



Institute for European
Analysis and Policy

Jean Monnet Centre of Excellence
on EU Inclusive Open Strategic Autonomy

European Strategic Autonomy and Competitiveness

Paolo Guerrieri

Senior Fellow, Luiss Institute for European Analysis and Policy
Visiting Professor, PSIA, Sciences Po, Paris

17 January 2024



Co-funded by
the European Union



OUTLINE

- ❖ What Strategic Autonomy means for the EU
- ❖ New global context and Russia invasion of Ukraine have restored centrality to the concept of EU Strategic Autonomy
- ❖ Geopolitical tensions are posing significant challenges to the EU's long-term economic competitiveness.
- ❖ A double challenge for the EU: how to strengthen its competitiveness (*Green Deal*) while increasing its economic security (*Open Strategic Autonomy*)
- ❖ It is not possible to do so without stronger EU-level governance and more common financial resources

OPEN STRATEGIC AUTONOMY

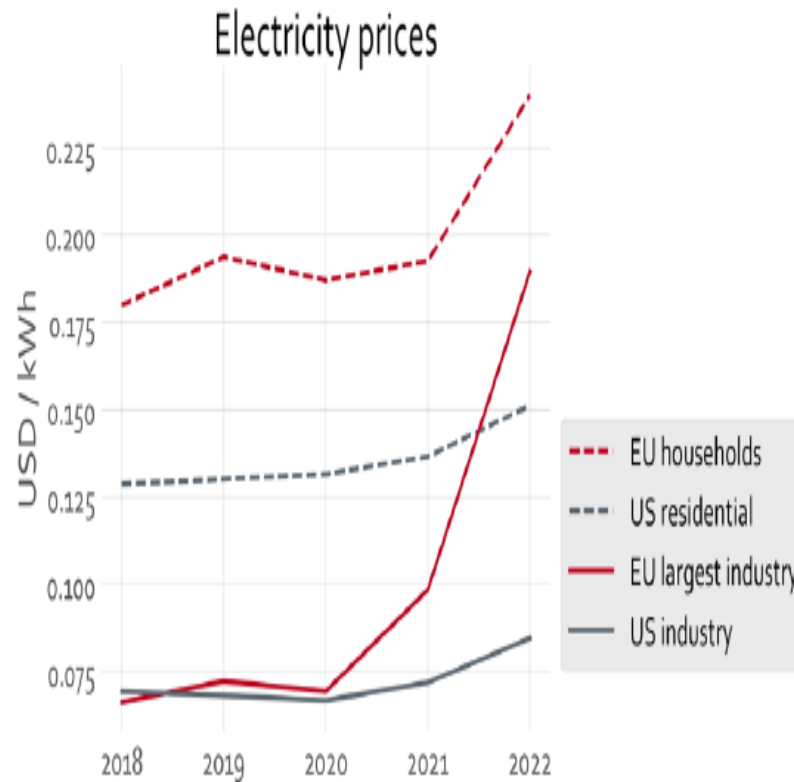
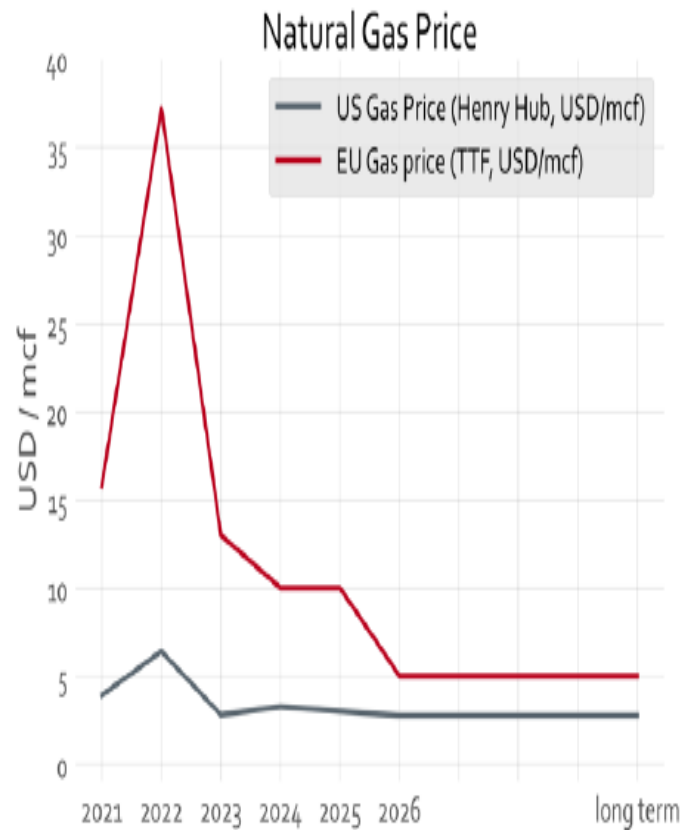
- ❑ “Strategic autonomy” has long been at the center of a broad debate in Europe and has played a central role in defining the strategies of the von der Leyen Commission
- ❑ European strategic autonomy as a multidimensional concept: the development of the EU's own capacity for sovereignty and 'resilience' at different levels, including the economic level.
- ❑ “Open strategic autonomy” (OSA): a necessary balance between the defense of European strategic economic assets and the vital interest in the openness and integration of the EU economy into international markets.
- ❑ The peculiar mix of domestic and international components that contributes to define the concept of OSA.

