

European production chains under the strain of COVID-19: What is the impact on CESEE?

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Conference on European Economic Integration (CEEI) 2020

CESEE in the COVID-19 crisis – the role of the EU and global spillovers

organized by the Oesterreichische Nationalbank (OeNB) in cooperation with Bruegel

November 5 and 6, 2020

Online event (webex)

World economy slowing down even before the pandemics

- Covid pandemic crisis hits the world in a time of
 - generally lowering growth rates of GDP and productivity (TFP); effect of ICT lost steam (‘growth paradoxon’)
 - declining (or even) negative growth rates of global trade due to trade conflicts, geopolitical situation (rise of China), etc.
 - important undergoing changes with respect to e.g. environmental challenges, etc.
- Enormous short or maybe even medium-term negative shock
 - Note: world GDP decline was -0.1% in global financial crisis
 - now predicted to be ~-5%; with quick recovery becoming less likely

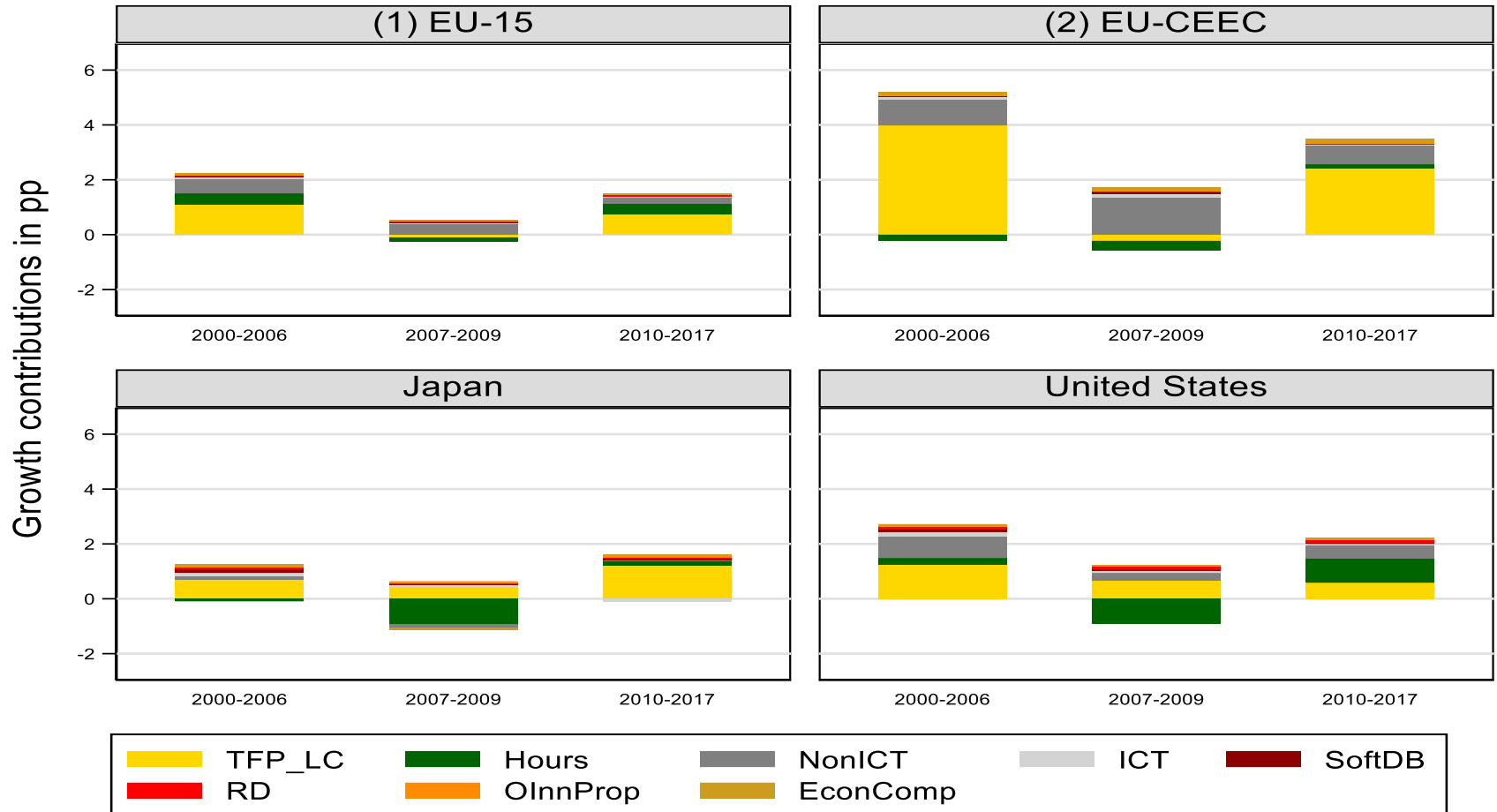
Europe struggling with low dynamics and busy with itself

