Federal Ministry
Economy, Energy
and Tourism
Republic of Austria

FIW
Research Centre
International Economics

Policy Brief No. 76, November 2026

China as a competitor, supplier and power player

Empirical evidence and trade policy options for Austria and the European Union

Gabriel Felbermayr
(WIFO, WU Vienna)

Key points

China is simultaneously Austria's second most important supplier, a rapidly growing competitor and a source of strategic dependencies. China's share of Austrian imports of goods rose from 1.7% (2002) to 9.0% (2025). In the first quarter of 2026, the bilateral deficit in goods trade reached around €3.6 billion, or just under 2.9% of GDP – around 1½ percentage points more than before the pandemic.

Direct trade figures underestimate the degree of interdependence. In terms of value added, China is about as important for Austria as it is for the EU as a whole; since 2021, Chinese value added in Austrian final demand (3.1% of value added) has clearly exceeded Austrian value added in Chinese final demand (2.2%).

A 'China Shock 2.0' is hitting Austria's key industries. China's export structure increasingly resembles Austria's; gains in global market share are now concentrated in vehicles, metals and machinery. In the 2025 WIFO Industry Survey, firms with Chinese main competitors are significantly more likely to plan relocations and job cuts, but are increasingly responding proactively by upgrading their product portfolios.

The most critical dependencies lie in the intermediate stages of the value chain (e.g. permanent magnets) and are increasingly being used as leverage, as shown by seven documented cases since 2021 and China's export controls on rare earths.

Geo-economic power arises from asymmetric dependencies. Seven strategic dependencies of the EU can be distinguished – four sectoral (critical raw materials, semiconductors, energy, pharmaceuticals) and three systemic (payment infrastructure, digital infrastructure, maritime logistics). 'Voluntary' export restraints and narrowly defined 'Buy European' requirements are generally not advisable as a response to the China shock.

In terms of trade policy, a targeted, rules-based approach is recommended instead of blanket tariffs: faster and more broadly defined trade defence as a short-term priority; diversification via trade agreements, resilience criteria in procurement and funding and – for critical consumer goods – diversification tariffs; on the offensive side, a horizontal competition and innovation agenda; in external relations, open plurilateral trade and resilience agreements with like-minded partners, deep cooperation between the EU and the member countries of the CPTPP, and a deepening of the single market as the EU's most important source of leverage. For Austria, location policy is the most important national lever.

1. Introduction

For more than three decades, the EU's trade policy has been primarily aimed at maximising the economic benefits of globalisation. European market integration and the expansion of multilateral trade have brought considerable benefits to European citizens (Felbermayr et al., 2022; Mayer et al., 2019; Campos et al., 2019; Caliendo et al., 2021; for an overview of the quantitative trade literature, see Costinot & Rodríguez-Clare, 2014). However, geopolitical tensions have exposed the limitations of an approach that focuses solely on these benefits. Trade also creates strategic dependencies that can be exploited for political purposes. If these dependencies are asymmetrical, they provide one trading partner with leverage over the other – a connection already described by Albert

Hirschman (1945). Bilateral trade patterns are therefore significant for policy-making beyond their contribution to macroeconomic gains.

At the World Economic Forum in 2026, Canadian Prime Minister Mark Carney described this development not as a gradual transformation, but as a fundamental 'rupture' in the framework of globalisation (Carney, 2026). Under the heading 'Weaponised Interdependence' (Farrell & Newman, 2019), research analyses how states deliberately use trade, financial and technological relationships to exert political pressure. Recent geo-economic research shows that economic power stems not only from the size of an economy, but also from asymmetric dependencies and control over key nodes in global value-added and infrastructure networks (Mohr & Trebesch, 2025; Clayton et al., 2026). At the same time, the binding force of multilateral trade law is waning – even though, following the de facto withdrawal of the US, around 72% of global trade in goods still takes place under WTO rules (WTO, 2026; Scientific Advisory Board to the BMWE, 2026).

Taking these interdependencies into account requires the EU to complement its traditional focus on market access with policies that provide protection against geopolitical risks. Governments can use subsidies or currency devaluation to expand domestic production in critical sectors, secure productivity gains and create asymmetric dependencies. Such interventions can generate both economic advantages and political leverage. To deter the use of such leverage, the EU must maintain and strengthen its own positions of economic strength whilst reducing its vulnerability to the exploitation of dependencies. Cooperation with trading partners should be at the heart of this strategy: Although the world is increasingly fragmenting into political blocs, many countries remain willing to refrain from opportunistically exploiting asymmetric dependencies.

China deserves particular attention in this regard – because of its central role in world trade and because its political and economic system accords a more prominent role to strategic state planning and state intervention than is the case with other major trading partners. Since the mid-2000s, China has undertaken a comprehensive technological upgrade, underpinned by an intensive industrial policy culminating in the 'Made in China 2025' strategy (Gruber-Német et al., 2025). Whilst the first wave of 'China shock' literature (Autor et al., 2013) documented the consequences of import competition in labour-intensive goods, Chinese suppliers now compete in those segments of the capital goods, automotive and electrical industries where Austrian industry has its strengths.

For a small, open and industrially oriented economy such as Austria's, this presents a twofold challenge: on the sales side, increasing competitive pressure on the domestic market and in key export markets; on the procurement side, dependencies on critical intermediate goods, which, in a geopolitically tense environment, pose a risk to security of supply. Whilst trade policy falls exclusively within the remit of the EU, Austria plays a role in shaping it within the Council, and many supporting policies – such as those relating to business location, innovation, procurement and funding – remain a national responsibility. This study brings together the latest research findings from WIFO, the Supply Chain Intelligence Institute Austria (ASCII) and the Research Centre for International Economics (FIW), and links them to the recommendations set out in the joint statement by the French Conseil d'analyse économique and the Franco-German Council of Economic Experts (CAE & Franco-German Council of Economic Experts, 2026), the Scientific Advisory Board to the German Federal Ministry for Economic Affairs and Energy (Scientific Advisory Board to the BMWE, 2026), as well as the proposal for diversification tariffs (Felbermayr, 2026). The author has contributed to all three works; the present study further develops their arguments for Austria and refers to the reports where appropriate. Section 2 documents the empirical evidence, Section 3 discusses trade policy options and derives recommendations for Austria.

2. Empirical evidence

2.1 Macroeconomic imbalances and China's industrial policy

The EU's bilateral trade deficit with China has widened considerably in recent years. It reached €382 billion in the twelve months to May 2026, i.e. around 2% of the EU's GDP, compared with €164 billion or 1% of GDP in 2019. The economic interpretation requires caution: bilateral trade balances cannot be interpreted unambiguously in economic theory, particularly when production is organised via global value chains (Felbermayr & Yotov, 2021). Furthermore, the EU continues to record an aggregate trade surplus, which stood at €122 billion in 2025, compared with €225 billion in 2015. Excluding Ireland – whose trade statistics are heavily distorted by contract manufacturing for multinational companies, as goods manufactured abroad are recorded as Irish exports – this surplus, however, shrinks to just €5 billion in 2025 (around 0.03% of GDP), compared with 1.7% of GDP in 2015.

The growing deficit with China reflects not only exceptional factors such as the energy crisis following Russia's invasion of Ukraine but, above all, China's large and growing surplus with the rest of the world. Across all products, this reached $1,188 billion in 2025, or 6.1% of Chinese GDP, up from 2.9% in 2019. For industrial goods alone, it exceeded $2 trillion in 2025, which corresponds to around 15% of the rest of the world's imports of industrial goods – a share that is unprecedented, at least since the immediate post-war period.

China's surplus reflects both macroeconomic conditions and industrial policies. The high savings rate is a long-standing feature of the Chinese economy; however, the extent to which savings translate into a trade surplus depends on the policies that govern investment, capital flows and the exchange rate. The 14%

real effective depreciation of the yuan since March 2022 (BIS, 2026) raises questions about the role of policy in maintaining this surplus. China also provides substantial support to its industries: estimates put its fiscal equivalent for 2023 at between 2% and 4% of GDP; between 2005 and 2024, China-based firms received, on average, three to eight times as much state support as firms in OECD countries (OECD, 2026; Jean, 2026). As the sectoral composition of Chinese exports increasingly resembles that of the EU, competitive pressure is extending to key European industrial sectors, particularly in Germany (Tordoir & Setser, 2026) – and, due to close economic interdependence, to Austria as well.

The structural dimension is also evident in production: China's share of global value added in the manufacturing sector has risen from a few per cent in 2000 to just under 30%, and is thus significantly higher than that of the US (around 17%) and more than five times that of Germany or Japan (World Bank and UNDESA; cf. Scientific Advisory Board to the BMWE, 2026). Between 2017 and 2024, China gained around 3.7 percentage points of the global export market, whilst the euro area and Japan lost market share; between 2010 and 2024, China's exports grew at an average rate of around 6% per year, significantly faster than its imports (around 4.5%; de Soyres et al., 2026). The growth in electric vehicles is particularly pronounced: China produces around 70% of all new electric vehicles worldwide and accounts for around 40% of global exports, of which about half go to the EU (IEA, 2025). Wingender et al. (2024) identify the following drivers: industrial policy support, economies of scale arising from the large domestic market and accelerated learning and innovation processes along integrated value chains; lower labour costs are not the main factor behind the price advantage (IEA, 2024). Traditional adjustment mechanisms are largely ineffective: The yuan is not freely convertible, and IMF staff estimate it to be undervalued by around 16%, with a range of 12%–21% (IMF, 2026).