THE CENTRALITY OF OSA IN THE NEW GLOBAL SYSTEM

- The new global context focuses more on the balance of power between countries than the multilateral rules and institutions of the past.
- Interdependence has become a source not only of opportunities and prosperity, but also of potential vulnerability (*weaponized interdependence*).
- The traditional concept of national security has been redefined to include economic security.
- This world of geopolitical rivalry and great power competition has created difficult challenges for the EU with its institutions designed for a rules-based world.

THE EU'S COMPETITIVENESS IS UNDER SEVERE THREAT

- The new global context and geopolitical tensions have highlighted new fragilities in Europe's economies.
- They put Europe's growth model - based on cheap energy import and net export toward the world (particularly China) - on an unsustainable trajectory.
- To regain competitiveness, European manufacturing supply needs to be restructured and reconverted.
- A double challenge: to strengthen EU competitiveness while increasing EU economic security.
- A greener and more competitive Union can indeed provide an effective response to seeking Europe's strategic autonomy and economic security.



NATURAL GAS PRICE AND ELECTRICITY PRICES IN THE US AND EU

Source: Eurostat (1,2), [Fitch Ratings](#), [US EIA](#)

- ❖ Wholesale gas prices in the EU, although falling, are still around twice as high as they were before the Russian invasion and higher than in the US.
- ❖ Soaring energy prices clearly pose a competitiveness risk for EU producers in general and for highly-energy intensive industries in particular.

GREEN DEAL and THE NEW EU GROWTH STRATEGY

- ❑ The Green Deal as an EU strategy for sustainable growth supporting the restructuring and the modernization of the European economy.
- ❑ It should be based on three pillars: investment to replace energy-intensive capital (brown) with green capital (green); resources to support a new consumption and welfare paradigm; investment in innovation to complete the transition.
- ❑ First major obstacle: benefits from increased productivity will only materialize in the long term, while costs will rise in the short term (the so-called "tragedy of the time horizon")
- ❑ Second major obstacle: the initial costs of clean (green) technologies and products are high and fall mainly on lower- and middle-income households and businesses (the so-called "tragedy of public goods").
- ❑ There are already worrisome signs of a green backlash in Europe because many member states fear the short- to medium-term economic and social costs of the Green Deal.