- Before Covid pandemic Europe characterized by
 - relatively lower growth rates
 - internal challenges (migration, Brexit, signs of political divide, ...)
- Short term impact of Covid crises likely to be more severe
 - E.g. OECD prediction for Eurozone -8% (before second wave)
 - Even if predicted strong recovery in 2021 would hold (which can be more and more doubted), activity level of 2019 in most countries not reached
 - However, big policy response (EU budget and recovery fund) and loose monetary policy on top of national emergency measures
- Longer-term impact on European institutional framework to be seen
 - e.g. EU fiscal policy, industrial policy, etc.
 - Important future challenges to be tackled: Digital agenda, EU Green Deal, et.c
 - Future of globalisation and resilience of value chains (on top of challenges to world trade system)

Growth and TFP slowdown

Value added growth, total economy, 2000-2017

All factors

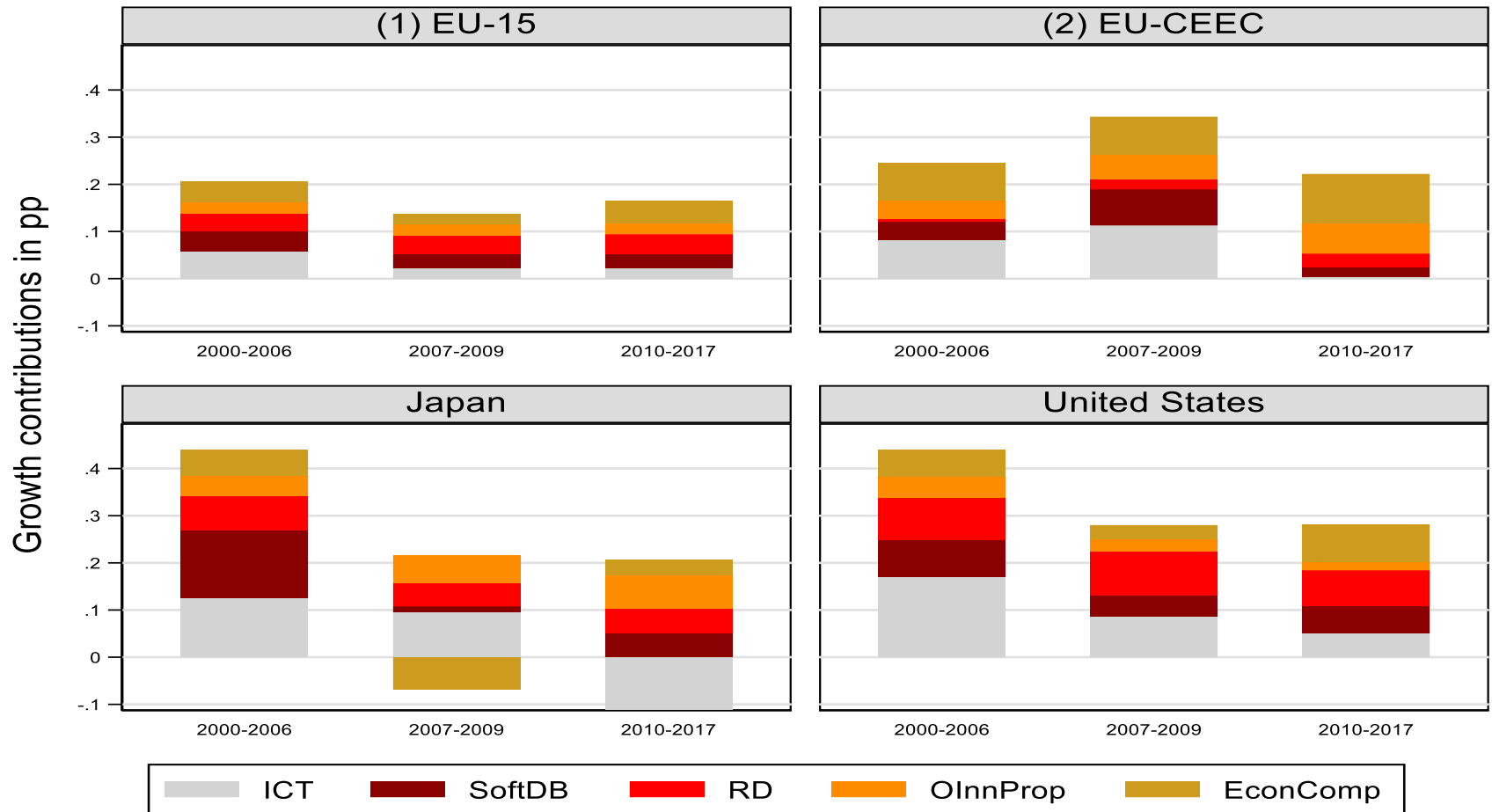


Note: CY, MT, and PL are not included due to data constraints; countries are aggregated using Törnqvist shares.

Source: EU KLEMS Release 2019; own calculations; Adarov and Stehrer (2019).

Declining growth contributions of ICT, more stable for intangibles

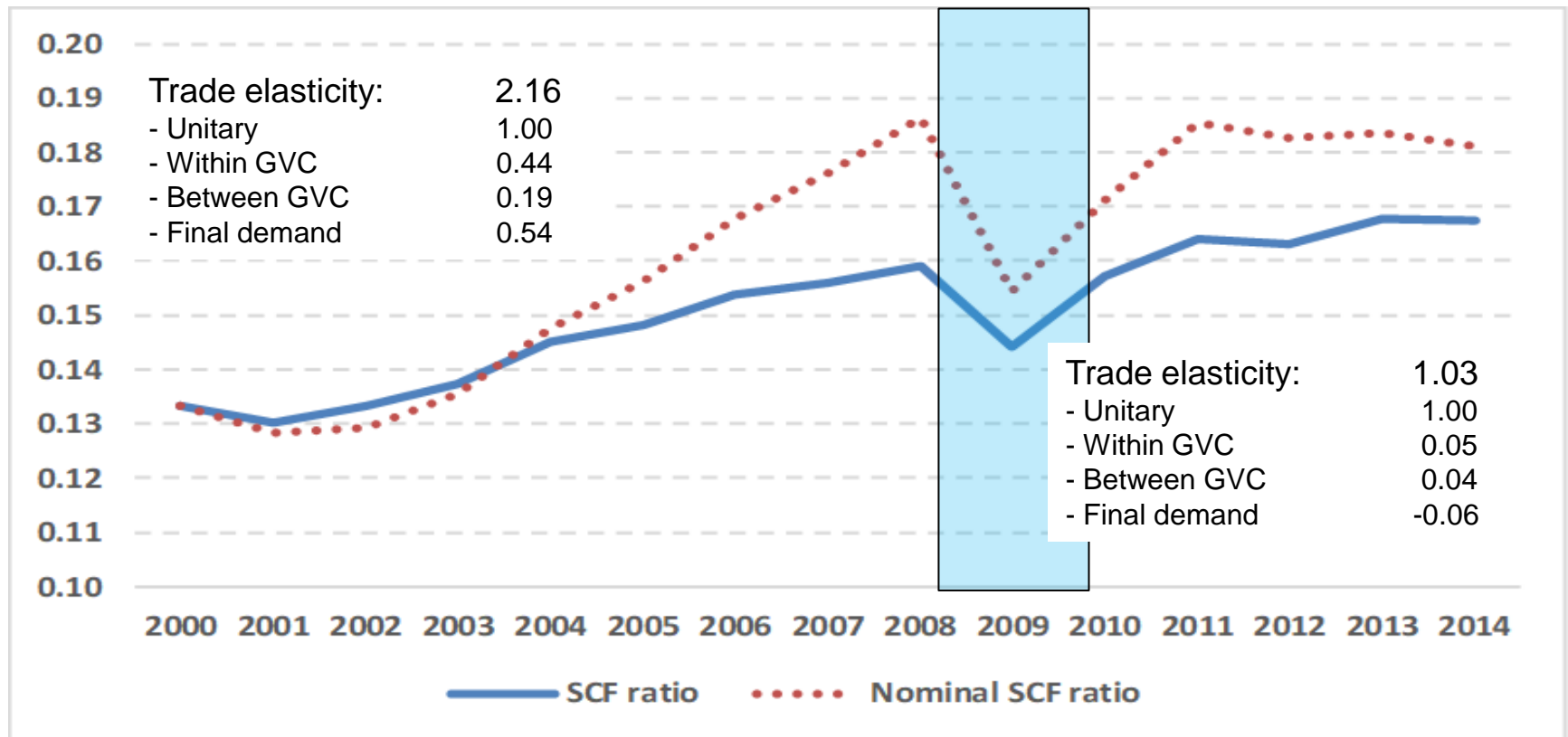
Value added growth, total economy, 2000-2017