2.2 Austria's trade with China

China's importance as a supplier to Austria has risen sharply. Its share of Austrian imports of goods has almost quintupled, rising from 1.7% (2002) to 8.1% (2022); in 2025 it stood at 9.0%, making China the second most important supplier after Germany (Wende et al., 2025; WKO, 2026). As an export market, China plays a significantly smaller role; its share of Austrian goods exports rose only from 1.5% to 2.7% between 2002 and 2022.

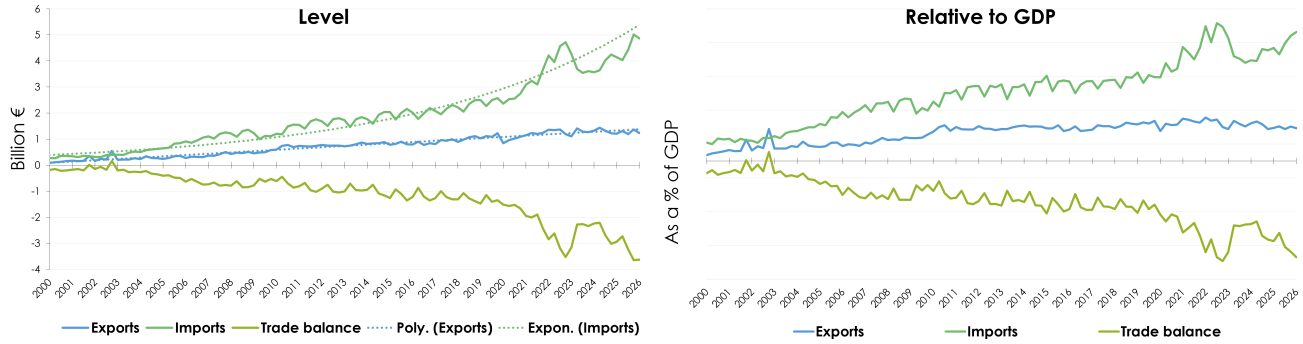
Figure 1 shows the trend since 2000 on a quarterly basis. Over the entire period, imports have grown at a significantly faster rate than exports; they follow an exponential trend, whilst exports follow a quadratic trend (dotted lines). The result is a growing trade deficit. In the fourth quarter of 2025 and the first quarter of 2026, it stood at around €3.6 billion per quarter – approximately €40 million per day. In relation to GDP, exports to China peaked at just under 1.3% in early 2022 and have fallen slightly since then; imports amounted to around 3.8% of GDP in the first quarter of 2026, whilst exports stood at just under 1.0%. The bilateral deficit thus amounts to just under 2.9% of GDP.

Before the pandemic, the ratio of the bilateral deficit to GDP was around 1½ percentage points lower. From a purely accounting perspective – under the highly problematic assumption that all other components of the national accounts had remained unchanged – GDP would be higher by this amount today. In reality, a smaller deficit would probably have been accompanied by lower consumption or lower investment or by higher imports from other countries. Nevertheless, the calculation shows that the growing deficit may have played a potentially significant role in the frequently negative contributions of the external sector to GDP in recent years.

If one naively extrapolates the trends shown in Figure 1 – an exponential trend for imports and a quadratic trend for exports – this results in imports of around €10.6 billion and exports of around €1.7 billion per quarter for the fourth quarter of 2032 (approximately €2.2 billion and €0.6 billion per month respectively); the bilateral deficit would stand at almost €9 billion per quarter, or around 5.3% of the GDP projected in the WIFO medium-term forecast. These estimates should be interpreted with caution: they do not include services (which, however, are of little quantitative significance in trade with China), and, due to integration into the single market and the customs union, exports from other EU countries to China contain Austrian value added, whilst Austrian imports from third countries contain Chinese value added.

Figure 1: Austria's trade in goods with China, 2000–2026

Quarterly figures; left: in € billion, right: as a % of quarterly GDP



Source: Statistics Austria; WDS – WIFO Data System, Macrobond; WIFO calculations.

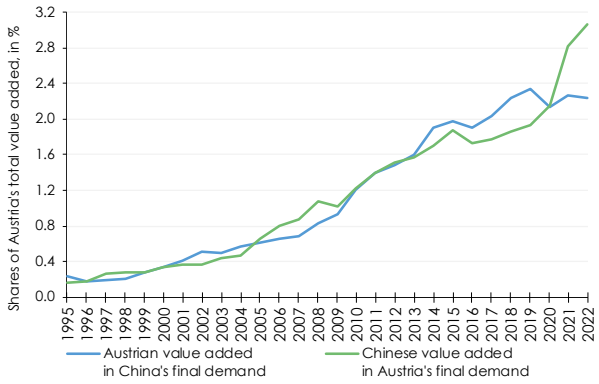
Note: Dotted lines in the left-hand panel: exponential trend for imports and quadratic trend for exports, estimated over the period 2000–2026.

2.3 The value-added perspective: growing asymmetry

The measure that is actually relevant for GDP is therefore value added. The data required for this are derived from global input-output tables and are available with a considerable delay. Figure 2 shows Austrian value added, which – albeit indirectly – is included in Chinese final demand. In the most recent year for which data is available (2022), it stood at €9.3 billion, or 2.2% of Austrian value added. China's macroeconomic significance is thus considerably greater than direct trade in goods would suggest. At the same time, Chinese value added in Austrian final demand has been rising significantly since 2021, reaching €12.8 billion, or 3.1%, in 2022. The gap amounts to around 1% of Austrian value added – the value-added perspective thus confirms a growing asymmetry.

Figure 2: Austria's interdependence with China in value-added terms, 2000–2022

Annual figures, Shares of Austria's total value added in %



Source: OECD TiVA, 2025 edition; WIFO calculations.

A meta-study conducted by Wende et al. (2025) as part of the FIW project reaches a complementary conclusion: whilst Austria sources only around 8% of its imports directly from China (EU: 21%), the share of Chinese intermediate inputs in domestic value added, at 1.9%, is practically on a par with that of the EU (2.0%; Wende et al., 2025). The reason for this is Austria's close integration into European value chains: a significant proportion of Chinese intermediate inputs reach Austria indirectly, for example via supplies from Germany. The meta-study also shows that many of the dependencies identified in the literature relate to goods that cannot be classified as strategic – with the important exception of critical raw materials and intermediate goods for decarbonisation.

2.4 The 'China Shock 2.0': competition in Austria's key industries

Competitive pressure depends on how similar the export structures are. Figure 3 shows, for selected countries, the rank correlation between their own comparative advantages and those of China at the product level. Only direct trade relations are taken into account; the international interdependencies of production networks are not considered. A correlation that increases over time means that China and the country in question are competing more directly with one another in an ever-increasing number of products. As a rule, this leads to price pressure on existing export goods. The so-called terms of trade (ToT) – that is, the price of export goods relative to import goods – thus come under pressure. The ToT are a meaningful indicator of the gains in prosperity resulting from the international division of labour. A low correlation, on the other hand, means that China is strong in those goods in which the country in question has little domestic production. China's rise then has the opposite implications in terms of the ToT.

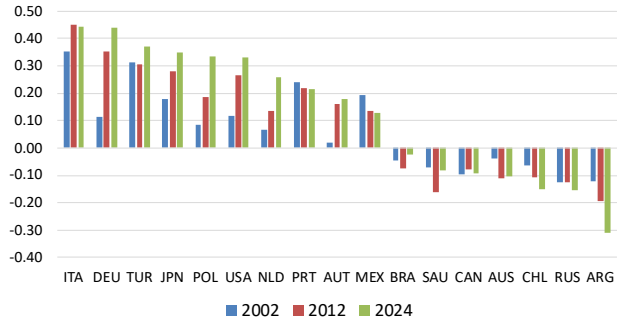
For Austria, this correlation has risen from close to zero (2002) to 0.16 (2012) and 0.18 (2024); the increase was even more pronounced for Germany (from 0.11 to 0.44), which is Austria's most important export market and value-added partner. If one were to take into account Austria's supply relationships within international production networks, the domestic correlation would very likely be significantly higher still. China's rising productivity, its well-vertically-integrated supply chains and generous subsidies therefore pose a direct threat

to the gains in prosperity that Austria derives from international trade. It is not only the bilateral relationship with China that is decisive here, but also – and above all – competition with China in third markets.

By contrast, commodity exporters such as Australia, Canada and Chile exhibit negative correlations – for them, China is more of a customer than a competitor. China's growth therefore tends to improve these countries' terms of trade and increases the economic benefits they derive from the international division of labour.

Figure 3: Similarity of export specialisation with China

Rank correlation of comparative advantages at product level with those of China, 2002, 2012 and 2024

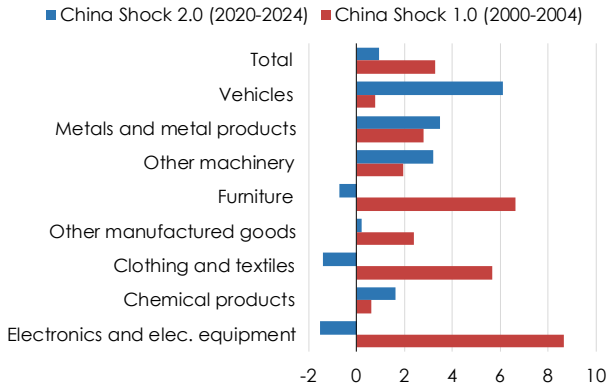


Source: Unpublished results by Charlotte Emlinger and Vincent Vicard (CEPII Paris) based on adjusted UN Comtrade data (6-digit HS codes). WIFO illustration.