THE KEY ROLE OF INDUSTRY AND INDUSTRIAL POLICY IN THE GREEN TRANSITION

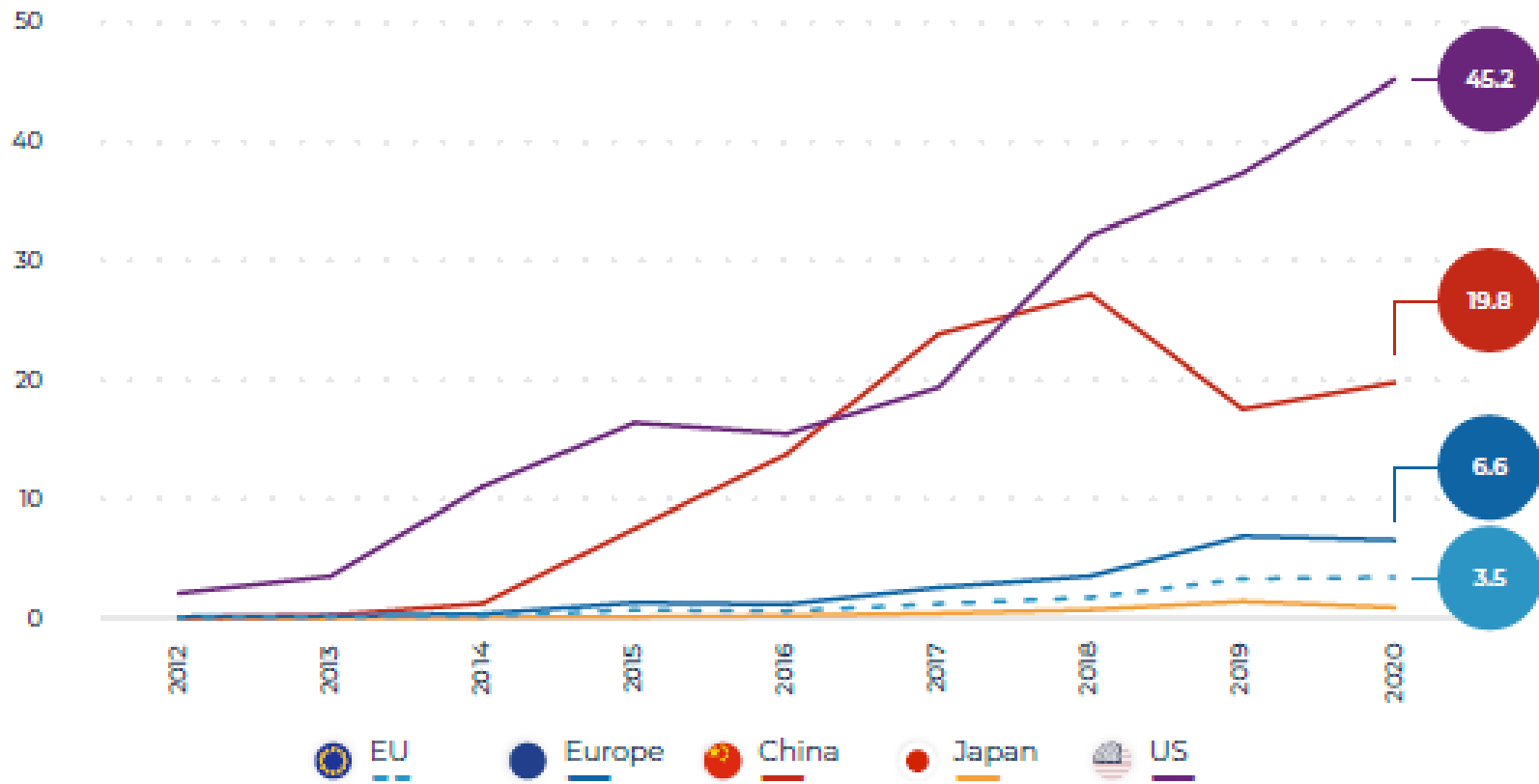
- The future of industry and industrial policy will strongly influence the evolution and outcome of the whole green transition phase of Europe.
- The goals of a "green" industrial strategy include, alongside the traditional goals of increasing productivity and stimulating innovation, environmental sustainability and strategic autonomy.
- One should recognize that the European Union is still a long way from having developed an effective and adequate industrial policy strategy.
- Even more worrisome in perspective is that the EU Commission made state aid rules more flexible, in response to the US Inflation Reduction Act , creating a high risk of distortion in the Single Market.

