



Institute for European
Analysis and Policy

Jean Monnet Centre of Excellence
on EU Inclusive Open Strategic Autonomy

European Strategic Autonomy and Competitiveness

Discussion

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Outline

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- Global value chains and OSA
- Green transition and strategic autonomy
- Strategic dependencies, inclusive open strategic autonomy and the role of African countries
- Between trade and industrial policies: European challenges

EU between nearshoring and reliance on foreign demand

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Geopolitical tensions and fragmentation challenge Europe's export-led.

The EU's model relies on cheap energy inputs and exports towards the world.

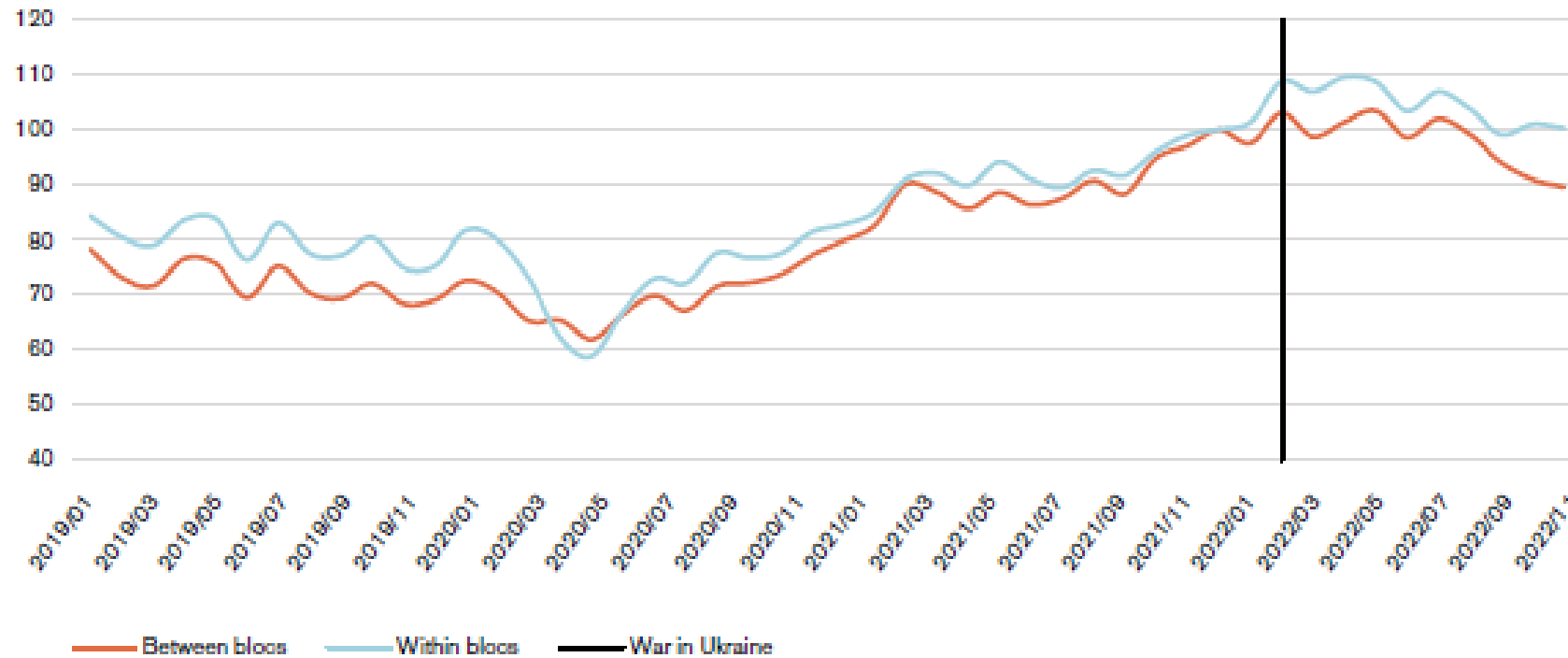
In more recent years, roughly from 2012 onwards, EU has experienced nearshoring, coupled however with a growing importance of final demand from the rest of the world, notably Asia.

What are the implication for EU's manufacturing if other regions also nearshore their GVCs?