Figure 4 compares the change in China's global market shares in the first few years following its accession to the WTO ('China Shock 1.0', 2000–2004) with the period from 2020–2024 ('China Shock 2.0'). Overall, the gains are smaller today (0.9 compared with 3.3 percentage points) because China's economic growth is lower than that of the global market. However, the gains are concentrated in other sectors: in the motor vehicle sector, China gained 6.1 percentage points (up from 0.8); in metals and metal products, 3.5; and in mechanical engineering, 3.2 percentage points. These are very substantial gains. In the traditional sectors affected by the first China shock – electronics, clothing and furniture – China is, by contrast, already losing market share to other Asian countries such as Vietnam. The new shock is thus hitting precisely those capital- and technology-intensive sectors in which Austria and Germany specialise – a new phase of competition in electric cars, machinery, batteries and intermediate industrial goods (cf. Scientific Advisory Board to the BMWE, 2026).

Figure 4: Change in China's global market shares by sector

China Shock 1.0 (2000–2004) and China Shock 2.0 (2020–2024), in percentage points



Source: German Council of Economic Experts (2026). WIFO illustration.

This 'China Shock 2.0' can be characterised as a **systemic** rather than merely sectoral competitive shock: it affects entire industrial ecosystems along value chains, and China acts simultaneously as a competitor and a key supplier of intermediate inputs – competition and dependence go hand in hand. Unlike the first China shock, which on balance had rather positive effects in Germany (Dauth et al., 2014) and generated significant macroeconomic welfare gains, albeit with an unequal distribution (Caliendo et al., 2019), the second is hitting the core industrial sectors of Central Europe. However, caution is required when establishing causal links: the weakness of German industry is cross-sectoral and cannot be explained primarily by sectoral composition (Scheiblecker, 2026), which suggests that location factors, cost pressures and domestic barriers play a significant role. More recent data, however, show a sharper decline in production in those industrial sectors whose product portfolios overlap with those of China (Tordoir & Setser, 2026). For Austria, the survey results presented below suggest a similar dual diagnosis: Chinese competitive pressure and domestic location costs are acting in concert.

Existing evidence at firm level: resilient firms, defensive strategies

With regard to the impact of technological upgrading in Chinese industry on the Austrian economy, the empirical evidence has so far been sparse. The few studies covering this period – including Friesenbichler et al. (2024) on the productivity effects of Chinese import competition on European firms and Gruber-Német (2025) – suggest that these effects have changed. EU-wide studies show a shift from effects that originally boosted productivity to those that now hinder growth (Gruber-Német et al., 2026). For Austria, the effects have so far been minor: firms that were exposed to stronger growth in Chinese competition between 2013 and 2022 neither cut jobs more significantly nor relocated more frequently, but they do show negative effects on R&D expenditure (Gruber-Német, 2025).

Based on the 2016 WIFO Industry Survey, Friesenbichler and Reinstaller (2023) show that exposed firms were less likely to change their product portfolio and to build up new skills – a predominantly defensive response.

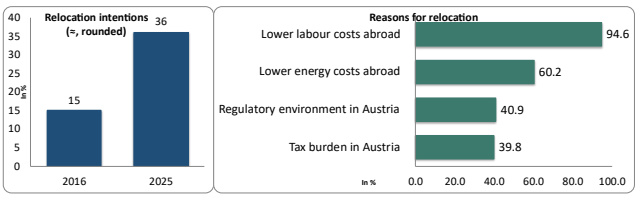
New evidence from the 2025 WIFO Industry Survey

Since 2016, WIFO has been surveying Austria's approximately 1,000 largest industrial firms every three years; in 2025, 293 companies took part (a response rate of around 28%) and the survey was supplemented by a module from the Office of the Productivity Board on planned employment trends (Hölzl et al., 2025; Gruber-Német et al., 2025). Around a quarter of the companies (25.1%) name at least one Chinese company amongst their top three competitors. This assessment aligns well with a sectoral indicator based on foreign trade data: in sectors with the highest intensity of Chinese import competition, 41.8% of companies identify a Chinese company as one of their top three competitors, whilst in those with the lowest intensity, the figure is only 11.4%.

The willingness to relocate has risen significantly (Figure 5): around 36% of companies plan to relocate at least one business division abroad over the next five years; in 2016, the figure was around 15% (Hölzl et al., 2017). The main reasons cited are lower labour costs (94.6%) and energy costs abroad (60.2%), but also the regulatory environment (40.9%) and the tax burden in Austria (39.8%). Manufacturing is particularly affected: 39.7% of companies expect a decline in employment in this sector, compared with just 4.9% in research and development. In the vehicle manufacturing sector, 61.5% of companies are planning to relocate and 66.7% are planning to cut jobs.

Figure 5: Relocation intentions in Austrian industry

Left: Proportion of companies intending to relocate in the next five years; right: reasons (multiple responses allowed)



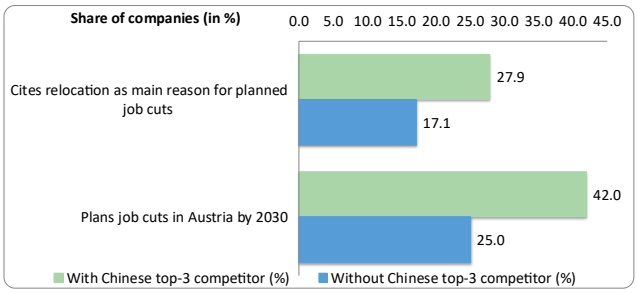
Source: WIFO Industry Survey 2016 and 2025; Hölzl et al. (2017, 2025); Gruber-Német et al. (2025). WIFO illustration.

Note: Figures in the left-hand panel are rounded.

The key factor is the relationship with Chinese competition. Firms with at least one Chinese top-three competitor are significantly more likely to plan job cuts in Austria (42% compared with 25%) and cite relocation as the main reason for this considerably more often (27.9% compared with 17.1%; Figure 6). These differences persist in regressions that control for sector, export intensity and exposure to trade conflicts (Figure 7): the probability of intending to relocate is 14.7 percentage points higher, whilst that of planning to cut production jobs is 18.3 percentage points higher. Relocation is thus a key channel for planned job cuts.

Figure 6: Chinese competition and employment plans

Proportion of firms by significance of Chinese competition, planning horizon 2025–2030

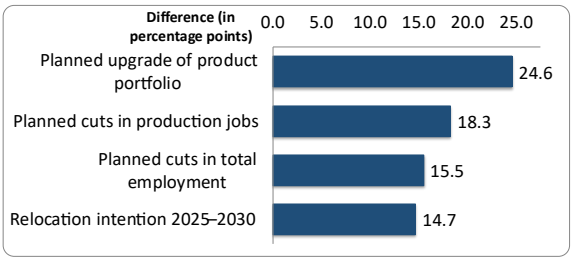


Source: WIFO Industry Survey 2025; Gruber-Német et al. (2025). WIFO illustration.

At the same time, a shift in strategy is evident: companies that are heavily exposed are now more likely to plan to broaden or upgrade their product portfolio; the probability of a planned upgrade is 24.6 percentage points higher. Companies are therefore responding in an increasingly proactive manner. Gruber-Német et al. (2026) conclude that proactive strategies hold promise, whilst defensive approaches – such as geographical diversification or merely strengthening core competencies – are reaching their limits; economic policy should support this development through its location policy, with trade policy instruments serving to bolster competitiveness. Caution is advised when interpreting these findings: the survey captures plans, not decisions that have been implemented, and the estimates describe robust correlations, not causal effects. In contrast to the unremarkable trend up to 2022, the results nevertheless serve as a clear warning signal.

Figure 7: Estimated effects of Chinese competition on company plans

Difference in probability between companies with and without top-three Chinese competitors



Source: WIFO Industry Survey 2025; Gruber-Német et al. (2025). WIFO illustration.

Note: Linear probability models with control variables for economic sector (NACE 2-digit level), export intensity and exposure to trade conflicts.

The analysis of the rail vehicle industry by Böheim and Hölzl (2026), commissioned by the Federal Ministry for Innovation, Mobility and Infrastructure, demonstrates that distortions of competition do not only affect mass-produced goods. It provides an overview of the global competitive landscape, in which Austrian and European manufacturers are coming under increasing

competitive pressure from China, with a focus on Chinese industrial policy, state aid and the available policy instruments – in a sector where public procurers play a central role.

2.5 Strategic dependencies and economic coercion

Beyond the competitive aspect, dependence on Chinese products raises issues of economic security. Major trading partners – including the US and China – are increasingly exploiting economic vulnerabilities to exert pressure on decision-makers in the EU; industrial policy, export controls, investment restrictions and exchange rate policy are being used as instruments of economic statecraft. China has established dominant positions in a growing number of sectors, including the processing of rare earths, battery materials, certain active pharmaceutical ingredients and several clean energy technologies (Vicard & Wibaux, 2023; Méjean & Rousseaux, 2024). Of the 350 products identified as dependent by Vicard and Wibaux (2023) using the European Commission's statistical measure for 2019, around half are supplied predominantly by China. These risks extend beyond current patterns of specialisation: extensive state support may create new dependencies in the future.

Table 1 documents seven instances in which China has exerted economic pressure on the EU or individual Member States since 2021. 'Economic coercion' is the EU's perspective; Beijing usually portrays these measures as trade defence measures, legitimate countermeasures or non-discriminatory export controls.