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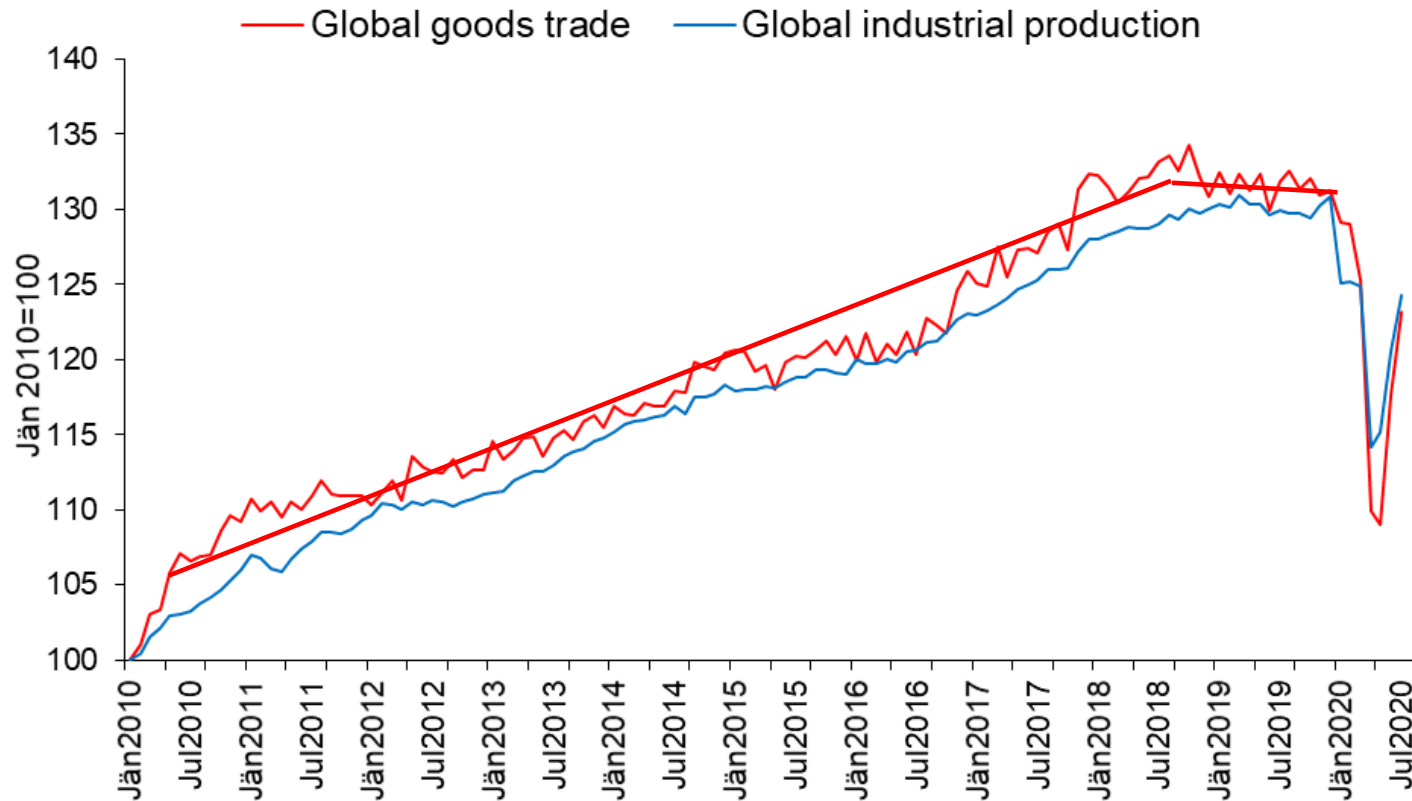
Supply chain fragmentation (SCF) ratio and trade elasticity based on WIOD in current and constant prices, 2000-2014



Source: Timmer/Los/Stehrer/DeVries (2021), forthcoming (hopefully).