Trade within and between hypothetical trade blocs

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Index January 2022=100



Source: WTO Secretariat calculations based on Trade Data Monitor data.
Note: Seasonally adjusted series.

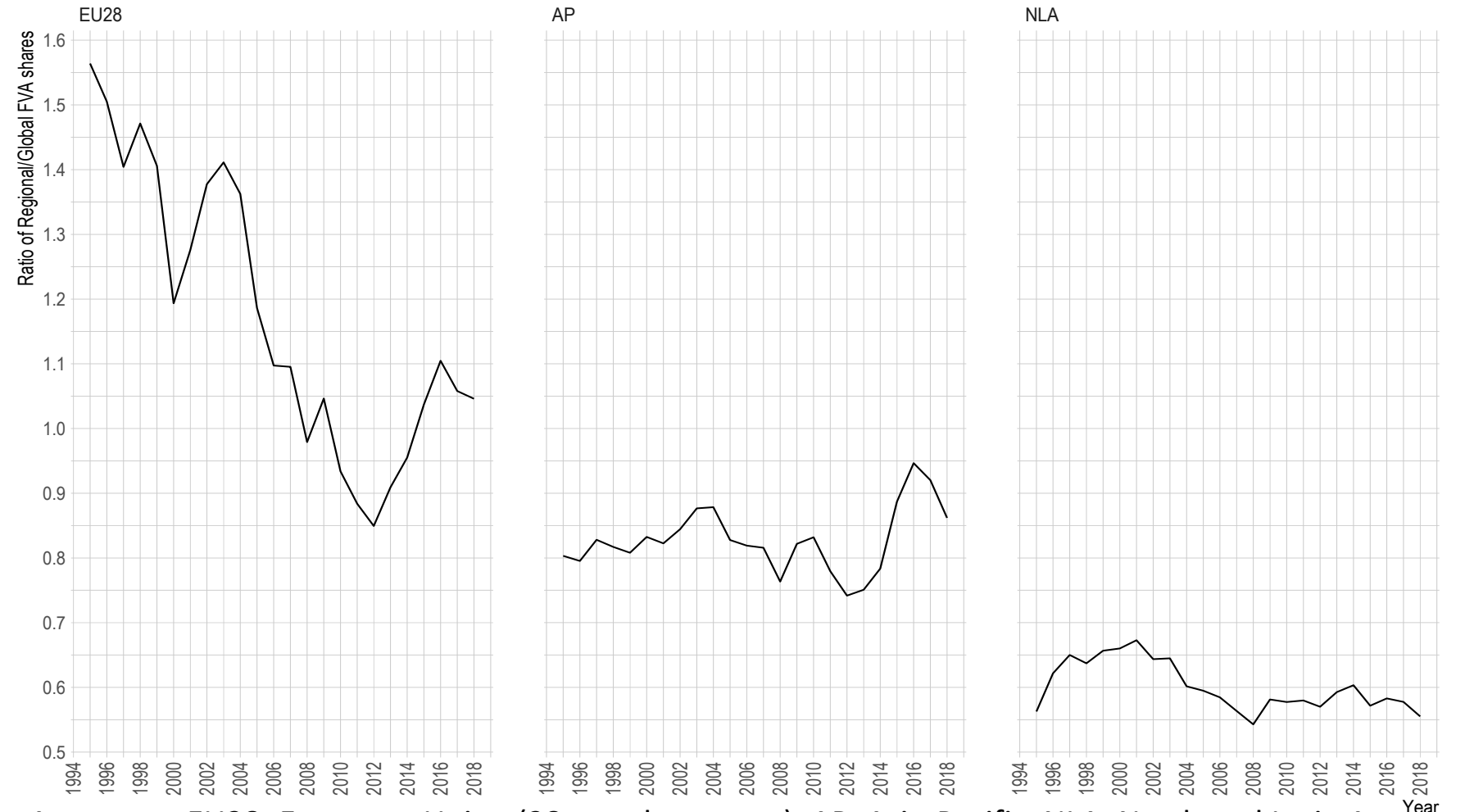
Nearshoring in Europe

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Europe has a high level of regional integration