Table 1: Instances of economic pressure exerted by China on the EU, 2021–2026

Chronological summary

Period	Measure	Cause and consequences
2021–2025	Sanctions against ten EU individuals and four organisations, including five Members of the European Parliament, MERICS and the Subcommittee on Human Rights	Response to EU sanctions over Xinjiang; the European Parliament suspended ratification of the CAI investment agreement. Suspension lifted for sitting MEPs in April 2025.
2021–2022	Trade boycott against Lithuania	Following the opening of a 'Taiwanese' representative office in Vilnius; trigger for the EU's Anti-Coercion Instrument (ACI) (2023); WTO proceedings ongoing.
2024–2025	Tariffs on cognac, pork and dairy products	Response to the EU's countervailing duties on electric cars; specifically targeting France (99% of Chinese cognac imports); provisional tariffs on dairy products of up to 42.7%.
July 2025	Restrictions on EU medical devices in public procurement	Reaction to the first use of the EU's International Procurement Instrument; whether this constitutes coercion or reciprocity is a matter of debate.
April/Oct. 2025	Export controls on rare earths and magnets	April regime remains in force; extraterritorial October package suspended until at least 10 November 2026 (see text for details).
October 2025	Export ban on chips from the Chinese Nexperia unit	Following the Dutch government's takeover of Nexperia; European car manufacturers faced production halts.
May/Aug. 2026	Blocking orders against EU subsidy investigations	Prohibition on participating in proceedings under the EU Foreign Subsidies Regulation (FSR; Nuctech; JD.com's takeover bid for Ceconomy).

Source: WIFO compilation based on publicly available information, as at October 2026.

Export controls on rare earths are particularly relevant. The controls introduced in April 2025 were never suspended; they continue to require individual licences for seven medium and heavy rare earths (samarium, gadolinium, terbium, dysprosium, lutetium, scandium, yttrium) as well as for associated magnets and compounds. Since December 2025, the Chinese Ministry of Commerce has been issuing general licences to authorised exporters, which facilitates deliveries to civilian customers but does not replace the control framework; in May 2026, exports of heavy rare-earth elements were reportedly still around 50% below pre-restriction levels. The October 2025 package, which included five further elements and, for the first time, had extraterritorial scope (licensing required for any content of 0.1% or more of Chinese rare earths), was suspended in November 2025 as part of an agreement with the US until 10 November 2026; whether and until when this suspension was extended following the summit in September 2026 has not yet been formally confirmed.

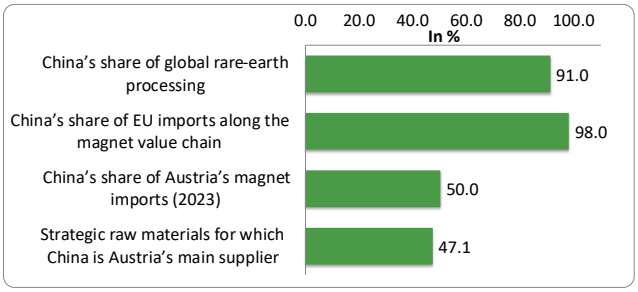
A reintroduction poses a real risk for three reasons. Firstly, the measures were merely postponed, not withdrawn. Secondly, the EU is not a party to the agreement: the suspension is an arrangement between the US and China; the EU merely began discussions on a general licence system in November 2025. Thirdly, tensions between the EU and China are escalating independently of this – for example, through FSR procedures, blocking orders and plans for new protective measures. Even without a formal reinstatement, the April regime gives China leverage that it can exert by slowing down the approval process.

The ASCII study on rare earths highlights where the vulnerability actually lies (ASCII, 2025). Based on a multi-stage input-output trade network covering 168 product codes for 2007–2023, it shows that exposure and supplier concentration are systematically higher for intermediate goods than for raw materials. China dominates the group with low inherent risk and high influence, whilst the EU and the US remain vulnerable at the

intermediate stages; Austria, along with the EU, the US, Taiwan and South Korea, is among the particularly vulnerable economies. China controls around 91% of rare-earth processing; 98% of EU imports along the magnet value chain originate from China, and around half of the permanent magnets imported into Austria in 2023 came directly from there (Figure 8). From an econometric perspective, a high level of systemic trade risk associated with intermediate goods such as magnets, speciality ceramics or phosphors significantly hinders the development of comparative advantages. A supplementary analysis based on ASCII data shows that China is Austria's most important supplier for eight out of 17 strategic raw materials, and that the supply of eight raw materials – including lithium, rare earths and magnesium – is considered to be at high risk (KONTEXT & ASCII, 2026).

Figure 8: Key figures on dependence on China for critical raw materials

China's share along the rare earths value chain and for strategic raw materials, in %



Source: ASCII (2025); KONTEXT & ASCII (2026). WIFO illustration.

Note: Austria's magnet imports: share sourced directly from China, rounded. Strategic raw materials: share of those raw materials (8 out of 17) for which China is Austria's most important supplier.

Not every dependency is strategic. Open markets invariably create dependencies; they are the logical consequence of specialisation and a prerequisite for trade gains. They only become relevant in terms of trade policy when they are asymmetrical and there is an incentive to use them as an instrument of power. Five criteria are suitable for this purpose (Table 2; cf. Scientific Advisory Board to the BMWE, 2026): a dependency is considered strategic if short-term substitutability is low, the activity in question is of high economic relevance and there is a real risk of geopolitical instrumentalisation and if, in addition, there is either a high concentration of supplier countries or a chokepoint structure. Chokepoints – such as straits, internet hubs or clearing and messaging systems in payment transactions – generate power not through market shares but through control of central hubs, and are often invisible in trade data. Felbermayr (2026) proposes a narrower, welfare-theoretical test to determine when trade policy interventions are justified: a good is considered critical if no substitutes are available at reasonable cost in the short term, if it is immediately essential for consumption (food and its precursors such as fertilisers, medicines, energy and ammunition) and if there is credible evidence of market or state failure leading to insufficient diversification.

Table 2: Criteria and key strategic dependencies of the EU

Criteria and classification by sector and system

Area	Content
Criteria	(1) High concentration of supplier countries; (2) low short-term substitutability; (3) chokepoint structure; (4) high economic relevance; (5) risk of use as a geopolitical instrument. Required: 2, 4 and 5, as well as either 1 or 3.
Sectoral: Critical raw materials and processing	High geographical concentration of extraction and processing (rare earths, critical minerals), limited substitution options.
Sectoral: Semiconductors	Fragmented value chains with chokepoints in advanced manufacturing and specialised equipment.
Sectoral: Energy	Fossil fuels, photovoltaics; new dependencies regarding hydrogen, batteries and intermediate products.
Sectoral: Pharmaceuticals	Well over two-thirds of active pharmaceutical ingredients originate from Asia; high supply risks in times of crisis.
Systemic: Financial and payment infrastructure	Dominance of the US dollar and control of key payment infrastructures outside the EU.
Systemic: Digital infrastructure	Non-European cloud services, platforms and operating systems; economies of scale and lock-in.
Systemic: Maritime logistics	Strategic sea routes and ports; current example: the Strait of Hormuz.

Source: Scientific Advisory Board to the BMWE (2026); Gersbach et al. (2026). WIFO illustration.

The significance of these categories for Austria is exemplified by the ASCII findings: in addition to rare earths, an analysis of the EU's sulphur supply has shown that the risk of a closure of the Strait of Hormuz is exacerbated by indirect dependencies via China and India – an example of the overlap between sectoral and systemic dependencies.

2.6 Measuring geo-economic power: who can harm whom?

Whether a dependency is actually exploited also depends on the costs incurred by the acting country itself when deploying geo-economic instruments. The literature measures this using so-called trade benefit ratios or trade hurting ratios, which compare the economic loss in the target country with the loss in the country of origin (Gersbach et al., 2025). A high ratio means that a country can employ coercive measures at a low relative cost to itself. Geo-economic power often only becomes apparent when such measures are applied: when the US and China raised their reciprocal tariffs to over 100% within a matter of days in April 2025, calculations using the KOF trade model showed that the US would have suffered significantly greater real losses than China – primarily due to its direct and indirect dependence on Chinese intermediate goods (Gersbach et al., 2025; Hinz et al., 2026); the conflict was consequently defused swiftly.

Two conclusions arise for the EU. Firstly, symmetrical trade conflicts with the US or China would inflict considerable welfare losses on both sides; with a symmetrical 30% increase in trade barriers between the EU and the US, the bilateral trade benefit ratios are close to one (Gersbach et al., 2026). However, targeted measures in individual sectors or systems can result in highly asymmetric losses, and the major powers consciously accept economic costs in order to secure geopolitical gains. Secondly, the US and China also have strategic dependencies – the US sources around 80% of its rare-earth magnets and over 90% of certain key medicines from China (Anderson et al., 2026) – yet the number of their dependencies is lower, they can react more quickly and their systemic dependencies are significantly weaker than those of the EU (cf. Scientific Advisory Board to the BMWE, 2026). Furthermore, geo-economic fragmentation tends to reorganise rather than sever trade relations: trade flows are diverted via third countries, thereby creating indirect dependencies (Mayer et al., 2025). This confirms the finding in Section 2.3 that bilateral trade data underestimate the actual degree of interdependence, and limits the effectiveness of simple decoupling strategies.

3. Trade policy options

3.1 Guiding principles

No blanket tariffs. Blanket tariffs are a costly and poorly targeted response to economic security concerns. They tax consumer goods with little potential for strategic pressure, as well as intermediate inputs where diversified production already limits the scope for coercion. The US tariffs on Chinese goods introduced in 2018 led to net income losses even after taking into account tariff revenue and the profits of protected producers (Fajgelbaum et al., 2020), whilst offering limited benefits in terms of geopolitical power (Mayer et al., 2025). Even decoupling from individual supplier countries would not increase security of supply: the costs involved are orders of magnitude greater than the benefits of reduced dependence (Eppinger et al., 2022). Economic security is not synonymous with isolationism (cf. Scientific Advisory Board to the BMWE, 2026).

