastructure, deepening the Single Market and supporting household purchasing power. Lower external surpluses would make Europe less vulnerable to foreign slowdowns, trade disputes and coercion, while creating a larger home market that rewards scale, experimentation and productivity-enhancing investment.

Europe’s economic security is not built by closing doors, but by keeping import channels open, diversified and rules-based, while using narrowly tailored trade defence measures when competition is distorted – and rebalancing growth towards domestic demand.

⁷ Regulation (EU) 2021/821, <https://eur-lex.europa.eu/legal-content/EN/LSU/?uri=celex:32021R0821>.

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