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Preliminary Findings

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Abstract[1]

This paper explores Spain's evolving role in global supply chains amid rising geopolitical tensions, protectionist policies, and the post-COVID-19 push for reshoring. It traces the transformation of Spain's external sector from its 1986 accession to the European Union through the global financial crisis and the pandemic, highlighting the resilience of Spanish exports and shifts in trade balances. The study emphasizes how global value chain (GVC) disruptions—driven by trade conflicts, climate change, and national security concerns—have reshaped sourcing patterns and exposed Spain to new vulnerabilities and opportunities. Empirical analysis confirms that U.S.–China trade tensions led to trade diversion, with Chinese exports redirected to Europe, including Spain. While this increased competition, it also benefited Spanish firms integrated into affected value chains. The findings underscore Spain's strategic position within the EU and the importance of adaptive trade policy in a rapidly changing global landscape.

JEL classifications: F13, F14
Keywords: Supply chains, Global value chains, Spain

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International trade has undergone significant shifts in recent years. In contrast to the rapid expansion of globalization during the 1990s and early 2000s, this process has faced increasing headwinds more recently, marked by a rise in geopolitical tensions and protectionist measures—even before the onset of the pandemic. Following the Covid-19 crisis, these trends were further reinforced by the efforts of many governments to promote the reshoring of parts of global value chains.

Neither Spain nor the European Union more broadly has remained immune to these developments, even if the trade tensions that began in 2017 were primarily centered on the U.S.–China relationship. Given the potential long-term implications of this shift in the global trade landscape, it is crucial to examine the consequences of these disruptions in order to better inform future policy decisions and strategic planning.

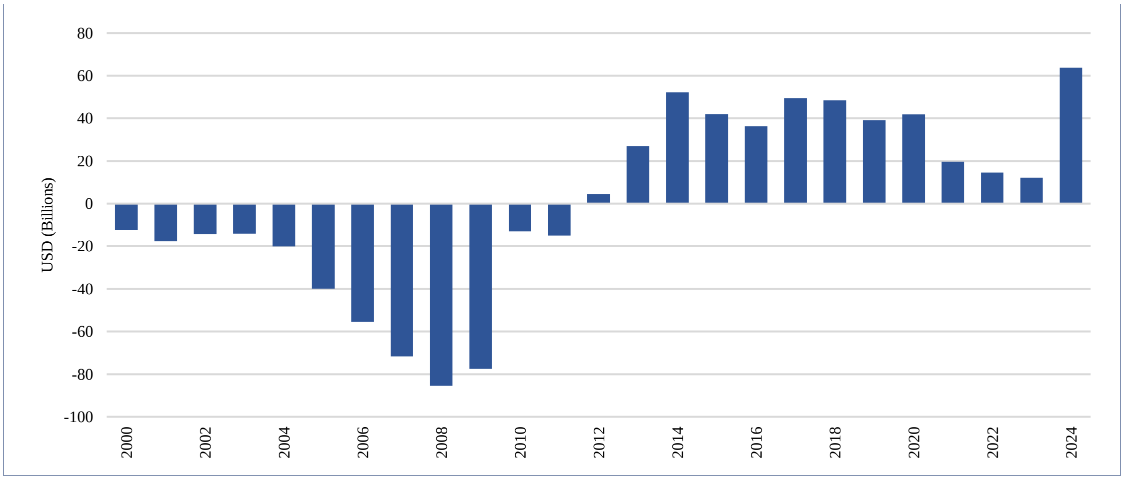
Against this backdrop, understanding Spain's experience becomes particularly relevant. The country's trade dynamics offer a valuable case study for assessing how global shocks and structural transformations interact with domestic vulnerabilities and policy responses. In what follows, we trace the evolution of Spain's external sector over recent decades, placing particular emphasis on how global value chain restructuring may shape its future economic trajectory.

Spain's trade performance since the 1980s has been shaped by a series of pivotal economic shifts, notably the country's accession to the European Union, the twin shocks of the global financial crisis—manifested in Spain through a severe housing market collapse and a subsequent sovereign debt crisis—and, more recently, the COVID-19 pandemic. Spain's 1986 entry into the European Community led to a dramatic expansion in trade with EU countries, characterized by a rise in both imports and exports as tariffs fell and market integration deepened (Bussiere et al., 2005).