A geo-economic externality justifies state intervention. Private companies do not fully take into account the macroeconomic costs of strategic dependencies when making procurement and investment decisions, particularly as they expect state aid in times of crisis (cf. Scientific Advisory Board to the BMWE, 2023, 2026). It does not follow from this that dependencies should generally be avoided, but rather that critical vulnerabilities should be specifically reduced where the risk of exploitation is particularly high and where opportunities exist to mitigate them. In this context, **reactive** measures to be taken in the event that a third country exploits dependencies (anti-coercion instruments, faster governance in the event of a crisis) must be distinguished from **preventive** measures taken independently of specific threats (deepening the single market, industrial policy in critical sectors, diversification instruments).

Targeted, but not too narrowly. Policy should focus on products where dependence creates a strategic vulnerability. At the same time, the scope of products must not be defined too narrowly, as demand would otherwise shift to close substitutes: the EU's countervailing duties on battery electric vehicles from China have presumably shifted part of the demand towards plug-in hybrids from the same manufacturers, which are not covered by the duties.

Defensive and offensive. Defensive measures reduce the costs that disruptions or coercion impose on the EU; offensive measures strengthen capabilities on which trading partners depend, thereby increasing the cost of coercion for them. The aim is to reshape interdependence in such a way that it both provides insurance against disruptions and creates incentives to refrain from exploiting dependencies (cf. CAE & Franco-German Council of Economic Experts, 2026). This involves understanding partners' dependencies on European inputs and technologies just as well as one's own (Mattoo & Staiger, 2020).

Disclose costs. All instruments entail costs. As long as the dominant supplier is also the cheapest, tariffs increase prices; subsidies shift the burden onto public budgets. Ultimately, private households bear the lion's share – through higher prices, lower incomes or taxes. The decisive test is therefore whether the reduction in vulnerability justifies the costs and which combination achieves the objectives at the lowest cost. Measures should be implemented at EU level, ex ante and horizontally, in accordance with clear rules rather than on an ad hoc basis (Felbermayr, 2026).

3.2 Defensive measures

Diversification via trade agreements

Where the EU and its partners are unlikely to develop a lasting comparative advantage, policymakers should prioritise access to suppliers in different regions. The provisions on energy and raw materials in the modernised agreements with Chile and Mexico, as well as in the agreements with Australia and Mercosur, set precedents: they reduce trade barriers, restrict export taxes and monopolies, make market access more predictable and grant EU investors the right of establishment on a non-discriminatory basis. Obvious candidates for further deepening include Canada in the area of critical raw materials (linking the CETA raw materials dialogue with the Strategic Raw Materials Partnership) and South Korea in the area of battery supply chains. The EU should consistently focus on rules-based free trade agreements in accordance with Article XXIV of the GATT with economically complementary partners (cf. Scientific Advisory Board to the BMWE, 2026); the conclusion or entry into force of agreements with Mercosur,

India, the United Arab Emirates, Australia, Indonesia, Malaysia and Thailand alone could more than offset the negative effects of current US tariff policy (Baur & Flach, 2026). Countries such as India, Indonesia, Vietnam, Mexico and Saudi Arabia deserve particular attention, as they act as connecting hubs between blocs in a fragmented global economy and facilitate diversification. In addition, partnerships in the commodities sector should be expanded to encompass not only trade aspects but also investment protection, technological cooperation and sustainability standards. Friendly relations alone are not a criterion here: a focus on 'friendly' countries can reduce the number of supplier countries and increase risk; diversification should be pursued across countries whose economic shocks are weakly correlated (Felbermayr, 2026).

Resilience criteria in procurement and funding

Trade agreements take time to take effect, and alternative suppliers often remain more expensive. Government intervention is justified where firms do not fully take into account the macroeconomic costs of disruptions and therefore diversify too little – for example, due to a consumer surplus externality (Grossman et al., 2023), systemic risks in supply networks or a security externality (Felbermayr & Janeba, 2024). In such cases, public procurement can incorporate resilience criteria alongside price, particularly where public bodies account for a large proportion of demand (transport infrastructure, education, construction, defence). Article 25 of the Net-Zero Industry Act already provides for such requirements; the provisional agreement reached in May 2026 on the Critical Medicines Act also contains resilience requirements. Diversification requirements could also be linked to support for private purchases or investments: in hindsight, support for the expansion of solar power in the late 2000s and early 2010s should have been tied to diversification in the supply of modules, as the subsidised demand was predominantly met by Chinese manufacturers. In the case of electric vehicles, purchase subsidies and tax incentives account for a significant proportion of global expenditure (IEA, 2025); how this demand is distributed between domestic and foreign producers depends on the design of the scheme (Allcott et al., 2024).

Diversification tariffs for critical consumer goods

Diversification tariffs are a market-based instrument for promoting diversification (Felbermayr, 2026; Felbermayr & Braml, 2024). They are levied on imports of a critical, homogeneous product from any country as soon as its share of total domestic demand exceeds a specified threshold; below the threshold, imports remain duty-free. The threshold and tariff rate apply equally to all supplying countries and depend solely on the product. Importers thus have an incentive to source from additional supplying countries. If the instrument is well calibrated, the tariff is **never actually paid** at equilibrium – it operates solely through incentives.

The instrument comes at a cost: because the marginal supplier is no longer the cheapest, the domestic price rises, and the rents flow to domestic and inframarginal foreign producers. This 'insurance premium' must be weighed against the benefits – in the event of a supply failure, the price increase is significantly lower than it would be without diversification. In a stylised model calculation, concentration is lowest when there are four foreign supplier countries; however, three supplier countries achieve almost the same level of diversification at significantly lower costs. If duty-free quotas are auctioned, the state can skim off part of the rent and return it to consumers. Diversification tariffs are development-friendly because they facilitate market access for new and smaller supplier countries, and they are less data-intensive than other instruments, as only the price differences between supplier countries need to be known. They should be introduced gradually and with prior notice so that alternative suppliers can build up capacity. The issue of WTO compatibility remains open: ex ante, all countries are treated equally; ex post, the most-favoured-nation principle may be breached; justification via the security exception is conceivable but has not been clarified. Alternatively, diversification tariffs could be structured as 'safeguards' (Article XIX of the GATT) in combination with bilateral tariff-rate quotas.

Diversification tariffs should be examined for clearly defined strategic goods and, where possible, embedded within a rules-based multilateral or plurilateral framework (cf. Scientific Advisory Board to the BMWE, 2026). General numerical requirements regarding the minimum number of suppliers, on the other hand, are unsuitable because they can disrupt valuable supply relationships if not enough suppliers can provide the necessary quality. It should also be noted that whilst such an instrument helps to prevent future dependencies, it can do little to counter already established monopolies. A related option is price floors, as discussed in the EU–US Declaration of Intent of 24 April 2026 on the joint safeguarding of critical raw materials; this initiative should be extended to other countries.

Faster and more broadly defined trade defence

Trade defence instruments complement diversification where dumped or subsidised imports harm EU producers. In practice, anti-dumping and countervailing duties are not used as effectively as they could be. The main weaknesses are delayed intervention – with the risk that measures are only introduced once capacity has already been lost – and an overly narrow definition of the products covered. The legal framework already allows for ex officio investigations and shortened timeframes leading up to provisional duties; the challenge lies in implementation: early monitoring of import trends, close consultation with industry sectors and sufficient investigative capacity. Where the same subsidies benefit products that are closely substitutable, these should be investigated jointly. Targeted, rule-compliant anti-subsidy measures take precedence and must not descend into protectionism (cf. Scientific Advisory Board to the BMWE, 2026).

Safeguard measures address a different situation: a significant surge in imports that causes serious injury to an economic sector, without the need to prove dumping or subsidisation. They contribute to resilience in situations where a loss of EU production would significantly increase dependence on a concentrated foreign supply and eliminate capacity that would be difficult to rebuild. As they apply regardless of origin, they may affect partners on whom diversification relies; tariff quotas based on historical imports and country allocations offer flexibility within WTO rules. Safeguard measures provide breathing space for adjustment, not permanent protection: their initial duration is limited to four years, with conditional extensions to a maximum of eight years in total and gradual liberalisation.

Lessons from the Japanese car shock: no 'voluntary' export restrictions

The China Shock 2.0 bears similarities to the competitive shock caused by Japanese car manufacturers in the US in the 1980s. At that time, the US secured 'voluntary' export restrictions (Voluntary Export Restraints, VER). These led to rising prices, a shift in Japanese exports towards higher-value vehicles (Feenstra, 1984) and significant shifts in economic rents towards Japan; the welfare losses were borne primarily by US consumers (Berry et al., 1999). Import tariffs with the same quantity effects would have been preferable, as the scarcity rents would then have remained domestically as tariff revenue. Another channel proved decisive for the adjustment of US industry: direct investment by Japanese manufacturers ('transplants') brought more efficient production technology to the US (Baily & Gersbach, 1995). VERs and local value-added regulations are therefore inefficient protectionist instruments that are incompatible with the WTO framework, whilst countervailing duties remain compliant with the rules where subsidisation has been proven. Market-driven direct investment – including by Chinese companies with superior productivity, as seen in Hungary or Spain – can secure technology transfer and industrial capacity, provided it does not concern security-related sectors; active state support for such investment, however, is not appropriate (cf. Scientific Advisory Board to the BMWE, 2026). Existing innovation support instruments could be deployed in a more targeted manner to accelerate technology transfer through voluntary joint ventures and joint R&D projects.