Long period of declining regional over global foreign value added share

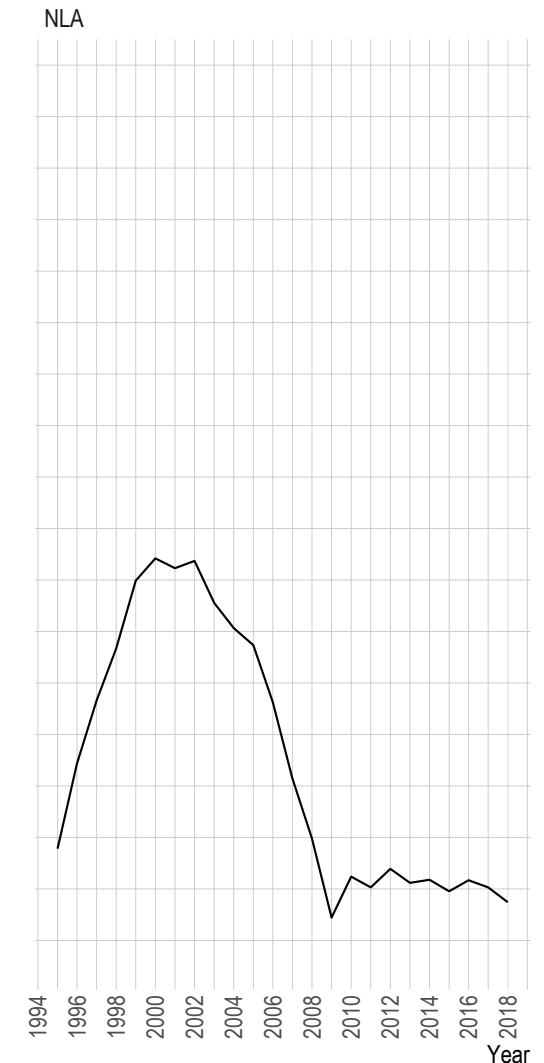
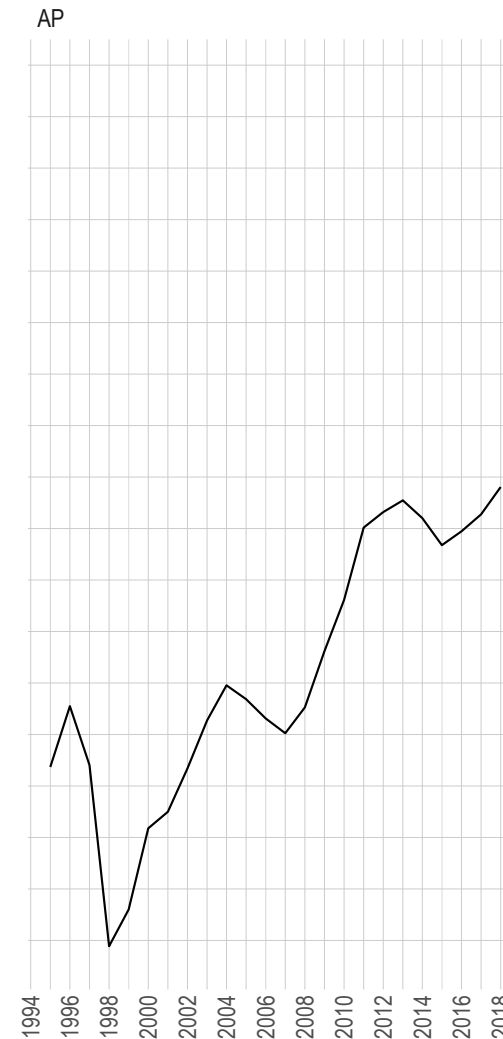
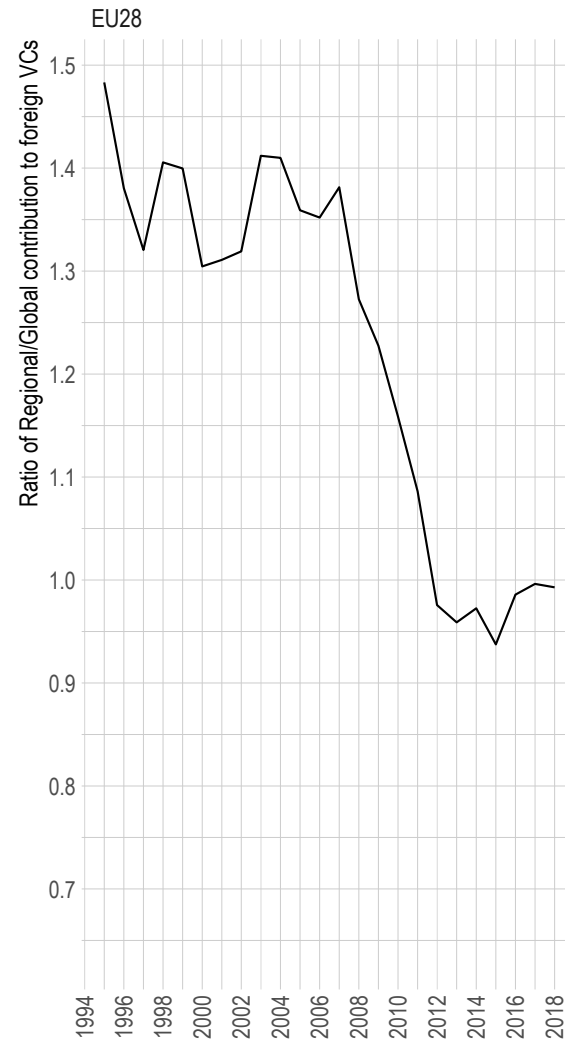
Reversal of the trend starting from 2012