The 2008–09 financial crisis significantly rebalanced Spain's external sector. The housing bubble burst, leading to a steep decline in domestic demand and imports, alongside a fiscal and debt crisis that limited internal absorption. In contrast, Spanish exports remained resilient due to adaptability and market diversification, dubbed an "export miracle" (Almunia et al., 2021; Eppinger et al., 2015). Consequently, the trade balance improved from an average deficit of -$40.8 billion before 2009 to a surplus of $28.4 billion afterward (see Figure 1). The COVID-19 pandemic significantly impacted goods and service trade, especially halting tourism exports in early 2020.

However, trade rebounded as restrictions eased in subsequent years, although the surplus initially declined before increasing again by 2024.

Figure 1. Evolution of Net Trade of Goods and Services



Source: World Bank.
Notes: The figure shows the net trade in goods and services (BoP, in current US dollars) as computed by the IMF's Balance of Payments Statistics Yearbook and data files.

This paper examines Spain's evolving role in global supply chains, with a focus on its strategic importance, emerging trends in sourcing, and the broader implications for its economic trajectory. We gather information about sourcing across border value chains, focusing on changes over time in terms of locations and sectors. Recent global challenges, including natural disasters, climate change, trade conflicts, national security concerns, and the COVID-19 pandemic, have disrupted Global Value Chains (GVCs), compelling nations to reassess their positions in the global supply landscape (Alfaro & Chor, 2023). Spain, a vital player in the European Union (EU) and an influential actor in regional supply chains, finds itself at a pivotal moment as global sourcing trends shift.

In parallel with these broader developments, Spain's trade partner composition has also evolved considerably over the past few decades. The country's accession to the European Union in 1986 led to a marked increase in trade with Western European economies, driven by tariff reductions and deeper market integration. Subsequent EU enlargements in the 2000s further expanded Spain's trade ties with Central and Eastern European countries, reflecting the growing interconnectedness within the Single Market. At the same time, Spain—like most advanced economies—has experienced a steady rise in trade with China, whose global trade footprint expanded rapidly following its accession to the WTO in 2001. These shifts have diversified Spain's trade structure but also exposed it more directly to global shocks and changes in the geopolitical trade environment. The trade war between the United States and China, which intensified between 2017 and 2019, had significant effects on global markets. The most visible impact was the reallocation of global value chains between the two countries, characterized by a sharp decline in direct trade flows between them and a simultaneous increase in redirected trade through third countries, such as Vietnam and Mexico (Alfaro & Chor, 2023).

In this context, although Europe tended to play the role of a bystander, it was nonetheless affected by the ripple effects. For Spain and the broader European Union, this episode offered a unique opportunity to observe how global supply chains adjust in the face of large-scale bilateral disruptions. As the United States imposed steep tariffs on Chinese imports, China's exports to the U.S. declined markedly. For European policymakers and analysts, a key question was whether this decline created space for trade diversion—where goods previously destined for the U.S. were redirected to alternative markets, including Spain and other EU countries. Understanding this episode is crucial for anticipating the consequences of future escalations in global trade tensions, particularly those involving major economic powers.

Empirical analysis provides strong support for the trade diversion hypothesis. When the United States increased tariffs on Chinese imports, bilateral trade flows between the two countries contracted significantly. Regression estimates linking changes in Chinese exports to Spain and the EU with changes in exports to the U.S.—using tariff variation as an instrument—reveal a clear negative relationship: as Chinese exports to the U.S. declined, they rose in Europe.

This redirection of trade was also reflected in a decline in the prices of Chinese imports. For those goods in which Chinese exports to the U.S. fell due to higher tariffs, the price of Chinese imports in Spain and the EU also declined. While this could be seen as a positive outcome for European firms and consumers—who gained access to cheaper products and inputs—it raises the question of whether increased Chinese competition came at the expense of domestic producers.

Our findings suggest that, although Chinese exporters gained market share in certain product categories, the overall level of Spanish exports to other EU countries was not significantly affected. While there was a modest decline in Spanish exports of the specific goods for which Chinese shipments were redirected to Europe, Spanish firms benefited in cases where Chinese imports targeted their client sectors. In other words, when European sectors that sourced inputs from Spain also increased imports from China, they tended to raise their demand for Spanish goods as well.

