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Reducing the EU's strategic dependence

To strengthen the resilience of its supply chains, the EU must first identify its strategic dependence. How can we build on the European Commission's initial analysis?

- **What is supply chain resilience?**
 - The ability of a company or country to quickly recover from unexpected shocks and ensure a sustainable, equitable and democratic transition.
- **When do we talk about dependence?**
 - When a country depends on a limited number of suppliers for the import of certain goods, services, data, infrastructure, skills or technologies, and the potential substitution by domestic production remains limited.



Out of a list of more than **5000** imported products

the EU is highly dependent on **137** imported products (e.g. raw materials like cobalt, oil products, to batteries and active pharmaceutical ingredients)

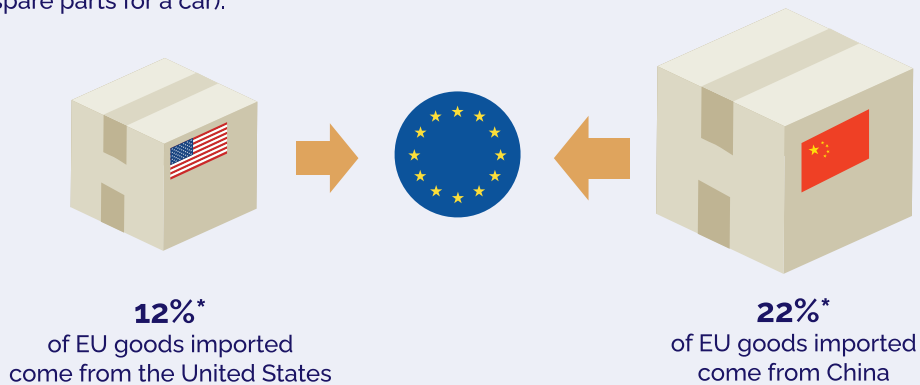
= **6 %** of total EU imports by value

the EU is particularly vulnerable on **34** of these products, as it is difficult to substitute by domestic production or by other products

How dependent is the EU on China?

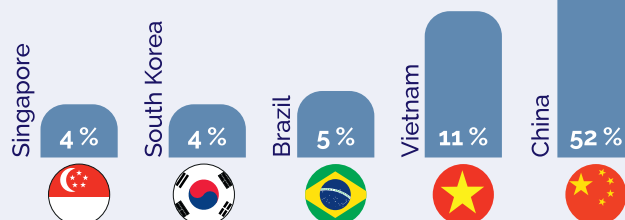
In the new geopolitical context of global trade, a strong dependence on one country becomes even more critical. A first assessment shows that European dependence on Chinese imports is:

- overall **significant**;
- **particularly high** in strategic sectors;
- **rapidly growing** for intermediate goods, which are the goods needed to manufacture final goods (raw materials and components, such as spare parts for a car).



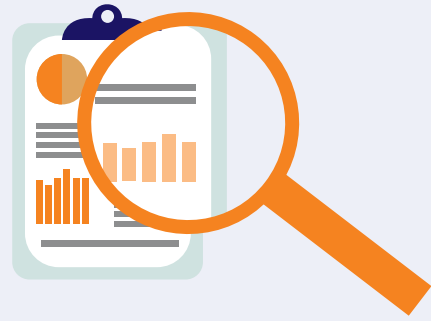
The EU is particularly dependent on China for strategic products

Main suppliers of EU imports of the 137 strategic products (in total value)



Other factors that should be taken into account:

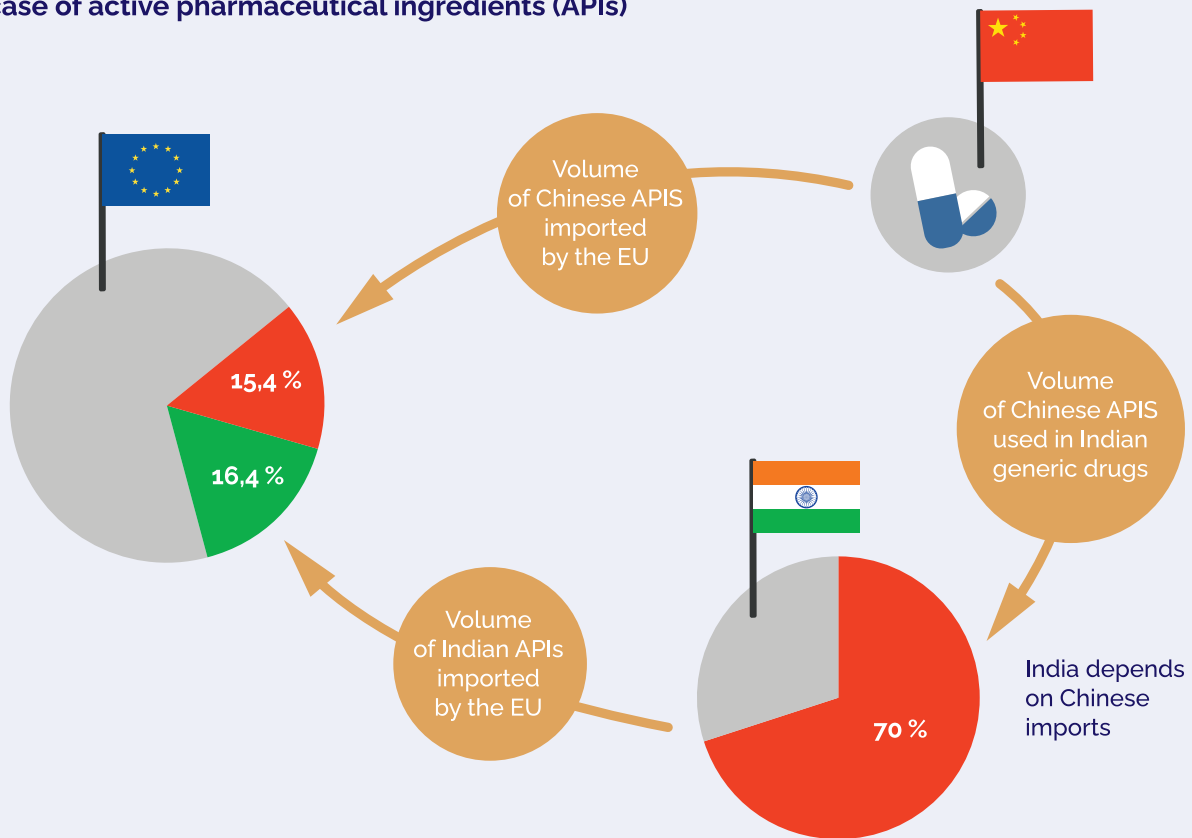
- ➔ interdependence on **intermediate goods**,
- ➔ **reciprocal dependencies**: China's dependence on imports from the EU



What about intermediate goods?

The analysis of the origin of intermediate goods shows an even greater dependence on China.

The case of active pharmaceutical ingredients (APIs)

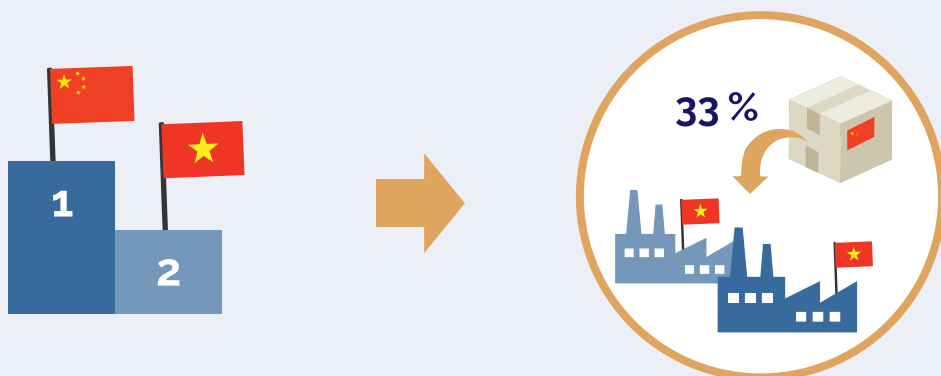


The case of imports from Vietnam

Vietnam is the second country after China on which the EU is most dependent for the 137 strategic products (11% of total import value).

However, Vietnam's exports include many Chinese intermediate goods.

In 2019, China accounted for about **33%** of Vietnam's total imports of intermediate products in the manufacturing sector (OECD, BTDIxE, 2020).



Our recommendations

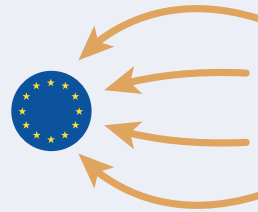
Develop greater synergy between the Commission and business to analyse critical dependence

The European Commission has a key role to play in **coordinating a complete analysis of critical dependencies** – especially in intermediate goods – and companies will better anticipate diversification needs if they have access to an overview of supply chains at the regional, European and global level.



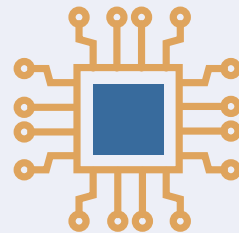
Supporting diversification

The negotiation of new trade agreements should aim to reduce excessive dependencies by **offering new opportunities for diversification**.



Developing "important projects of common European interest" (IPCEI)

Member States should take advantage of the state aid rules that allow them to support transnational projects of strategic importance (such as batteries and microchips manufacturing).



Ensuring fair competition to reduce asymmetric dependencies

Member states should **actively support the implementation of the European Commission's fair competition agenda** (e.g. control of foreign subsidies, reciprocity in access to public procurement...)

To preserve strategic ecosystems, **the control of foreign investments must be based on a comprehensive review of supply chains**.

Public procurement should **favour suppliers that are committed to increasing the resilience of their supply chains**.



Anticipating future dependencies in services

The Commission should **anticipate and prevent the risk that services** may relocate as the global economy becomes increasingly digital. This could lead to new dependencies in the medium term.

