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Nearshoring and Farsharing in Europe within the Global Economy

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- The term “nearshoring” has gained significant interest in recent years, though a clear definition is still lacking. Are nearshoring or de-globalisation trends similarly affecting Europe, Asia-Pacific and the Americas on both the sourcing and destination sides of value chains, or are there regionally distinctive trends?
- We apply (and refine) well-established input-output methodology to the recently released OECD Inter-Country Input-Output (ICIO) 2021 dataset to tackle these questions. We distinguish the geographical source and destination of value added contributed by each country-industry to each country-global-value-chain.
- We find that Europe shows high regionalisation of its foreign value-added sourcing that decreases during the 2000s but picks up again from 2012 (nearshoring). The Asia-Pacific region is also increasingly nearshoring. However, this common nearshoring trend since 2012 has different drivers. In Asia-Pacific it is the result of an increase in domestic value-added content. In contrast, nearshoring in Europe is linked to a faster increase in the regional value added share of final output.
- In terms of destination of value added, different patterns emerge. Asia-Pacific has coupled its nearshoring with increasing domestic absorption of value added (nearsharing), while Europe has engaged in farsharing: a stable proportion of domestic value added absorbed by European value chains coupled with a sharp increase in value-added contributions to extra-regional chains. This suggests that final demand from domestically articulated value chains in Europe has been particularly weak.
- Overall, our results suggest the consolidation of a European export-led growth model involving an increase in intra-regional backward linkages and a diversification towards extra-regional markets. Differently from Asia, Europe has become increasingly dependent on foreign demand. Is this model sustainable for Europe in face of the decelerating pace of globalisation?