A GREEN INDUSTRIAL STRATEGY AT EUROPEAN LEVEL

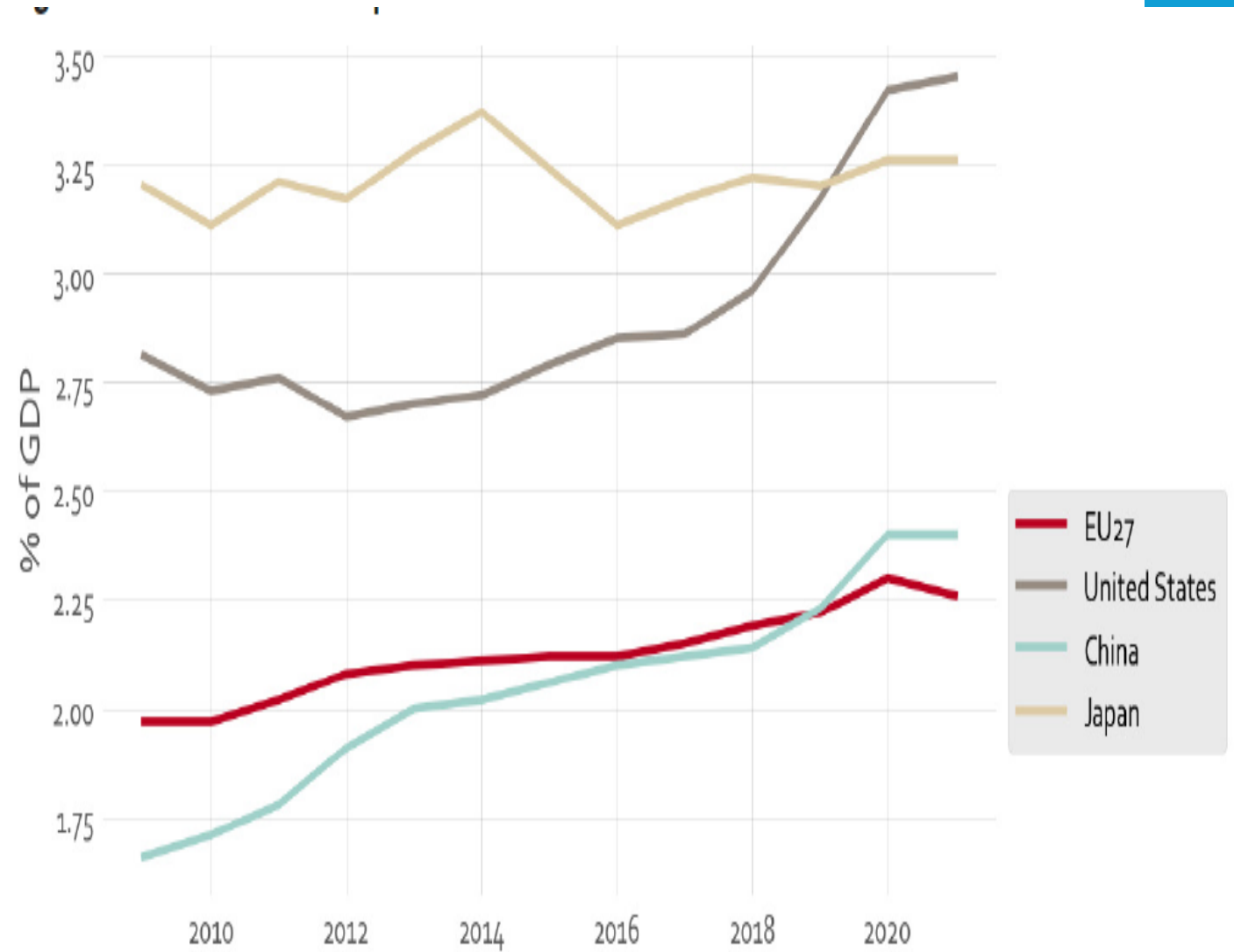
- Strengthening and regaining EU competitiveness goes beyond national policies.
- It would require a radical restructuring of the European production model, led by a European industrial and technological policy. One should leverage the European scale, which is key of success in many areas such as in AI
- The Commission's proposal, now on hold (replaced by the pale *STEP*), for the creation of a "European Sovereign Fund" with the role of launching EU-wide actions in clean tech frontiers (like R&D expenditure)
- The *IPCEIs* (Important Projects of Common European Interest) are to be relaunched and strengthened.
- Strategic industrial policies and the 'collective action' problem at international level.
- More in general the EU should improve its capacity for industrial policy. But strong divisions among Member States on industrial policy initiatives.

