



“The game is not the same”

The European Union in the new global context

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Introduction

The **Single Market** has bolstered the EU's global competitiveness over three decades

The EU has gained from being open and integrated in global value chains

However, the international trade context has changed

Geopolitical tensions and unfair practices threaten **Europe's industrial competitiveness and economic security.**



Strategic dependencies and supply risks in sectors critical for economic security and political priorities (Green & Digital transitions).



Dependencies ultimately lead to vulnerabilities and have been and are likely to be used as **geopolitical weapons** to harm Europe.

New Global Context (USA)

- Katherine Tai (7 October 2022): “the traditional approach to trade - marked by aggressive liberalization and tariff elimination - also had significant costs: concentration of wealth; Fragile supply chains; De-industrialization, offshoring, and the decimation of manufacturing communities.” (...) **“We have not sworn off market liberalization.”**
- Jake Sullivan (27 April 2023): **“A New Washington Consensus”** (...) From “a set of ideas that championed tax cutting and deregulation, privatization over public action, and trade liberalization as an end in itself” to “a modern industrial and innovation strategy (...) that invests in the sources of our own economic and technological strength, that promotes diversified and resilient global supply chains, that sets high standards (...), and that deploys capital to deliver on public goods like climate and health.”
- Lael Brainard (13 May 2024): “Tariffs raised so as to make sure that **historic investments** in jobs spurred by President Biden’s actions are **not undercut by a flood of unfairly underpriced exports** from China in areas like EVs, batteries, vital medical equipment, steel and aluminum, semiconductors, and solar”.

New Global Context (China)

- **Large funding, subsidies, tax incentives, in specific sectors & values chains** (NEV Purchasing tax exemption; under 14th Five-Year Plan (2021) boosting digital sector's added value to 10% of GDP by 2025, targeted investments in 6G and cloud services, only Chinese companies can operate; China Hydrogen Alliance; Dual Circulation Strategy aims at full supply chains control of chipmakers).
- **Public procurement in support of domestic production and security of supply** (*Eastern data, Western computing plan* to develop the digital industry by constructing 8 computing hubs and 10 data centre clusters; *New Infrastructure plan* (2020) unlocked USD 1.4 trillion; full-scale 'Buy National' policy).
- **Stockpiling of critical inputs** (estimate of 1.5 to 2 million tonnes of copper, 800 000-900 000 tonnes of aluminium, 250 000-400 000 tonnes of zinc, around 7 000 tonnes of cobalt).
- **Prioritisation of supplies of goods and services** (*Dual circulation strategy* (2020): rely mainly on domestic market and leverage/build its strengths; 'domestic circulation' must be able to function autonomously in case of problems with foreign supplies).
- **Trade and investment measures: tariffs, export restriction, anti-coercion measures, standards** (*Export Control Law* (2020); *Catalogue of Technologies Restricted and Prohibited for Export*; *Data Security Law, Personal Information Protection Law* (PIPL); *Measures for Security Assessment for Cross-Border Data Transfers*).

New Global Context

Prioritisation of supplies of goods and services:
US, China



Stockpiling of critical inputs:
US, Japan, Korea, China



Public procurement measures to support critical sectors:
US, Japan, India, China



Screening of foreign acquisitions in critical sectors:
Japan, US, UK



Investments in specific supply chains:
US, Japan, Australia, China



Stronger State Interventions

- Aggregate value of **corporate subsidies** linked to industrial policy measures announced (since 2023) = **\$1.4 trillion**.
- **\$668 billion** for **climate change mitigation**.
- **\$180 billion** for **national security goals**.
- Preliminary evidence of **market access impairment** due to large export exposure.
- Selective **policy intervention** that targets firms, sectors, and activities that **governments** want to change.
- **Mismatch** between where the subsidies are being deployed and the motives that officials choose to emphasise.

