

**WIFO** ÖSTERREICHISCHES INSTITUT FÜR WIRTSCHAFTSFORSCHUNG

ASCI

## **Resilience in turbulent times**

Global trends as a basis for regional policies

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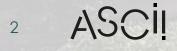
The Danube Region at the turn of times Stuttgart, 10<sup>th</sup> July 2023



## The starting point

Single Market, but Europe of "different speeds"

- E.g., catching-up and EU integration processes of CEE, sluggish performance in Southern Europe
- Vast regional differences
- The "twin transition" is already happening
  - Carbon neutrality to combat climate change. The biggest threat modern humans have ever faced (UN)
  - Digitalisation a technological megatrend
- Uncertainty increases and multiple policy objectives emerge ...
- ... trade wars over supply chains & tech control





### Geopolitics in conflict with market mechanisms

- (International) Division of labour is a long-established driver of economic growth
  - "The wealth of nations" by Adam Smith (1776)
  - Yet, it creates risks such as dependencies and "beggar-thy-neighbour" practices
  - Defence is typically excluded as a "higher good"
- More recently, geopolitical interests have increasingly interacted with global trade.
  - Politics and security concerns challenge the marketdriven division of labour
  - Goods and services needed for the "twin transition" are particularly affected





### Last week's developments in the chip tech battle

- China imposed export curbs of critical rare earths
  - Germanium and Gallium, which are key to the CT, defence and renewable energy sectors. They are hard to substitute
  - E.g., semiconductors, fibre optic cables, infrared radiation
  - Reaction to measures by US, EU and Japan
- Japan Investment Corporation (JIC) buys shares of component manufacturer JSR (Japan Rubber Synthetic Corporation)
  - JSR controls critical steps of the value chain
  - JIC supports interest in Japan's int'l competitiveness. 6.4 USD, Company will be delisted
- Resource nationalism is economically motivated, and comes at a time when global decarbonisation is the utmost priority
- Economic decoupling costly, autarky (if possible) more so
- Where does the EU position itself?

Source: <u>https://theconversation.com/chinas-gallium-and-germanium-controls-what-they-mean-and-what-could-happen-next-209156</u>; <u>https://www.reuters.com/markets/deals/shares-japans-jsr-untraded-surprise-possible-buyout-2023-06-26/</u>

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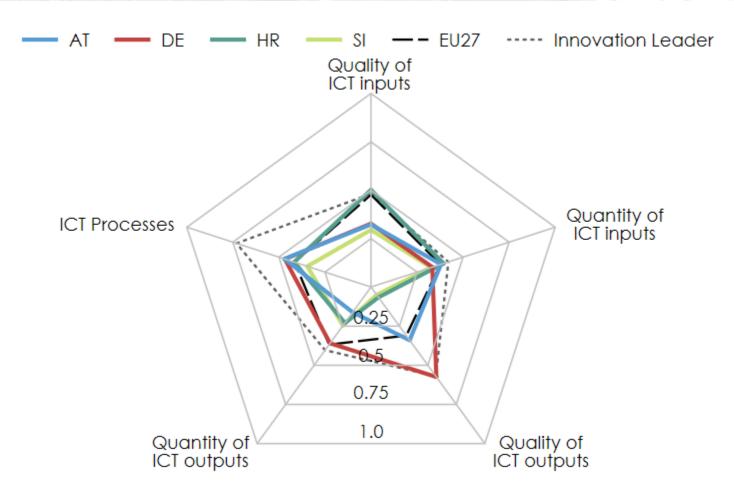


# The aggregate trade structure of the EU and some recent trends

- EU's GDP in 2021: ca. 14.450 bn € (not a welfare measure)
- USA and UK are the EU's biggest trading partners. China ranks third, and is therefore less dominant than often presumed.
  - Yet, dominance in technologies that are key to the transition
- Globalisation of trade in goods has lost momentum since the mid-2000s
- Economic Integration is more than trade in goods. Especially services are important, too
- Value chains have become slightly less internationalised (but remain at a high level)
- Global production is one side of the coin. Local competitiveness is the other ...



### Deep Dive: ICT performance across economies



Source: WIFO calculations and illustration, BACI, Eurostat, Patstat Autumn 2022, TED April 2023. Note: Values are min-max normalized. For each indicator, the last available years were used.

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