Slowdown already before Covid-19 pandemic

January 2010 = 100

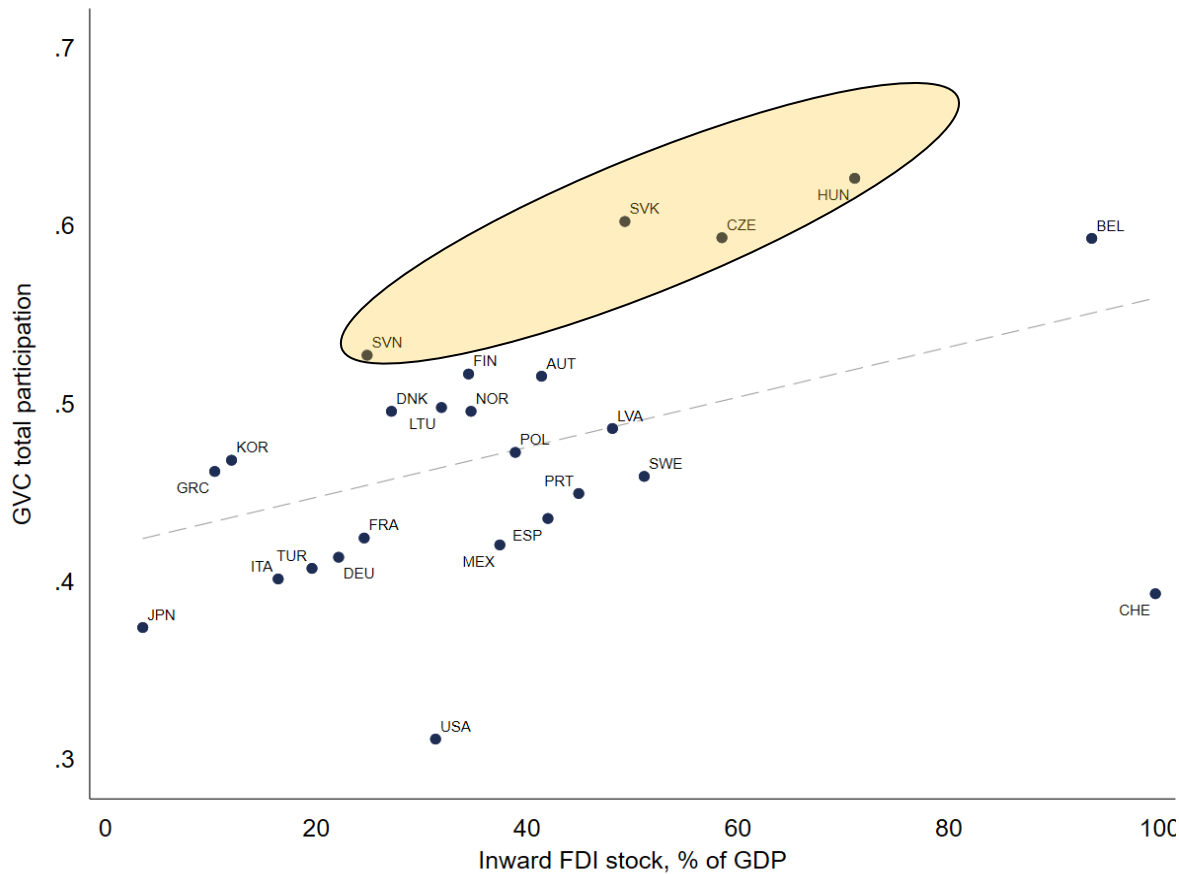


Source: Netherlands Bureau for Economic Policy Analysis (CPB) - World-trade monitor.