Stated Motive	Number of Entries	% of Entries with a Stated Motive	Total Announced Subsidy Value (Billion USD)
All Corporate Subsidies in NIPO database	2312	74.2%	1434.6
<i>All Corporate Subsidies without Stated Motive</i>	908	75.7%	147.9
<i>All Corporate Subsidies with Stated Motive</i>	1404	73.3%	1286.7
Promoting Competitiveness or “strategic sectors”	765	68.8%	797.4
Climate Change Mitigation	762	78.7%	668.2
Security of Supply	314	63.1%	503.1
National Security	64	65.6%	155.0
Other	399	65.4%	72.7
Geopolitical Concerns	12	66.7%	25.2

Source: Global Trade Alert, 2024.

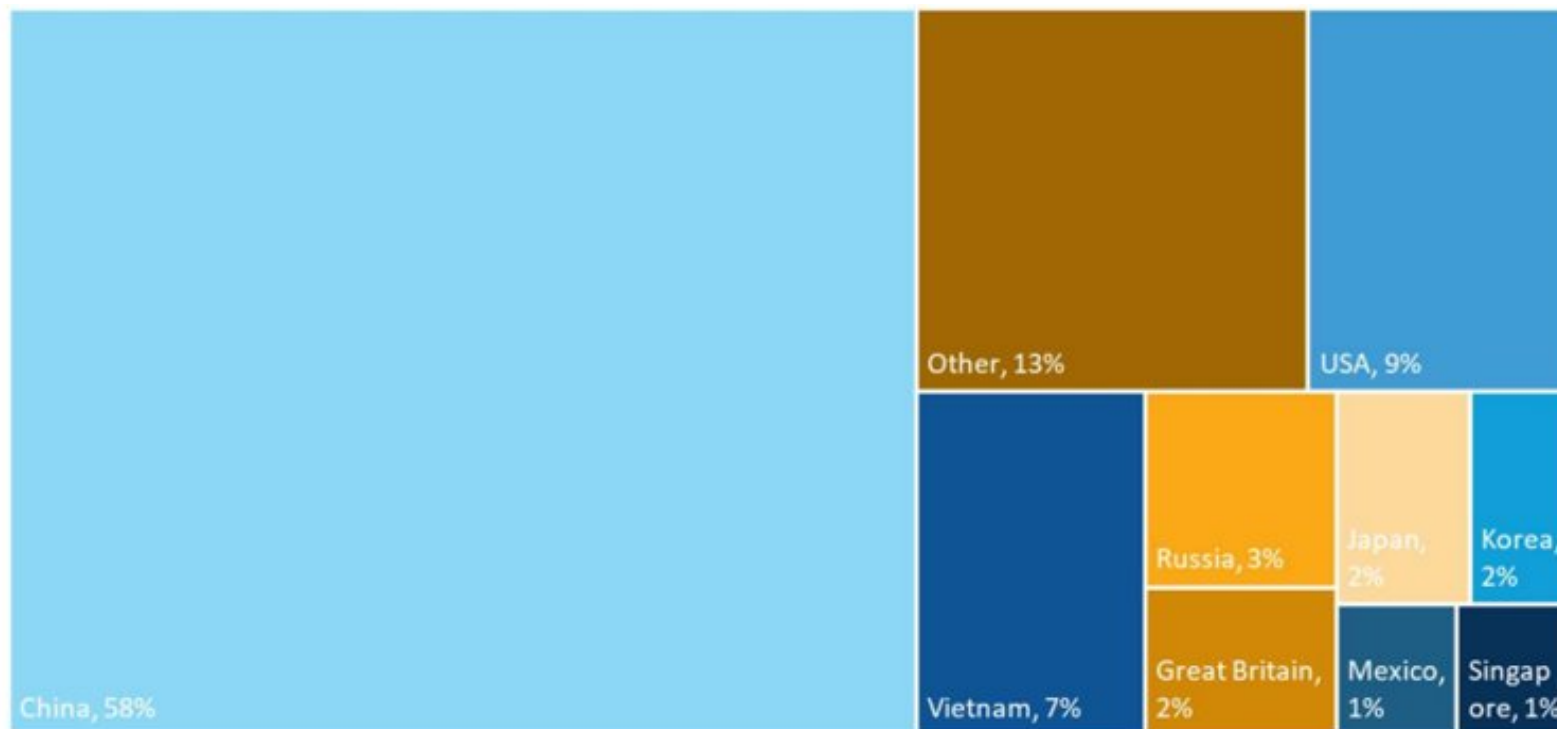
Risks for the EU

- Cross-border spillovers
- Public procurement and localisation
- Escalation of protectionist measures
- Retaliation
- Weaponisation of dependencies
- Economic Coercion
- Loss of Competitiveness