Acronyms: EU28: European Union (28 member states); AP: Asia-Pacific; NLA: North and Latin America

Farsharing in Europe

- After the financial crisis the contribution of regional to global VC has declined
- The opposite has happened in Asia-Pacific with a growth in the regional destination of value added



Green transition and strategic autonomy

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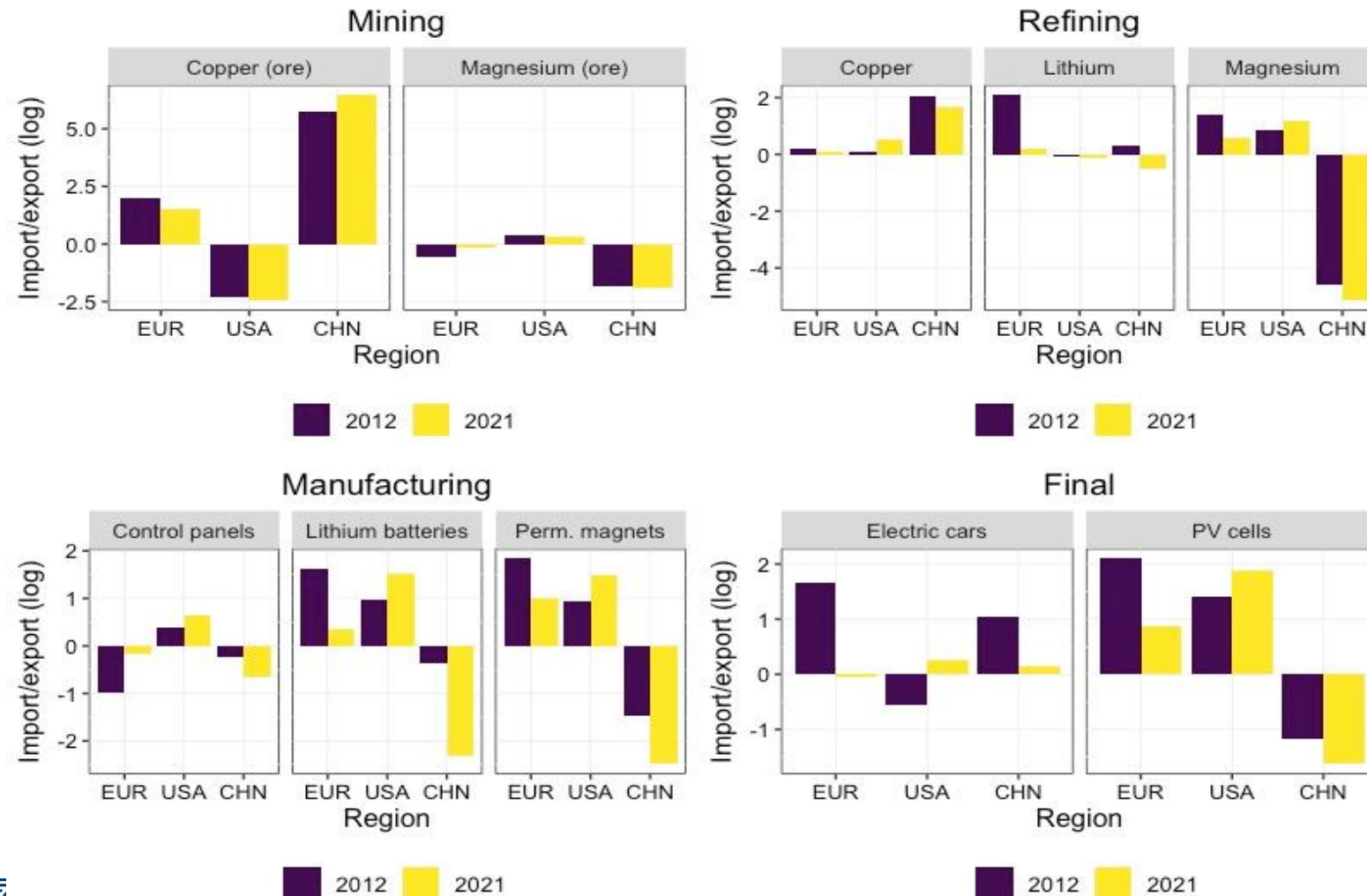
The green deal has indeed the potential to give new breath to the EU economy and facilitate a transition towards a more sustainable and just economy.