VC investment in AI by country

USD billion



Domestic Expenditure on R&D in terms of GDP

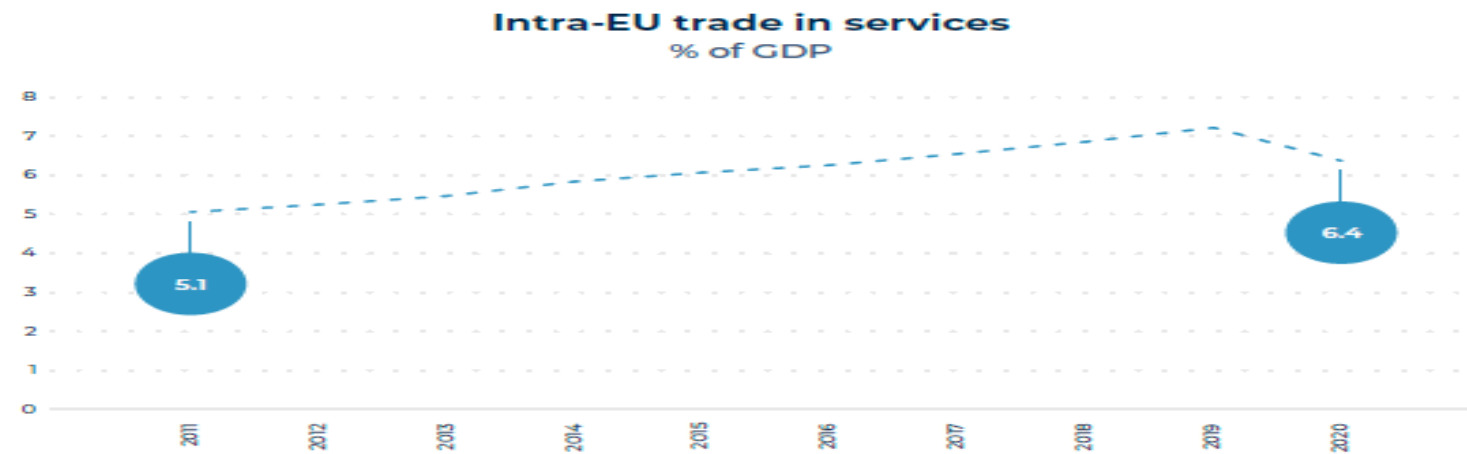
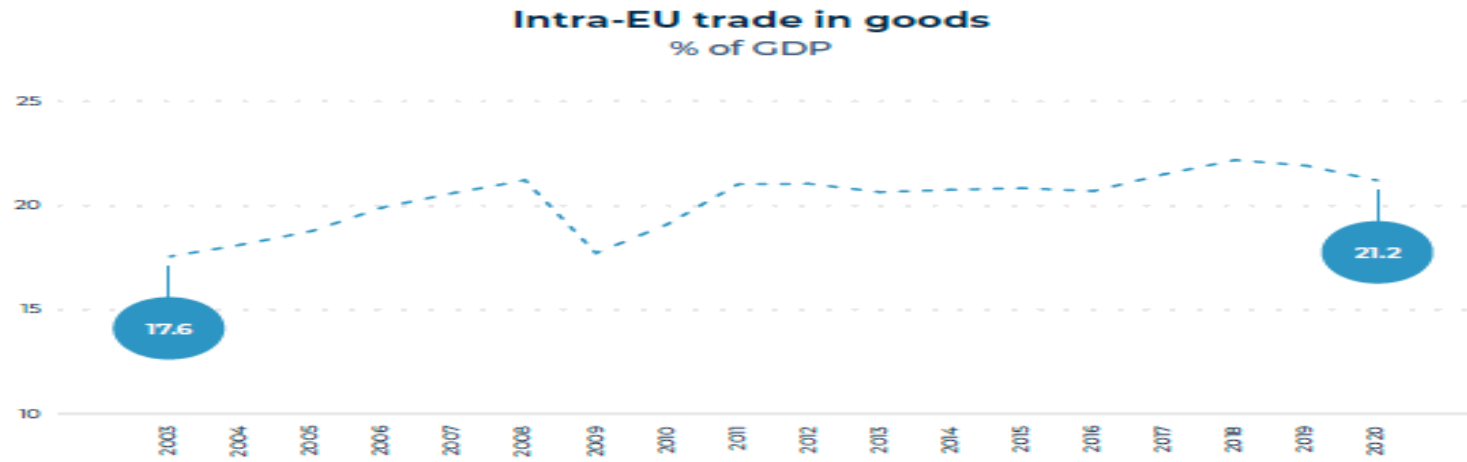