3.3 Offensive measures

The EU can also deter coercion by strengthening capabilities on which its partners depend. Identifying future comparative advantages is difficult; therefore, horizontal policies that improve the conditions for investment, business start-ups and innovation remain crucial (Draghi, 2024). The best foundation is an innovation and technology policy that strengthens existing comparative advantages rather than compensating for disadvantages (Gehrke & Ringhof, 2023). Consequently, **deepening the single market** is the key lever for economic performance and geo-economic resilience. Without the single market, price-adjusted per capita income in Austria would be at least 7% lower (Felbermayr et al., 2022); nevertheless, implicit trade costs within the EU are significantly higher than those between US states, and fragmentation is holding back the scaling up of European companies (Fontagné & Yotov, 2024; Cerdeiro & Rotunno, 2026). Harmonising product regulations could increase the share of trade in GDP by 10% (Fournier et al., 2014); in the even more fragmented services sector, the removal of non-tariff barriers could boost gross value added in Germany by up to 1.8% (Dorn et al., 2024), and the weak productivity growth in services accounts for a large part of Europe's growth shortfall compared with the US (Ebeke et al., 2019). Priority should be given to reducing existing fragmentation, mutual recognition and the enforcement of existing rules – not to new regulations. Access to the single market is also the EU's most important bargaining chip in negotiations: the deeper, larger and more dynamic it is, the better the EU can assert its interests. As the United Kingdom's withdrawal has reduced the size of the single market by around one-sixth, it should also be extended via customs unions to countries for which full membership is not realistic in the foreseeable future (cf. Scientific Advisory Board to the BMWE, 2026).

The proposed Industrial Accelerator Act introduces requirements for European value-added content in public procurement and funding programmes. Such local-content requirements can attract domestic production, albeit at considerable cost: for the US 'Buy American' regulations, the cost per additional job is estimated at over $100,000 (Bombardini et al., 2024). Untargeted preferences carry the risk of higher prices whilst making little contribution to new skills; caution is therefore advised with regard to 'Buy European' approaches. They may be justified in specific cases, such as when dealing with strategic sectors with high innovation potential. In any event, however, the EU's trading partners should be included in the 'Buy European' rules. This means that the origin of goods is cumulated across the countries with which the EU has free trade agreements.

A more promising approach is to utilise public procurement as an early adopter of innovative products. Targeted local content requirements can help where domestic production is necessary to build critical capabilities, supplemented by the Foreign Subsidies Regulation (FSR), which since 2023 has allowed for investigations and prohibitions in the case of subsidy-distorted mergers and procurement procedures. In the case of purchase subsidies for electric vehicles, rules of origin may redirect demand but make it more costly to achieve climate protection targets (Malgouyres et al., 2026). Where rules of origin apply, inputs from partner countries with free trade agreements or GPA membership should be counted towards compliance, as provided

for in Article 8 of the Industrial Accelerator Act. The Industrial Accelerator Act is appropriate where it accelerates investment through faster approvals and simpler procedures (cf. Scientific Advisory Board to the BMWE, 2026); if, on the other hand, it abandons the principle of equal treatment for imported and domestic goods and thereby violates the principle of national treatment (GATT Art. III), it becomes a protectionist instrument, and countermeasures are to be expected. This must be distinguished from innovation-oriented cooperation – joint research programmes and coordinated funding instruments – within the framework of open plurilateral agreements, as well as the use of reciprocal access rules to public procurement markets.

3.4 Partnerships and reform of the regulatory framework

The multilateral trading system remains economically sound even amid geopolitical rivalry: WTO membership significantly increases bilateral trade and generates substantial welfare gains that vary from country to country (Larch et al., 2025; Felbermayr et al., 2024). The most-favoured-nation principle limits strategic terms-of-trade policies, reduces complexity and uncertainty and prevents complete fragmentation; cooperation remains possible as long as states continue to take economic welfare into account (Mattoo et al., 2024). However, the system is no longer self-stabilising. A pragmatic reform agenda is therefore required (cf. Scientific Advisory Board to the BMWE, 2026):

- **Open plurilateralism as a new operating model.** Groups of willing members should be able to take the lead in key areas without having to rely on consensus (Langhammer, 2026). Participation remains voluntary, benefits are granted on the basis of reciprocity and the agreements remain open to later accessions. Like-minded states should not make such agreements contingent on the progress of WTO reform; the WTO should evolve into the platform that subsequently incorporates them.
- **Rebalancing most-favoured-nation treatment and reciprocity.** Most-favoured-nation treatment remains the norm; reciprocity should be utilised more extensively to shape plurilateral cooperation and to respond to coercion. Narrowly defined geopolitical exceptions within the WTO are conceivable (Mattoo et al., 2026), coupled with a strengthening of the enforcement of existing rules.
- **Plurilateral resilience agreements.** These resolve a public goods problem: effective deterrence is costly for individual states, whilst its benefits are widely distributed. When measures against one country trigger a coordinated response from several partners, the expected costs of coercion rise significantly. Key elements include standardised procedures for identifying coercive measures, graduated response mechanisms (ranging from diplomatic consultations and coordinated trade measures to joint diversification and procurement strategies and support for particularly affected partners) as well as clear procedural rules. Obvious partners include medium-sized trading powers such as Japan, Canada, Australia, New Zealand, South Korea and the United Kingdom. Credibility is crucial: countermeasures must actually be taken in the event of an emergency, whilst at the same time remaining limited to clearly defined cases and proportionate.
- **Close Cooperation with the CPTPP** (Comprehensive and Progressive Agreement for Trans-Pacific Partnership)**.** The CPTPP is a megaregional trade agreement whose members include countries bordering the Pacific in Asia and America as well as the United Kingdom. The EU already has bilateral free trade agreements with the vast majority of CPTPP members. Nevertheless, there are substantial benefits from further cooperation. For example, the cumulation of rules of origin could significantly facilitate trade within the network of existing EU-agreements.. Moreover the EU and the CPTPP countries could cooperate towards improving their economic resilience.
- **Dispute settlement as a backstop.** A functioning two-stage procedure with clear deadlines and a limited scope of review remains a prerequisite for any reform; transitional solutions such as the Multi-Party Interim Appeal Arbitration Arrangement (MPIA) serve as a bridge.
- **Modernisation of the rules.** Greater transparency and more precise rules on subsidies and state-owned enterprises, guidelines for security-related trade measures, safeguarding market access in digital trade and the harmonisation and simplification of rules of origin, which pose significant barriers to market entry, particularly for SMEs.
- **Division of labour with other institutions.** Macroeconomic imbalances cannot be effectively managed through trade rules; greater coordination with the International Monetary Fund is required here. This is particularly relevant in view of the currency misalignment discussed above. Trade policy cannot undo the severe undervaluation of the Chinese yuan; to make progress in this regard, China has to be convinced that an appreciation of its currency is in its own interest. It would achieve to ends at the same time: First, Chinese international purchasing power would increase, thereby delivering welfare gains for the country. And second, by contributing to rebalancing the current account, a stronger yuan would reduce the risk of adverse trade policy measures by Bejing's trade partners. To promote the needed change of monetary and fiscal policy in China, the EU and its partners must engage into constructive dialogue with the objective of making the tradeoffs transparent. It has substantial bargaining power and it must be prepared to use it.

Against the backdrop of these measures, the EU can act as a 'safe haven' for rules-based cooperation; adherence to agreements, transparency and the predictability of its own trade policy become a strategic advantage in a geo-economic world (cf. Scientific Advisory Board to the BMWE, 2026). This also entails ensuring that sustainability instruments, such as the carbon border adjustment mechanism or supply chain regulation, are designed in such a way that they are not perceived as disguised protectionism in developing countries – for example, through longer transition periods, technical support and standardised procedures.

3.5 Responsiveness and trade policy capacity

In addition to reducing dependencies, the ability to respond to geo-economic pressure is crucial; deterrence relies on credibility. It is therefore recommended, firstly, to operationalise the **anti-coercion instrument** – with systematic monitoring of economic coercion, transparent decision-making criteria and clearly defined escalation levels. The primary objective remains to avert coercion wherever possible without escalation and in close coordination with diplomatic efforts; countermeasures serve as a credible deterrent. Secondly, decision-making processes at EU level should be centralised and accelerated, as geo-economic conflicts escalate rapidly. Thirdly, export controls and investment screening should be harmonised and consolidated at European level; unilateral national actions weaken the EU's strategic position. Fourthly, the establishment of an institutional **'Trade Policy Intelligence'** unit is called for – a specialised unit that systematically analyses strategic dependencies, network positions and geo-economic risks and enables evidence-based trade policy. Overall, stricter enforcement of existing rules is generally preferable to the creation of additional instruments.

3.6 Timeframes and priorities

Building competitive industries and stronger relationships with alternative suppliers is essential, but will only take effect after several years. EU policy has so far placed greater emphasis on this long-term agenda than on the immediate response to competitive pressure from China. Where the legal requirements are met, a faster, more systematic and appropriately targeted use of existing trade defence instruments should therefore be a practical priority. This does not replace the longer-term strategy, but it preserves the time and production capacity necessary for its success. Improving the implementation of existing instruments should take precedence over new support programmes. Table 3 summarises the options.