It also raises the challenge of EU's growing dependence of critical raw materials, as well as manufactured products (e.g. solar panels, EVs and microchips) that EU imports largely from China.

In light of the growing global demand for green (and digital) production, where should the EU position itself and can it exploit its technological capabilities to gain a strategic advantage?

Europe import dependencies in selected products of the green value chain

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Critical raw materials and diversification of sourcing

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The EU has a strategic interest in diversifying away from China to guarantee its access to critical raw materials and components.

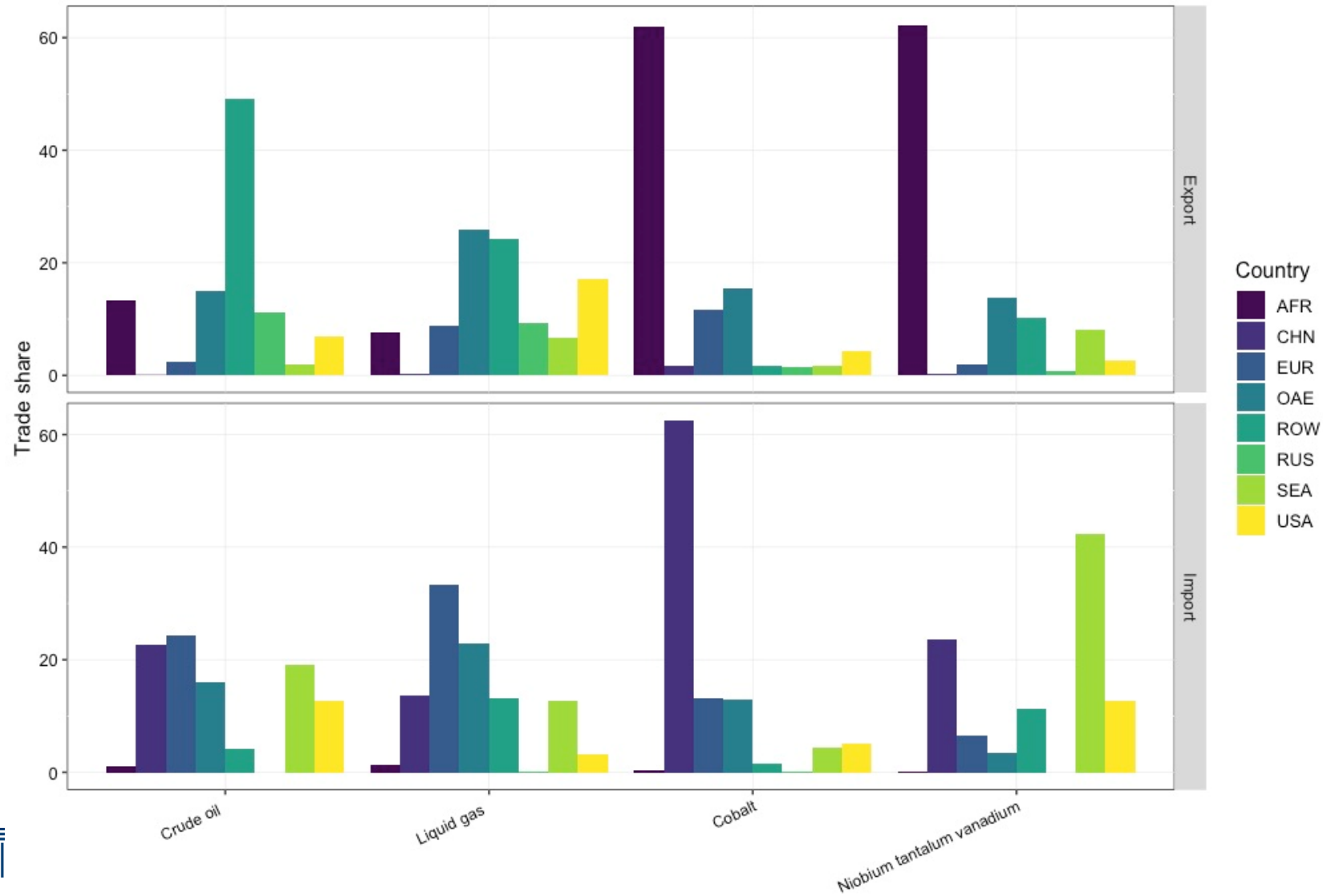
Africa has garnered a significant interest, however:

1. It seems that at the moment Africa is a significant exporter of only few CRMs.
2. It exports the majority of its CRM to the US and China, that act as global hubs for the rest of the world.

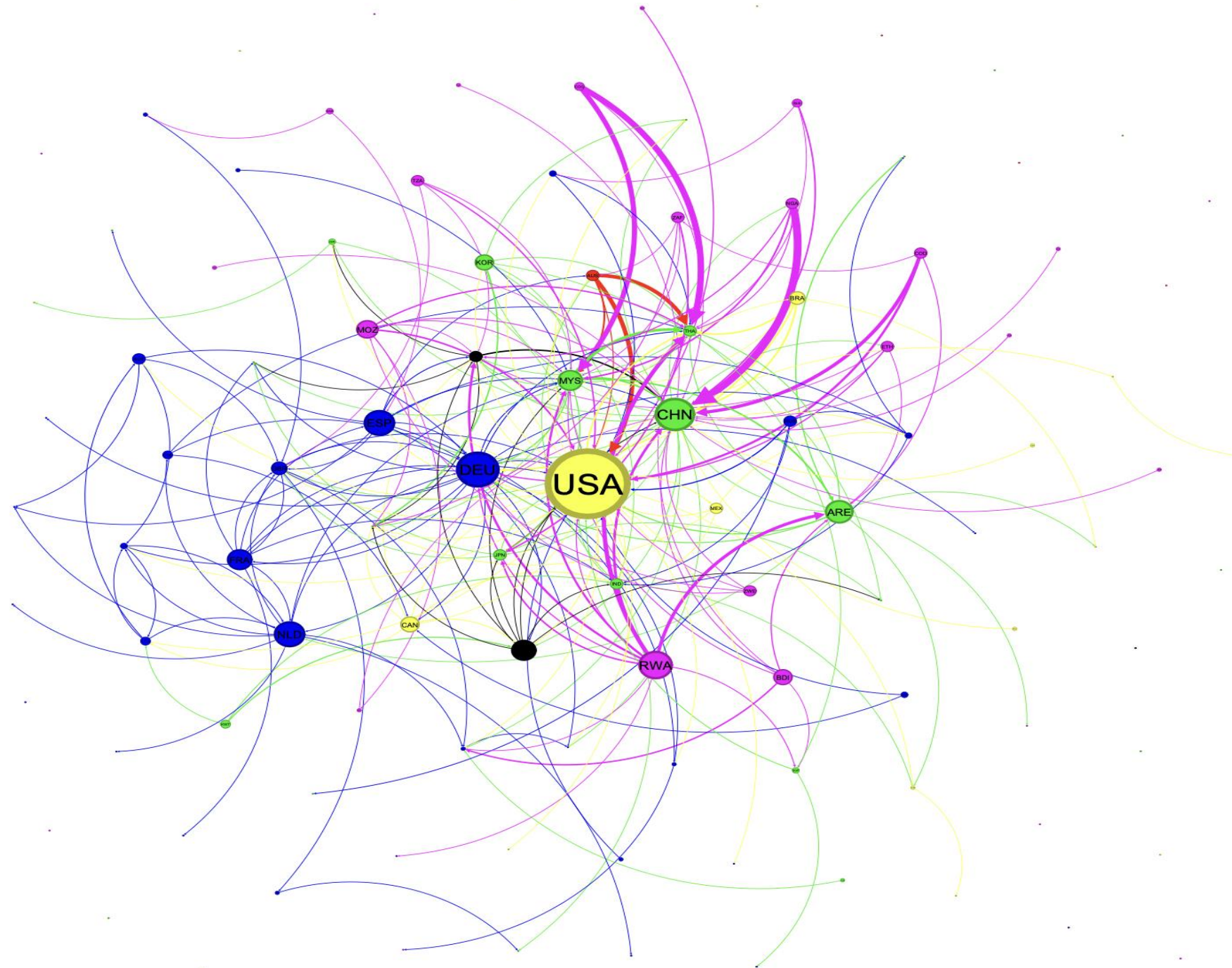
Is Africa a workable new trading partner in the short term?

