

PRESS RELEASE

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Study: Covid-19 shows vulnerability of supply chains

- *One third of Austria's and the EU's non-European imports vulnerable to economic shocks*
- *Europe heavily dependent on China and Southeast Asia for high-tech and medical products*
- *Relocation of strategic industries and a more robust world trading system needed*

No computer chips for the car industry or too little vaccine – just two examples that demonstrate the vulnerability of global supply chains in times of Corona. *'Particularly in the case of high-tech and medical products we see a great dependence on Asian producers, above all from China'*, says Robert Stehrer, Scientific Director of the Vienna Institute for International Economic Studies (wiiw) and co-author of a new study on the topic.

Together with his colleague, Oliver Reiter, Stehrer looked at which products and sectors in Austria and the EU are most susceptible to global economic shocks – and what lessons policymakers should learn from this. To this end, almost 5,000 goods and intermediate products were subjected to a precise risk analysis based on the factors of market concentration, tendency to cluster, dominance of individual suppliers and international substitutability.

High-tech industries most vulnerable

The result: no less than 30% of EU imports and 35% of Austrian imports from third countries are accounted for by products that pose a considerable availability risk in the event of trade turbulences. In the case of the People's Republic of China – after all, the EU's second largest trading partner – the share of critical or 'risky' imports to the EU is almost half (48.8%).

Concerning Corona-relevant products such as face masks, respirators or components of vaccines, around one third are classified as risky. Their share is particularly big in high-tech industries for items such as semiconductors, rail vehicles or precision machinery. *'The extensive production losses in the automotive industry due to missing chips have impressively demonstrated the painful effects of supply bottlenecks'*, says Stehrer.

Robust world trading system, stress tests, stockpiling

According to the study, the policy response should be balanced: in the fight against Corona, Austria and the EU have clearly benefited from global value chains. *'China helped us massively in the pandemic, because Europe obviously could not build up the necessary production capacities fast enough'*, Stehrer states. To diversify sources of supply, the study recommends the creation of a more resilient multilateral trading system based on the World Trade Organisation (WTO).

Companies should support national governments with comprehensive information on potential market concentrations and possible bottlenecks along value chains. The study also advocates stress tests and stockpiling of critical products.

Key industries in Europe

At the strategic level, the study underlines Europe's well-known structural dependencies on China and Southeast Asia for high-tech and key medical goods. According to its authors, EU policy action is needed to reduce them. *'Only if we bring strategic key industries such as semiconductors back to Europe will we remain competitive in the long term. However, this requires a new economic policy framework, including a change in EU regulations on subsidising company relocations, a strategic industrial policy as well as the consequent digitalisation of European economies'*, explains Stehrer. These measures should be embedded in corresponding EU initiatives, first and foremost the 'Green New Deal' and the ambitious Corona recovery programme 'NextGenerationEU'.

The study [*'Learning from Tumultuous Times: An Analysis of Vulnerable Sectors in International Trade in the Context of the Corona Health Crisis'*](#) was commissioned and funded by the Austrian Federal Ministry for Digital and Economic Affairs (BMDW).

About the Vienna Institute for International Economic Studies (wiiw)

wiiw is an economic think tank that has been producing economic analyses and forecasts for currently 23 countries in Central, East and South-East Europe for almost 50 years. In addition, wiiw investigates topics of international economic relations and conducts research in the areas of macroeconomics, trade, competitiveness, investment, the European integration process, regional development, labour markets, migration and income distribution.

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