Central, East and Southeast Europe (CESEE)

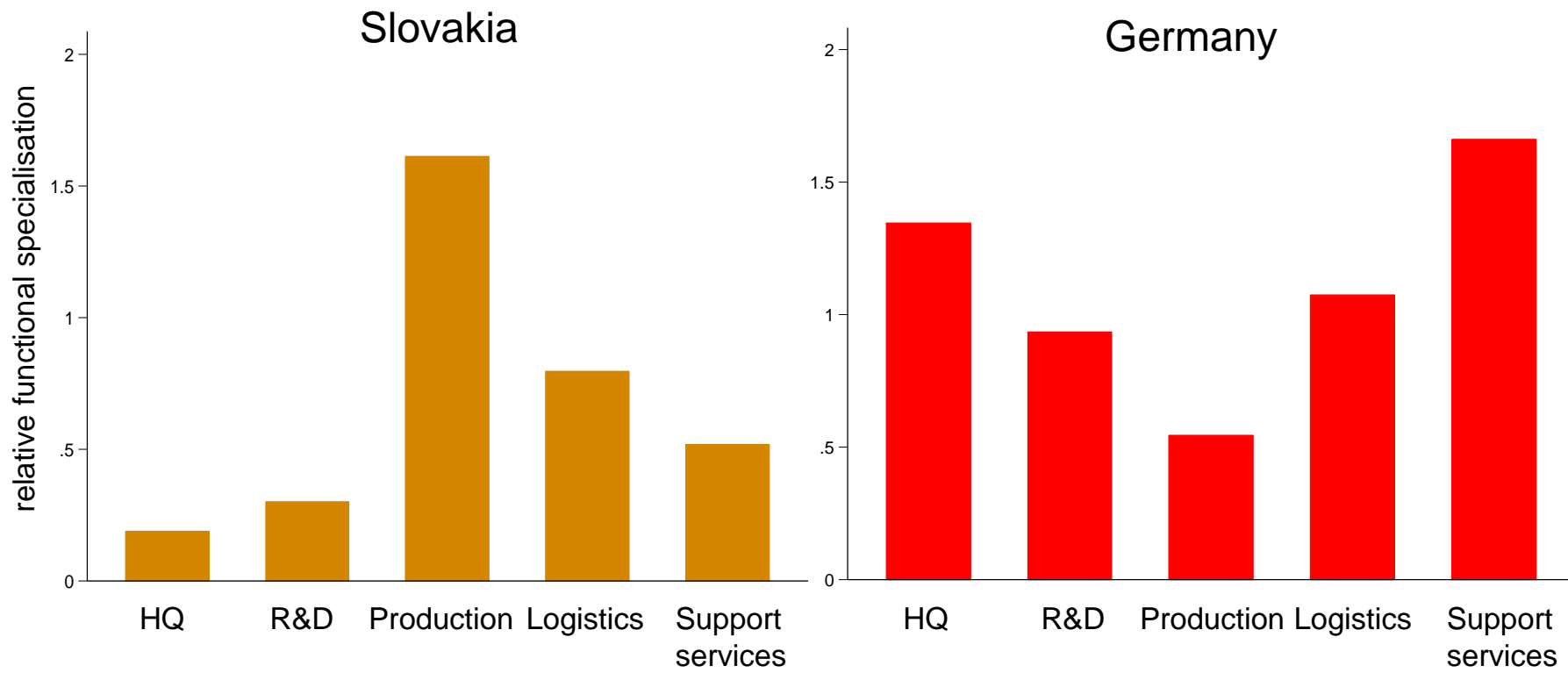
- So far, slightly less hit by Covid crisis
 - though might change ...
 - some countries are hit harder (e.g. tourism)
- Looming longer-term challenges
 - Value chain integration (strongly related to FDI flows) lost steam
 - Many countries/industries ,locked‘ into lower part of ,smile curve‘ (functional versus industrial specialisation)
 - Role of foreign owners versus domestic strategies (e.g. future of automotive industry)
 - Looming demographic decline (particularly of working-age population) and shortage of skilled workers