Trade shares of 4 key products

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Nobium, tantalum and vanadium export network.



Between trade and industrial policy: European challenges

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- The importance of multilateralism and an ordered trade system for an export-oriented economy and the risk of generalised contractionary fiscal policies and negative spillover effects
- Risk and opportunities for developing countries. Fragmentation and Re-globalization (WTO, 2023)
- The EU does not have a true EU industrial policy. Despite some EU attempts (like STEP, and IPCEIs), the EU industrial policy is confined to set broad common targets
- There is a risk that an un-coordinated industrial policy will result in economies with a larger size and a larger budgetary capacity to boost their own industries, tearing effectively the Single Market

Current lines of research at LEAP

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- 1. Nearshoring and employment** – industry level analysis looking at patterns of restructuring of GVCs and its implications for employment.
- 2. Nearshoring and volatility** – industry level analysis looking at the propagation of shocks and how GVC structure mediates these.
- 3. GVCs and the twin transition** – identifying the closest parts of green and digital GVCs in which EU countries can develop a strategic advantage

Geopolitical developments and OSA

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Geopolitical developments	OSA concept	OSA related policies
<p>2008-2019</p> <p>Russian Annexation of Crimea (2014)</p> <p>Brexit (2016-2020)</p> <p>Trump Administration (2017-2021)</p> <p>China-USA trade war (2018-)</p>	<p>Strategic autonomy linked to common foreign and security policy</p> <p>(European Council 2013; European Union Global Strategy 2016)</p>	<p>EU raw materials initiative (2008), with list of critical materials in 2010 (14), 2014 (20) and 2017 (27)</p> <p>IPCEI (2014) to support projects that make a clear contribution to the EU strategic objectives</p>
<p>2019-2023</p> <p>Covid outbreak</p> <p>Russian invasion of Ukraine</p> <p>Biden Administration Inflation Reduction Act</p>	<p>Strategic autonomy explicitly extended to economic policies</p> <p>2020: a new industrial strategy for Europe “that will support the twin transitions, make EU industry more competitive and enhance Europe strategic autonomy”</p> <p>The European Parliament and the Council adopted a regulation establishing a framework for the screening of FDI into the EU on the grounds of security and public order. The Commission revised its trade policy in 2021 to support the EU’s open strategic autonomy</p>	<p>Suspension of the limits on state aid</p> <p>Eu assessment of critical raw materials (2020 and 2023)</p> <p>Chips Act (February 2022), 43 billions euro</p> <p>REPowerEU (May 2022)</p> <p>Critical Raw Materials Act</p> <p>Green Deal Industrial Plan (February 2023)</p> <p>STEP (June 2023)</p> <p>Review of the Multi-annual financial framework</p> <p>EU Council did not approve extra-funding for STEP.</p> <p>European Sovereignty Fund?</p>