The EU's strategic dependencies

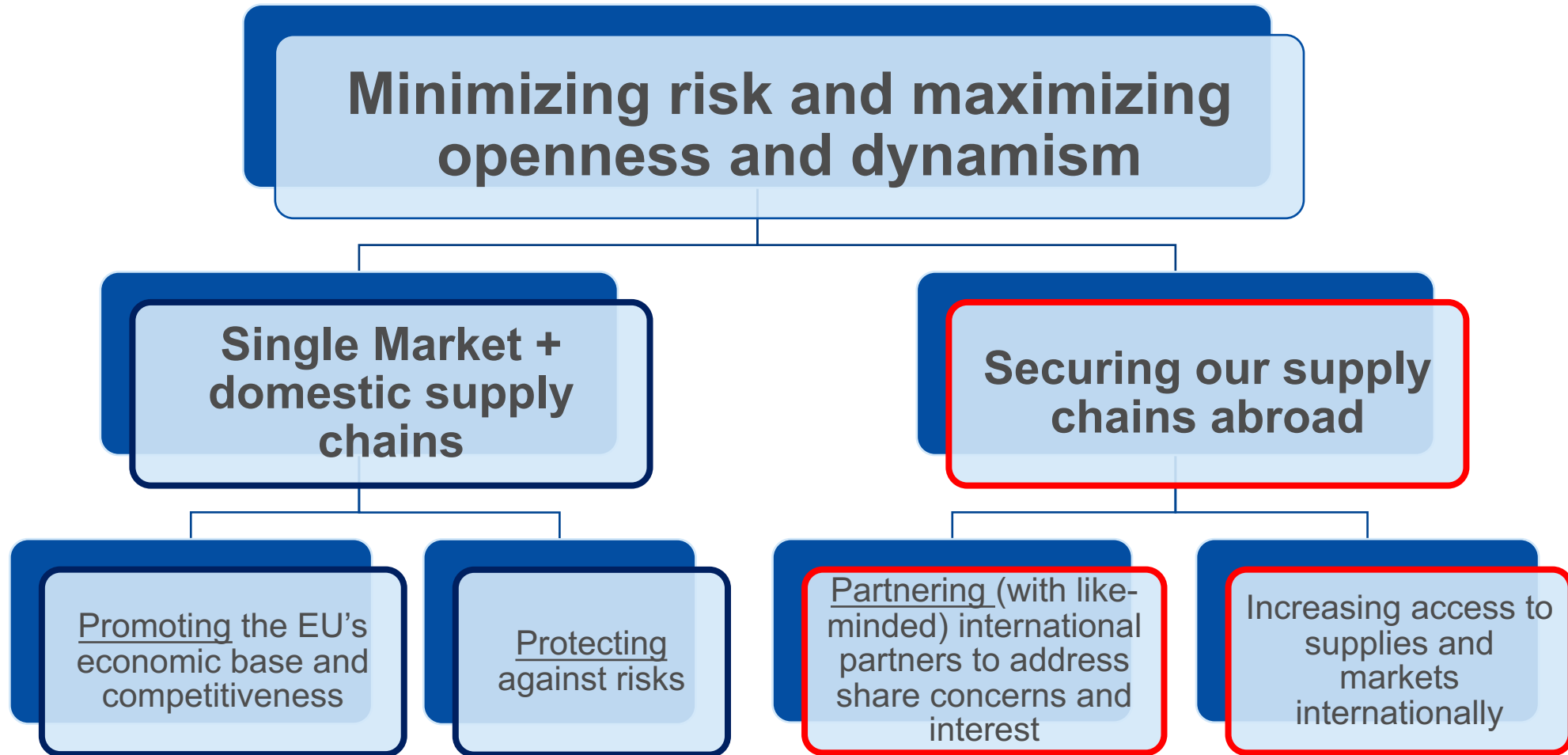
- There are **204** critical products in sensitive ecosystems for which the EU is highly dependent on foreign suppliers
- For 58% of those imports (in value), the EU is **dependent on China**.
- Other important countries are Vietnam and the United States.