Table 3: Trade policy options at a glance

Objective, timeframe, costs and assessment

Instrument	Objective	Timeframe	Costs and risks	Assessment
Blanket tariffs on imports from China	Reduce imports	short	High costs for households and businesses; retaliation; little gain in resilience	Not recommended
Anti-dumping and countervailing duties	Counteract distortions, maintain capacity	short	Duration of proceedings; switching to substitutes if scope is too narrow	Priority: faster, broader scope
Safeguard measures	Respite from rising imports	short to medium	Also affect trading partners; time-limited	If loss of capacity increases dependency
Diversification tariffs	Broaden the supplier base	medium	Higher domestic prices; WTO issues unresolved	Consider for critical, homogeneous consumer goods
Resilience criteria in procurement and funding	Diversification, predictable demand	medium	Higher procurement costs	Recommended where public demand is high
Trade agreements, raw materials partnerships	Access to alternative suppliers	long	Lengthy negotiations	Recommended (Mercosur, Canada, South Korea, CPTPP)
Plurilateral resilience agreements	Deterrence against coercion	medium to long	Coordination effort	Recommended
'Voluntary' export restraints (VER)	Limit import volumes	short	Rents flow abroad; price increases; outside WTO rules	Not recommended
Local content, 'Buy European'	Domestic capabilities	long	High costs per job; breach of national treatment; retaliation	Only targeted at critical capabilities
Anti-coercion instrument	Deterrence, response to coercion	short	Risk of escalation	Operationalise (monitoring, criteria, stages)
Trade Policy Intelligence	Evidence base for all instruments	medium	Data and staffing requirements	Establish
Deepening the single market (goods, services)	Scaling, bargaining power	medium to long	Political resistance to harmonisation	Key lever
Horizontal competition and innovation policy	Own strengths, bargaining power	long	Budgetary, implementation-intensive	Foundation of any strategy

Source: WIFO compilation; cf. CAE & Franco-German Council of Economic Experts (2026), Scientific Advisory Board to the BMWE (2026) and Felbermayr (2026).

3.7 Conclusions for Austria

Trade policy is shaped in Brussels; however, Austria can take a stance within the Council and shape the accompanying policies at national level. Based on the evidence and the options discussed, the following recommendations are made to the Ministry of Economic Affairs:

1. **Support swift and more effective trade defence measures within the Council.** Austria should back initiatives that streamline procedures, strengthen the Commission's investigative capacities and extend the scope of products to include close substitutes.
2. **Reject blanket tariffs and narrowly defined 'Buy European' approaches.** For a small, export-oriented economy, the costs of retaliation and higher input prices are particularly high. The guiding principle should be: as free trade as possible, with as many countries as possible.
3. **Use location policy as the most important national lever.** The reasons for relocation cited by companies – labour and energy costs, regulation, tax burden – lie predominantly within the sphere of influence of domestic policy. Companies' proactive strategies (product upgrading, innovation) should be supported by funding for innovation and research.
4. **Embed resilience criteria in domestic procurement and funding**, particularly in sectors with high public demand (rail vehicles, healthcare, energy infrastructure), and ensure that funding for electric mobility and renewable energy does not inadvertently increase dependencies.
5. **Promote diversification rather than decoupling:** support trade agreements (Mercosur, India, Indonesia), raw materials partnerships (Canada) and battery cooperation (South Korea), and advocate for the initiative for open plurilateral resilience agreements and closer cooperation with the CPTPP. For critical consumer goods such as active pharmaceutical ingredients or fertilisers, Austria should propose an assessment of diversification tariffs at EU level.
6. **Make the deepening of the single market a priority**, particularly with regard to services, mutual recognition and the enforcement of existing rules. For an export-oriented country at the heart of Europe, the single market is both a source of growth and a safeguard against geo-economic pressure.
7. **Strengthen the EU's responsiveness:** support the operationalisation of the anti-coercion instrument, faster decision-making procedures and EU-wide harmonisation of export controls and investment screening.
8. **Treat market-driven direct investment in a differentiated manner:** investment, including by Chinese companies, can bring technology transfer and secure capacity, provided it does not concern security-related sectors; active promotion, however, is not appropriate.
9. **Measure dependencies correctly and monitor them continuously.** Direct import shares underestimate Austria's interdependence; value-added and network indicators as well as the ASCII database should be used to monitor critical supply chains – as Austria's contribution to the much-needed European 'Trade Policy Intelligence' – with a focus on the intermediate stages of the value chain (e.g. magnets) and on the circular economy as a lever for critical raw materials.
10. **Design crisis policy to be incentive-compatible.** Announcing bailouts or windfall taxes for crisis situations undermines private incentives to diversify and should be avoided.

Overall, the EU should combine targeted and timely trade defence with sustained investment in European capabilities and deeper partnerships with reliable suppliers. The aim is not to reduce imports from China across the board, but to limit vulnerabilities that could be exploited as political leverage – without abandoning the openness on which the prosperity of Europe and Austria depends.

4. References

Allcott, H., Kane, R., Maydanchik, M., Shapiro, J. S., & Tintelnot, F. (2024). The Effects of „Buy American": Electric Vehicles and the Inflation Reduction Act. *NBER Working Paper*, 33032.

Anderson, R. J., Condon, J., White, O., Kutcher, E., Singhal, S., Conway, M., Madgavkar, A., & Lamanna, C. (2026). *Ramping up Manufacturing in America?* McKinsey Global Institute.

ASCII – Supply Chain Intelligence Institute Austria (2025). *Systemic Trade Risk Suppresses Comparative Advantage in Rare Earth Dependent Industries*. Study and policy brief.

Autor, D. H., Dorn, D., & Hanson, G. H. (2013). The China Syndrome: Local Labor Market Effects of Import Competition in the United States. *American Economic Review*, 103(6), 2121–2168.

Baily, M. N., & Gersbach, H. (1995). Efficiency in Manufacturing and the Need for Global Competition. *Brookings Papers on Economic Activity, Microeconomics*, 307–358.

Baur, A., & Flach, L. (2026). Die Bedeutung von Handelsabkommen für Europa im Zeitalter der Geoökonomie. *Perspektiven der Wirtschaftspolitik*, 27(1), 28–36.

Berry, S., Levinsohn, J., & Pakes, A. (1999). Voluntary Export Restraints on Automobiles: Evaluating a Trade Policy. *American Economic Review*, 89(3), 400–430.

BIS – Bank for International Settlements (2026). *Effective exchange rates*. Data as of 25 September 2026.

Böheim, M., & Hölzl, W. (2026). *Zur Wettbewerbssituation in der globalen Eisenbahnindustrie. Herausforderung der chinesischen Industriepolitik und Handlungsoptionen für Österreich und Europa*. WIFO.

Bombardini, M., Gonzalez-Lira, A., Li, B., & Motta, C. (2024). The Increasing Cost of Buying American. *NBER Working Paper*, 32953.

CAE – Conseil d'analyse économique, & Franco-German Council of Economic Experts (2026). *Europas China-Wirtschaftspolitik: Eine gezielte Strategie für eine neue Balance der Abhängigkeiten*. Joint statement (Jaravel, X., Jean, S., Méjean, I., Felbermayr, G., Schnitzer, M., Truger, A., & Werding, M.), 5 October 2026.

Caliendo, L., Dvorkin, M., & Parro, F. (2019). Trade and Labor Market Dynamics: General Equilibrium Analysis of the China Trade Shock. *Econometrica*, 87(3), 741–835.

Caliendo, L., Opromolla, L. D., Parro, F., & Sforza, A. (2021). Goods and Factor Market Integration: A Quantitative Analysis of the EU Enlargement. *Journal of Political Economy*, 129(12), 3491–3545.

Campos, N., Coricelli, F., & Moretti, L. (2019). Institutional Integration and Economic Growth in Europe. *Journal of Monetary Economics*, 103, 88–104.

Carney, M. (2026). *Special Address*. World Economic Forum, Davos, January 2026.

Cerdeiro, D. A., & Rotunno, L. (2026). EU Barriers to Scaling Up: The Case of Fragmented Product Markets. *VoxEU*, CEPR.

Clayton, C., Maggiori, M., & Schreger, J. (2026). A Framework for Geoeconomics. *Econometrica*, 94(1), 105–136.

Costinot, A., & Rodríguez-Clare, A. (2014). Trade Theory with Numbers: Quantifying the Consequences of Globalization. In *Handbook of International Economics*, Vol. 4, 197–261.

Dauth, W., Findeisen, S., & Suedekum, J. (2014). The Rise of the East and the Far East: German Labor Markets and Trade Integration. *Journal of the European Economic Association*, 12(6), 1643–1675.

de Soyres, F., Fisgin, E., Liu, M., & Van Leemput, E. (2026). China's Trade Dominance and the Role of Industrial Policies. *FEDS Notes*, Board of Governors of the Federal Reserve System.

Dorn, F., Flach, L., & Gourevich, I. (2024). Building a Stronger Single Market: Potential for Deeper Integration of the Services Sector within the EU. *EconPol Policy Report*, 52.

Draghi, M. (2024). *The Future of European Competitiveness*. European Commission.

Ebeke, C., Frie, J.-M., & Rabier, L. (2019). Deepening the EU's Single Market for Services. *IMF Working Paper*, 19/269.

Eppinger, P., Felbermayr, G., Krebs, O., & Kukharskyy, B. (2022). Decoupling Global Value Chains. *CESifo Working Paper*, 9079.

Fajgelbaum, P. D., Goldberg, P. K., Kennedy, P. J., & Khandelwal, A. K. (2020). The Return to Protectionism. *Quarterly Journal of Economics*, 135(1), 1–55.

Farrell, H., & Newman, A. L. (2019). Weaponized Interdependence: How Global Economic Networks Shape State Coercion. *International Security*, 44(1), 42–79.

Feenstra, R. (1984). Voluntary Export Restraint in U.S. Autos, 1980–81: Quality, Employment, and Welfare Effects. In R. E. Baldwin & A. O. Krueger (Eds.), *The Structure and Evolution of Recent U.S. Trade Policy* (35–66). University of Chicago Press.