Source: [Eurostat](#)

DEEPENING THE SINGLE MARKET

- ❑ Protecting and deepening the Single Market should be a pillar on which to build EU strategic autonomy.
- ❑ But there is a risk that European state aid rules will be further relaxed in the absence of new common instruments and funding and the integrity of the Single Market will be put at risk.
- ❑ A new and effective EU green industrial policy should aim at an overall improvement in the attractiveness of the EU Single Market as a location for green investment.
- ❑ This means completing it by extending it to a number of services that have been left outside it.
- ❑ Mainly in relation to digital diffusion and transformation (KIBS), where the EU's competitive position has been severely weakened in recent years.

THE EU SINGLE MARKET FOR GOODS AND SERVICES



EU Global Value Chains Exposure

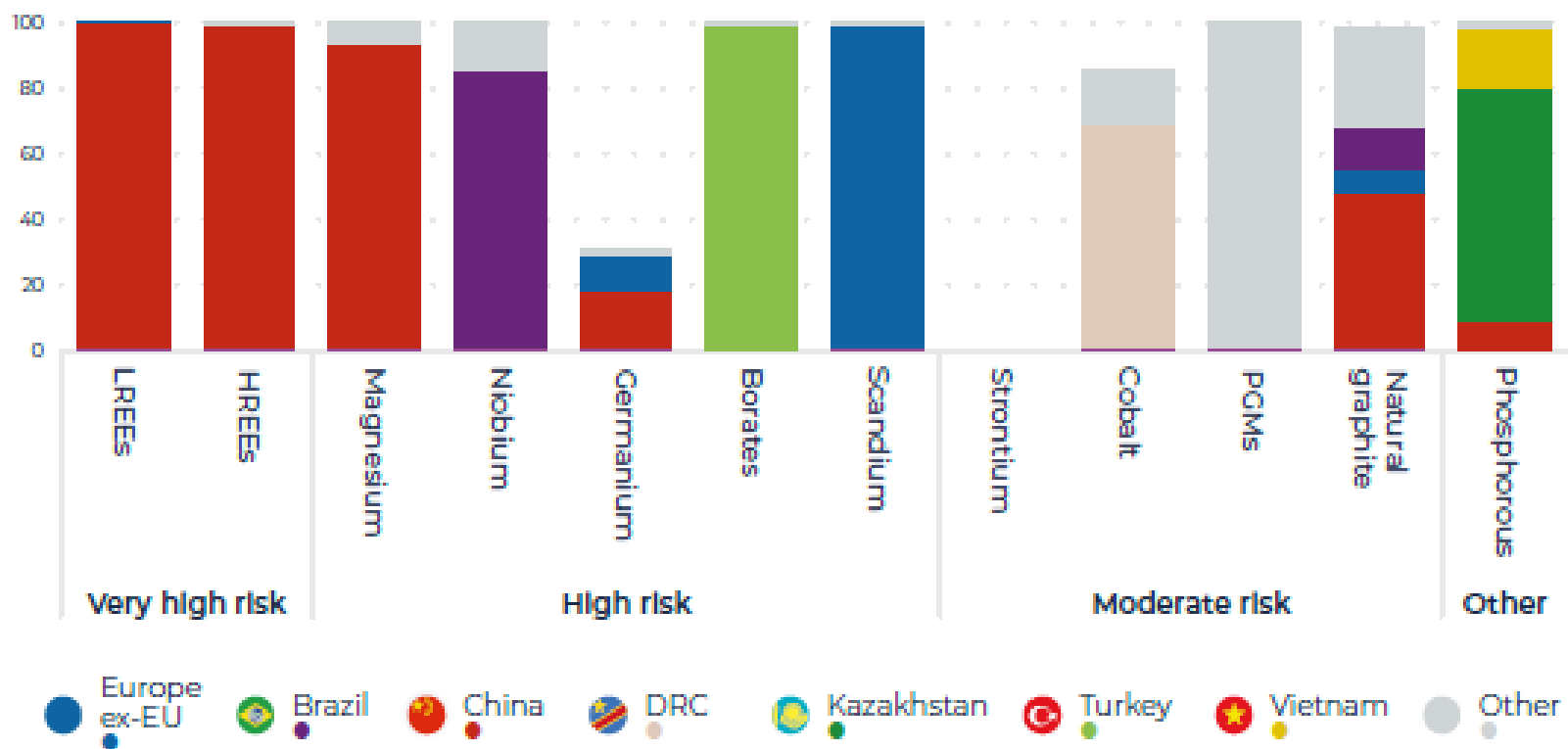
- ✓ The EU is highly integrated in GVCs both in manufacturing and service sectors, with quite a lot of heterogeneity across EU Member States in the degree of dependence on GVCs.
- ✓ The Covid-19 pandemic and then the war in Ukraine caused major disruptions in GVCs.
- ✓ In recent years, all of this has pushed in the direction of greater diversification (and nearshoring) of the GVCs, rather than in the direction of re-shoring.
- ✓ Beyond the trend toward nearshoring, the shift from global to regional supply networks has been further increasing.
- ✓ The Single Market could provide a solid basis for re-organizing and/or creating European value chains in the face of new strategic and security conditions.
- ✓ One should add that the architecture of globalization will be reconfigured by the way global supply chains change