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Appendix and Data Source

Table 1: Spain Main Trading Partners: 1990-2023

Period	1990	1995	2000	2005	2010	2015	2020	2021	2022	2023
Exports on Goods, bn USD	55	89	114	192	247	276	312	391	424	420
as % exports										
European Union & UK	**71.7%**	**73.9%**	**72.4%**	**71.1%**	**66.6%**	**63.7%**	**63.1%**	**63.8%**	**64.4%**	**64.6%**
Western EU	**59.8%**	**61.5%**	**58.4%**	**56.1%**	**53.6%**	**48.3%**	**48.7%**	**50.0%**	**51.2%**	**50.1%**
France	20.8%	20.5%	19.4%	19.2%	18.2%	15.5%	15.4%	15.2%	14.9%	15.0%
Germany	13.4%	15.4%	12.3%	11.4%	10.5%	10.8%	10.8%	9.8%	9.3%	10.1%
UK	9.0%	8.0%	8.2%	8.4%	6.2%	7.3%	6.0%	5.5%	5.2%	5.8%
Italy	10.7%	9.1%	8.7%	8.4%	8.8%	7.4%	7.5%	8.0%	7.8%	8.3%
Portugal	6.1%	8.4%	9.5%	9.6%	8.8%	7.2%	7.3%	7.5%	8.0%	8.0%
Netherlands	4.7%	3.7%	3.7%	3.1%	3.1%	3.2%	3.3%	3.5%	3.7%	3.1%
Belgium	3.0%	3.1%	2.7%	2.8%	2.8%	2.6%	2.7%	4.4%	5.9%	3.8%
Eastern EU	**0.3%**	**1.5%**	**2.6%**	**3.5%**	**4.3%**	**5.4%**	**5.7%**	**5.6%**	**5.4%**	**6.0%**
Poland	0.1%	0.5%	0.8%	1.0%	1.5%	1.9%	2.2%	2.3%	2.1%	2.3%
Czech Republic		0.3%	0.5%	0.6%	0.9%	0.8%	0.9%	0.9%	0.8%	0.9%
Switzerland	1.6%	1.1%	1.0%	1.7%	1.8%	1.6%	1.9%	1.7%	1.7%	1.7%
NAFTA	**7.5%**	**5.4%**	**6.6%**	**6.3%**	**5.5%**	**6.9%**	**6.3%**	**6.3%**	**6.6%**	**6.7%**
United States	5.8%	4.2%	4.9%	4.1%	3.5%	4.6%	4.5%	4.5%	4.7%	4.7%
Mexico	1.0%	0.7%	1.2%	1.7%	1.5%	1.7%	1.2%	1.2%	1.3%	1.4%
Rest of Western Hemisphere	**2.1%**	**3.9%**	**3.7%**	**2.4%**	**3.4%**	**3.5%**	**2.6%**	**2.7%**	**2.8%**	**3.1%**
Brazil	0.3%	0.9%	1.0%	0.7%	1.2%	1.1%	0.8%	0.8%	0.9%	0.8%
Asia and Pacific	**4.1%**	**5.8%**	**4.0%**	**4.4%**	**5.6%**	**6.7%**	**7.3%**	**6.8%**	**5.9%**	**5.8%**
China	0.5%	0.9%	0.4%	1.0%	1.4%	1.8%	3.0%	2.6%	2.0%	1.9%
Japan	1.1%	1.4%	1.0%	0.7%	0.8%	1.0%	0.9%	0.9%	0.8%	0.7%
Middle East	**3.1%**	**3.2%**	**4.4%**	**3.9%**	**5.2%**	**6.2%**	**4.6%**	**4.5%**	**4.6%**	**4.9%**
Turkey	0.6%	0.7%	1.7%	1.7%	2.0%	2.0%	1.6%	1.7%	1.7%	2.2%
Morocco	1.2%	0.8%	1.1%	1.4%	1.9%	2.5%	2.7%	2.9%	2.9%	3.1%
Africa	**4.0%**	**3.1%**	**2.9%**	**3.9%**	**5.0%**	**5.8%**	**5.1%**	**5.0%**	**4.7%**	**4.5%**