FDI and GVC integration strongly correlated, 2014



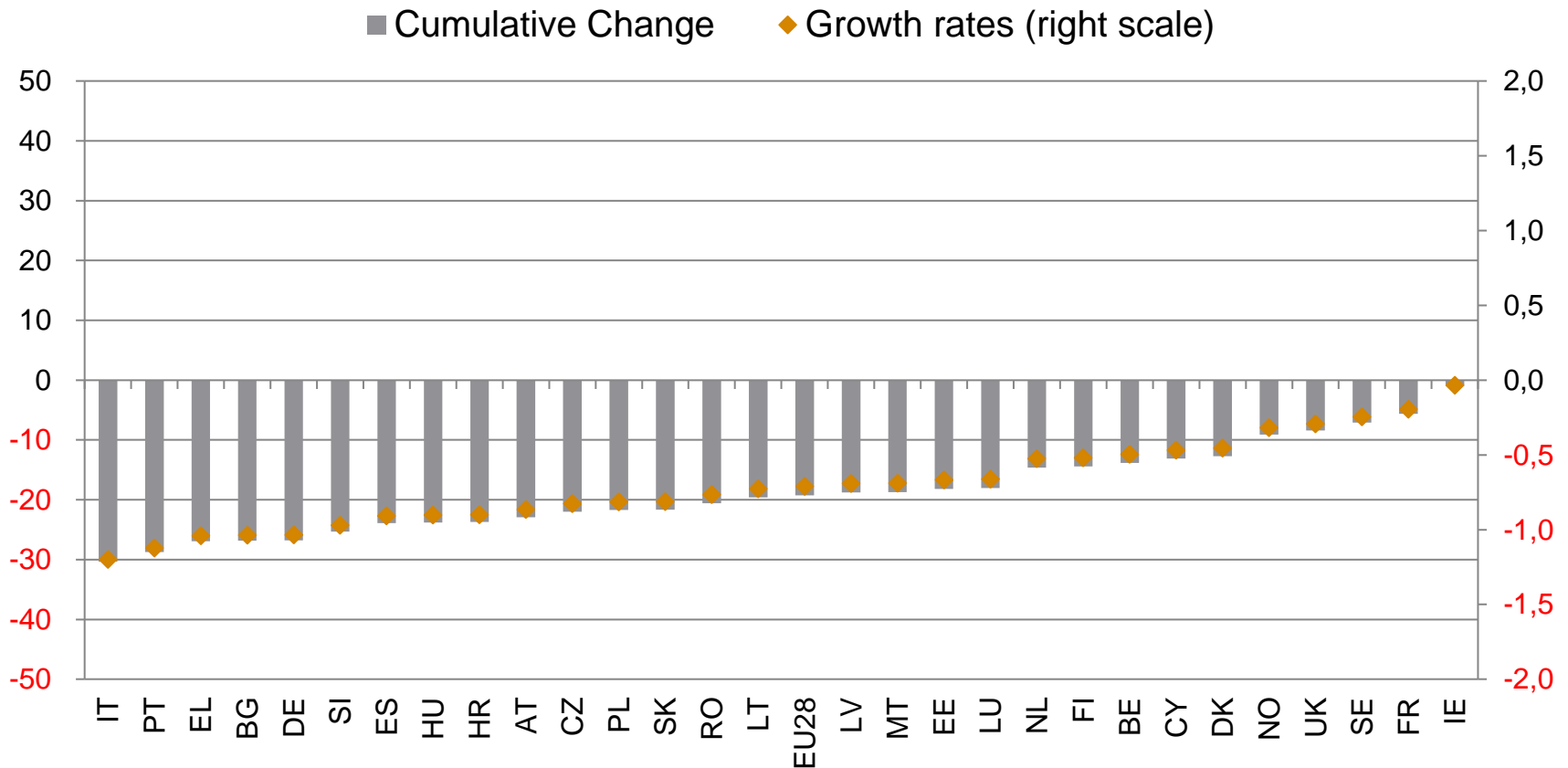
Source: Adarov and Stehrer, 2019.

Complementarities in functional specialisation within the Central European Manufacturing Core



Source: Stöllinger (2019).

Eurostat scenarios for working age population (15-64; no migration scenario; 2015-2045)



Source: Eurostat; own calculations

Glimmers of optimism ...

- Covid-19 pandemic and economic shock on top of structural challenges and trends ahead anyway
 - Accelerator/decelerator of these trends, rather than generating or shaping them
- Global trends and strains
 - How to deal with China? Strategic rival and/or big market?
 - World trade system (new protectionism?) and regional (European) resilience of value chains and ,strategic autonomy‘
- Softening of European ,core-periphery‘ specialisation pattern?
 - (Successful) ,catching-up‘ and integration growth model of CEECs pushed to change
 - Eventual re-shoring and shortening of value chains as opportunity for CEECs and other peripheral regions (including Western Balkans)
 - Catching-up potential in terms of ICT, digitization and intangible capital (EU digital agenda), etc. maybe fuelled by demographic challenges
 - Future of specific industries (e.g. automotive industry) might help break up patterns of functional specialisation (effect of European green deal (EGD) and investment funds)
- Pandemics as an emergency call against European cohesion fatigue (economic and even more so political) and for further integration

Thank you for your attention!

Comments welcome!

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