PROTECTING EUROPEAN STRATEGIC INTERESTS

- ❖ A key issue is how to reduce EU overdependence in general and on Chinese companies in particular (electric car batteries, photovoltaics, wind turbines, critical materials).
- ❖ New economic/trade and FDI instruments are developed to level the playing field and respond to external actions (*Investment Screening Mechanism, Anti-Subsidy Regulation, Carbon Border Adjustment Mechanism (CBAM), Anti-Coercion Instrument, etc.*).
- ❖ It is essential that the EU ensure secure and reliable access to certain critical raw materials. To this end, the EU has launched the *European Raw Materials Alliance* (ERMA) program and the *Critical Raw Materials Act*.
- ❖ This approach encompasses various strategies, ranging from material substitution to technological advancements, enhanced material efficiency, and international collaboration.

EU import reliance on critical raw materials and main sourcing country

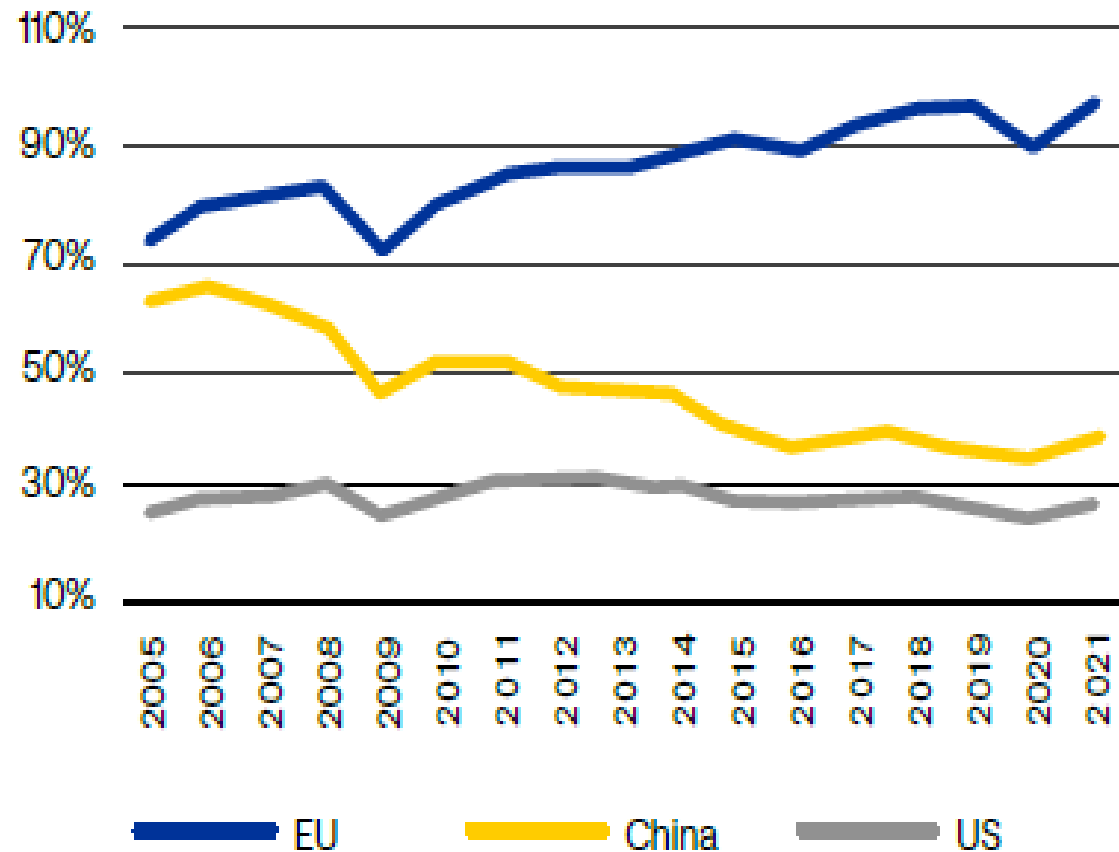
Share in 2020, %



TRADE POLICY AND OSA

- ❑ EU Trade policy is one of the tools that can be used to strengthen economic security, but its content must be aligned with Europe's strategic interests.
- ❑ The creation of new 'economic' agreements, no longer just trade deals, in order to strengthen economic security as well as to expand trade relations.
- ❑ The EU must also expand its network of relations with many other third countries (*Global South*) even those that are now far from Europe in terms of international alliances (*Global Gateway in 2021*).
- ❑ In particular, the EU will need to increase its attractiveness to Africa and African countries. This continent is of fundamental strategic importance to Europe.

TRADE OPENNESS of US, CHINA and the EU



(sum of import and export in % GDP)

EU OPENNESS AND MULTILATERALISM

- At international level, Europe must become a stronger and more assertive single player to maintain its open competitive position and strengthen its economic security.