Felbermayr, G. (2026). The Economics of Diversification Tariffs. *Oxford Review of Economic Policy*, 42(1), 212–229.

Felbermayr, G., & Braml, M. (2024). *Der Freihandel hat fertig*. Amalthea.

Felbermayr, G., & Janeba, E. (2024). Improving Supply Security: Guidelines and Policy Proposals. *Intereconomics*, 59(3), 146–153.

Felbermayr, G., & Yotov, Y. V. (2021). From Theory to Policy with Gravitas: A Solution to the Mystery of the Excess Trade Balances. *European Economic Review*, 139, 103875.

Felbermayr, G., Gröschl, J., & Heiland, I. (2022). Complex Europe: Quantifying the Cost of Disintegration. *Journal of International Economics*, 138, 103647.

Felbermayr, G., Larch, M., Yalcin, E., & Yotov, Y. V. (2024). On the Heterogeneous Trade and Welfare Effects of GATT/WTO Membership. *Review of World Economics*, 160, 983–1008.

Fontagné, L., & Yotov, Y. V. (2024). Reassessing the Impact of the Single Market and Its Ability to Help Build Strategic Autonomy. *CESifo Working Paper*, 11151.

Fournier, J.-M., Domps, A., Gorin, Y., Guillet, X., & Morchoisne, D. (2014). Implicit Regulatory Barriers in the EU Single Market: New Empirical Evidence from Gravity Models. *OECD Economics Department Working Paper*, 1181.

Friesenbichler, K. S., & Reinstaller, A. (2023). Small and Internationalized Firms Competing with Chinese Exporters. *Eurasian Business Review*, 13, 167–192.

Friesenbichler, K. S., Kügler, A., & Reinstaller, A. (2024). The Impact of Import Competition from China on Firm-level Productivity Growth in the European Union. *Oxford Bulletin of Economics and Statistics*, 86(2), 236–256.

Gehrke, T., & Ringhof, J. (2023). *Indispensable Leverage: How the EU Can Build Its Technological Edge*. European Council on Foreign Relations.

German Council of Economic Experts – Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (2026). *Frühjahrsgutachten 2026*.

Gersbach, H., Maunoir, P. M., & Walsh, K. J. (2025). The Economic Value of Nations (for Others). *CEPR Discussion Paper*, 20855.

Gersbach, H., Maunoir, P. M., & Walsh, K. J. (2026). *What Are Nations Worth to One Another?* Discussion Paper, forthcoming.

Grossman, G., Helpman, E., & Lhuillier, H. (2023). Supply Chain Resilience: Should Policy Promote International Diversification or Reshoring? *Journal of Political Economy*, 131(12), 3462–3496.

4. References

Gruber-Német, M. (2025). *International Competition, Protectionist Measures and their Impact on Austrian Firms*. Office of the Austrian Productivity Board.

Gruber-Német, M., Friesenbichler, K., Kügler, A., & Reinstaller, A. (2026). Auswirkungen chinesischer Konkurrenz auf österreichische Unternehmen. *Wirtschaftspolitische Blätter*, 2026(1), 38–44.

Gruber-Német, M., Hölzl, W., & Reinstaller, A. (2025). *Veränderte Reaktionen der österreichischen Industrie auf chinesische Konkurrenz*. Short analysis, Office of the Austrian Productivity Board, 30 September 2025.

Hinz, J., Lohmann, A., Mahlkow, H., & Vorwig, A. (2026). America's Own Goal: Who Pays the Tariffs? *Kiel Policy Brief*, 201.

Hirschman, A. O. (1945). *National Power and the Structure of Foreign Trade*. University of California Press.

Hölzl, W., Friesenbichler, K. S., Kügler, A., & Meyer, B. (2025). Herausforderungen und Determinanten der Wettbewerbsfähigkeit in Zeiten globaler Unsicherheit: Ergebnisse der WIFO-Industriebefragung 2025. *WIFO-Monatsberichte*, 98(7), 373–382.

Hölzl, W., Friesenbichler, K. S., Kügler, A., Peneder, M., & Reinstaller, A. (2017). Österreich 2025 – Wettbewerbsfähigkeit, Standortfaktoren, Markt- und Produktstrategien österreichischer Unternehmen und die Positionierung in der internationalen Wertschöpfungskette. *WIFO-Monatsberichte*, 90(3), 219–228.

IEA – International Energy Agency (2024). *Energy Technology Perspectives 2024*.

IEA – International Energy Agency (2025). *Global EV Outlook 2025*.

IMF – International Monetary Fund (2026). *People's Republic of China*. IMF Country Report, 26/44.

Jean, S. (2026). Global Imbalances, Industrial Policies, and the Challenge of Surging Chinese Trade Surpluses. In H. Rey, B. Weder di Mauro & J. Zettelmeyer (Eds.), *Paris Report 4: The New Global Imbalances* (263–289). CEPR Press.

KONTEXT & ASCII – Supply Chain Intelligence Institute Austria (2026). *Kritische Rohstoffe: Von Abhängigkeit zu Sicherheit – Wie Kreislaufwirtschaft Europa und Österreich unabhängiger macht*.

Langhammer, R. (2026). WTO: Bekannte Wege in die Krise, unbekannte Wege aus der Krise. *Perspektiven der Wirtschaftspolitik*, 27(1), 13–18.

Larch, M., Monteiro, J.-A., Piermartini, R., & Yotov, Y. V. (2025). On the Trade Effects of GATT/WTO Membership: They Are Positive and Large After All. *Canadian Journal of Economics*, 58(1), 281–328.

Malgouyres, C., Mayer, T., & Nolden, L. (2026). The Trade-Off Between Decarbonization and Reshoring: Evidence from the French EV Environmental Score Reform. Mimeo.

Mattoo, A., & Staiger, R. (2020). Trade Wars: What Do They Mean? Why Are They Happening Now? What Are the Costs? *Economic Policy*, 35(103), 561–584.

Mattoo, A., Ruta, M., & Staiger, R. W. (2024). Geopolitics and the World Trading System. *NBER Working Paper*, 33293.

Mattoo, A., Ruta, M., & Staiger, R. W. (2026). Trade Cooperation in an Age of Geopolitics. *Finance & Development*, 63(2), 35–37.

Mayer, T., Méjean, I., & Thoenig, M. (2025). The Fragmentation Paradox: De-risking Trade and Global Safety. *CEPR Discussion Paper*, 20564.

Mayer, T., Vicard, V., & Zignago, S. (2019). The Cost of Non-Europe, Revisited. *Economic Policy*, 34(98), 145–199.

Méjean, I., & Rousseaux, P. (2024). Identifying European Trade Dependencies. In J. Pisani-Ferry, B. Weder di Mauro & J. Zettelmeyer (Eds.), *Paris Report 2: Europe's Economic Security*. CEPR Press.

Mohr, C., & Trebesch, C. (2025). Geoeconomics. *Annual Review of Economics*, 17, 563–587.

OECD (2026). *MAGIC – Database of Industrial Subsidies*.

Scheiblecker, M. (2026). Österreichs Industrieproduktion im Ländervergleich – Aktualisierung 2026. *WIFO-Monatsberichte*, 2026(1).

Scientific Advisory Board to the Federal Ministry for Economic Affairs and Climate Action (2023). *Leitplanken zur Stärkung der Versorgungssicherheit*. Expert report. (Cited in the text as Scientific Advisory Board to the BMWE, 2023.)

Scientific Advisory Board to the Federal Ministry for Economic Affairs and Energy (BMWE) (2026). *Europäische Handelspolitik im weltwirtschaftlichen Umbruch*. Expert report (lead authors: Bierbrauer, F., Felbermayr, G., & Gersbach, H.), September 2026.

Tordoir, S., & Setser, B. (2026). *China Shock 2.0: The Cost of Germany's Complacency*. Centre for European Reform, Policy Brief, 20 May 2026.

Vicard, V., & Wibaux, P. (2023). EU Strategic Dependencies: A Long View. *CEPII Policy Brief*, 41.

Wende, A., Ertl, M., Reiter, M., & Weyerstraß, K. (2025). *Meta-Studie zur Handelsabhängigkeit Europas und Österreichs von China*. FIW-Research Report 02/25 (IHS).

Wingender, P., Yao, J., Zymek, R., Carton, B., Cerdeiro, D., & Weber, A. (2024). *Europe's Shift to Electric Vehicles Amid Intensifying Global Competition*. IMF Working Paper 24/218.

WKO – Austrian Economic Chamber (2026). *Global Insights: Exporttag*. Economic Policy Department.

WTO – World Trade Organization (2026). *Global Trade Outlook and Statistics*.

Author:
Gabriel Felbermayr
WIFO, WU, ASCII
E-mail: gabriel.felbermayr@wifo.ac.at

Imprint:

FIW Policy Briefs are published at irregular intervals on current foreign trade topics. Publisher is the FIW - Research Centre International Economics. The authors are responsible for the content of the Policy Briefs.
FIW offers a research platform, information on topics relevant to foreign trade and access to economic databases. It is a cooperative project of the Vienna University of Economics and Business, the University of Vienna, the Johannes Kepler University Linz, the University of Innsbruck, the Austrian Institute of Economic Research, the Vienna Institute for International Economic Studies and the Institute of Advanced Studies.

FIW. is supported by the Federal Ministry for Women, Science and Research as well as the Federal Ministry of Economy, Energy and Tourism

Contact:
FIW project office
c/o WIFO
Arsenal, Object 20
1030 Vienna
Phone: +43 1 728 26 01 / 335
E-mail: fiw-pb@fiw.ac.at
Website: https://www.fiw.ac.at