Share of EU imports value of dependent products



Source: GROW Chief Economist team' calculations based on the database - Trade-Figaro-Eurostat.

What is the EU doing?



Implementing approach: Promote and Partner

Promote: Securing our domestic supply chains

Net-Zero Industry Act

Strengthening the EU's net-zero technology products manufacturing ecosystem

Critical Raw Materials Act

Diversifying by creating affordable, sustainable and secure CRM supply chains

Chips Act

Bolster the EU's competitiveness and resilience in semiconductor technologies

Industrial Alliances

Fostering collaboration to strengthen strategic sector competitiveness

Partner: Securing our supply chains abroad

Green Alliances

Norway, Morocco, Japan...

Strategic Raw Materials Partnerships

Canada, Ukraine, Namibia, DRC and Norway

G7

*Hiroshima Summit May 2023
Economic Security Communication*

Digital Partnerships

Japan, Singapore, South Korea...

Economic Security

Partnering with the broadest possible range of countries to address shared concerns and interests

Trade & Technology Councils

*US (2021)
India (2023)*

Non-EU countries participating in EU programmes

Norway, Iceland

Minerals Security Partnership

US-led partnership to share intelligence on raw materials

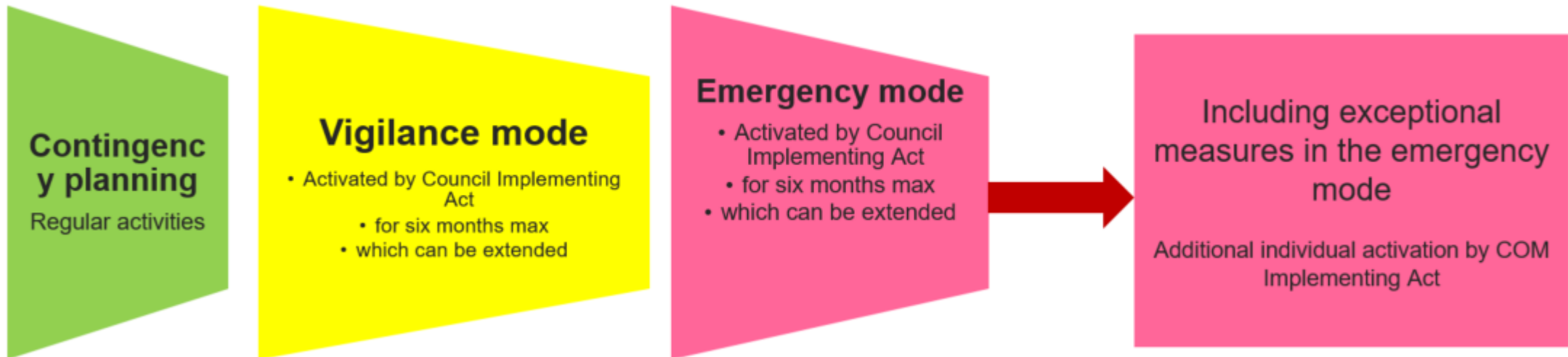
Raw Materials Chapter in new FTAs

Australia, Chile...