- Reforming and strengthening the multilateral institutions is the best way to ensure Europe's security and economic prosperity.
- In particular, strengthening the institutional architecture and legitimacy of the global trade regime is crucial for the EU.
- Linking trade agreements to other areas such as the environment, respect for human rights and, above all, social issues is a very sensitive topic (*open and inclusive strategic autonomy*).
- It has to be said that the EU is currently not doing much to help prevent global multilateral governance from declining.

ECONOMIC GOVERNANCE: NEW TOOLS AND RESOURCES

- ❑ Europe's agenda for stronger competitiveness and greater strategic autonomy includes the provision of European public goods (EPG), from climate policy to energy security to industrial and technological autonomy.
- ❑ More policy instruments and financial resources are needed at the European level to produce these EPG.
- ❑ However, no progress in this direction was recorded in the events of last years.
- ❑ If anything, there were some steps backwards after the positive response to COVID pandemic by the program NGEU in July 2020.
- ❑ It should be emphasized that, without progress on the front of global governance, it will not be possible to achieve the ambitious policy goals that the EU has set for itself.

CONCLUSIVE REMARKS

- ❑ Strengthening the EU competitiveness and building resilience and strategic autonomy at economic levels requires a series of highly complex initiatives and policies, both domestically and internationally.
- ❑ Some steps have been taken, and they are in the right direction, but a great deal more remains to be done.
- ❑ Last two years marks a setback for Europe's economic prospects.
- ❑ The trilemma (decarbonization, higher sustainable growth, more economic security) becomes almost impossible to tackle without stronger EU governance and more common financial resources
- ❑ The stakes are enormous. The status quo would be an increase in the irrelevance and marginalization of European countries

The End