Nigeria	0.2%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Remainder	7.6%	4.7%	6.1%	8.0%	8.7%	7.2%	11.0%	10.8%	11.0%	10.4%
Imports on Goods, bn USD	87	113	155	289	318	304	329	426	499	469
as % exports										
European Union & UK	**63.3%**	**66.4%**	**65.1%**	**61.3%**	**53.9%**	**55.4%**	**51.4%**	**48.8%**	**44.5%**	**48.2%**
Western EU	**52.1%**	**54.2%**	**53.2%**	**50.2%**	**42.5%**	**43.1%**	**40.1%**	**38.9%**	**34.9%**	**37.7%**
France	14.7%	17.2%	17.1%	14.1%	10.8%	10.9%	9.9%	9.5%	8.6%	8.8%
Germany	16.4%	15.2%	14.8%	14.7%	11.7%	13.1%	11.8%	10.6%	9.1%	10.6%
UK	7.2%	7.8%	7.1%	5.7%	4.6%	4.6%	3.2%	2.4%	2.4%	2.5%
Italy	10.2%	9.1%	8.9%	8.5%	7.1%	6.3%	6.2%	6.3%	5.9%	6.3%
Portugal	2.5%	2.9%	2.7%	3.2%	3.5%	4.0%	3.7%	3.8%	3.4%	3.7%
Netherlands	3.7%	4.3%	3.8%	4.0%	4.4%	4.2%	4.4%	4.6%	4.1%	4.5%
Belgium	3.1%	3.4%	3.2%	3.1%	2.5%	2.5%	2.4%	2.6%	2.3%	2.3%
Eastern EU	**0.4%**	**1.2%**	**1.5%**	**2.7%**	**4.5%**	**5.7%**	**5.9%**	**5.4%**	**5.2%**	**5.9%**
Poland	0.2%	0.3%	0.3%	0.6%	1.3%	1.6%	1.9%	1.8%	1.7%	2.0%
Czech Republic		0.2%	0.3%	0.6%	0.9%	1.3%	1.3%	1.2%	1.1%	1.3%
Switzerland	1.5%	1.5%	1.2%	1.4%	1.2%	1.1%	1.3%	2.4%	1.4%	1.1%
NAFTA	**10.5%**	**8.1%**	**6.5%**	**4.8%**	**5.7%**	**6.3%**	**6.5%**	**6.6%**	**9.0%**	**8.5%**
United States	8.4%	6.6%	5.2%	3.2%	4.1%	4.7%	4.9%	4.7%	7.1%	6.5%
Mexico	1.6%	0.9%	1.0%	1.2%	1.2%	1.2%	1.2%	1.3%	1.3%	1.3%
Rest of Western Hemisphere	**2.6%**	**2.9%**	**2.5%**	**2.9%**	**3.8%**	**3.7%**	**3.0%**	**3.1%**	**3.8%**	**3.5%**
Brazil	1.1%	1.0%	0.8%	0.9%	1.3%	1.1%	1.2%	1.3%	1.9%	1.7%
Asia and Pacific	**9.2%**	**10.0%**	**10.9%**	**13.1%**	**15.2%**	**16.6%**	**18.6%**	**17.8%**	**19.2%**	**19.2%**
China	0.8%	2.0%	2.8%	5.0%	7.9%	8.6%	10.2%	9.7%	10.5%	10.1%
Japan	4.4%	3.3%	2.9%	2.5%	1.4%	1.2%	1.0%	0.8%	0.8%	1.1%
Middle East	**3.2%**	**2.9%**	**3.6%**	**4.8%**	**6.3%**	**4.5%**	**4.2%**	**4.7%**	**5.5%**	**4.5%**
Africa	5.9%	4.6%	7.1%	7.1%	8.3%	8.4%	6.1%	7.2%	8.0%	7.2%
Remainder	5.4%	5.1%	4.2%	6.1%	6.8%	5.2%	10.2%	11.8%	9.9%	8.8%
Services, bn USD										
Export	-	-	53	89	58	116	83	110	155	188
Import	-	-	33	63	16	59	59	74	83	93

Source: Comtrade.