Enhance Single Market Preparedness to Crises

IMERA (Internal Market Emergency and Resilience Act)

- Minimise obstacles to free movement in times of crisis
- Address shortages and safeguard availability of crisis-relevant goods and services



- Guarantee free movement: General requirements; Prohibited restrictions; Mitigation measures
- Information requests and priority-rated requests to economic operators
- Targeted derogations to product legislation allowing for faster placing of products on the market
- Public procurement
- (model of the US Defense Production Act (DPA))

Net Zero Industry Act

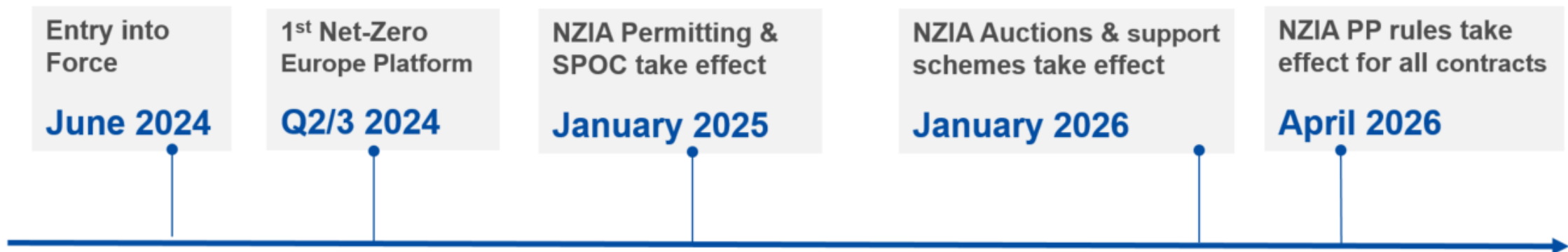
Establish a Regulatory Framework to ensure the Union's **access to a secure and sustainable supply of net-zero technologies** including by scaling up the manufacturing capacity of net-zero technologies and their supply chains.

Benchmarks:

Reduction of strategic dependencies by reaching a manufacturing capacity of:

- at least **40%** of EU annual deployment needs for the corresponding technologies necessary to achieve the Union's 2030 climate and energy targets;
- an increased Union's share for the corresponding technologies to reach **15%** of world production by **2040**, based on the monitoring in the Act.

Landmarks



EU Industrial Policy

- Investment support more effective for smaller & younger firms
- Foster transformation instead of status-quo preservation
- Sector- or technology-driven instead of picking ‘winners’
- Leverage benefits of the Single market (scale & competition)
- Spillover effects of national policies within EU
- Coordination of national policies vs genuine EU-level competencies
- Instruments:
 - EU **State aid framework** (national State aid) and **EU funds** (direct vs shared management)
 - **Important Projects of Common European Interest** (scale and synergies)
 - Regulatory **simplification** and **harmonisation** (NZIA, CRMA, Chips Act)
 - European **industrial alliances**

Protecting against unfair competition

Trade Defence Instruments (TDI)

- Anti-dumping, unfair competition

Foreign Direct Investment (FDI) Screening Regulation

- Addresses foreign direct investments in strategic sectors

Foreign Subsidies Regulation

- Addresses foreign subsidies in the Single Market

International Procurement Instrument (IPI)

- Addresses discriminatory treatment of EU companies in public procurement in third countries

Anti-Coercion Instrument (ACI)

- Protecting the EU's trade interests against economic threats and unfair trade restrictions imposed by non-EU countries.

Economic Security Package January 2024

Improving existing FDI screening legislation

Fostering further discussions within the EU on export controls of dual-use technologies that impact our security

Consulting on potential risks from outbound investments in specific technologies

Promoting further discussions within the EU on how to better promote research and development involving technologies with dual-use potential

Proposing that the Council recommends measures aimed at strengthening research security at national and sector levels

Conclusion

- **The game is no longer the same**
- The EU highly **exposed**, risk of **vulnerability**
- New economic model: **de-risking**, rather than de-coupling
- Remain **open**, but build **domestic capacity**
- **Internal:**
 - Maximise the potential of the Single Market
 - Complement market functioning with State intervention
- **External:**
 - Secure supply chains
 - Diversify

Thank you!



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