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# EU Strategic Autonomy: Industry Implications in the Changing World Trade Order.

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# EU Strategic Autonomy industry implications in the changing world trade order

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# Contents

- Executive summary ..... 2
- EU Strategic Autonomy imperatives gaining prominence ..... 2**
- Forward looking Strategic autonomy ..... 4**
  - Global Value Chains (GVCs) .....4
  - Strategic industries and diversification.....5
  - Core Strategic Industry Sets and International Trade.....7
  - International dimension: partners and rivals .....7
- Future perspectives ..... 8**
- Conclusions: strategic autonomy imperatives for Europe .....9**
  - Bibliography .....10

## Executive summary

Concurrent factors are re-shaping day after day our vision of the international economy: the Covid-19 pandemic and its impact on industries and value chains, the growth and growing assertiveness of China, the re-definition by the US of its role in the various regions of the world. How do these major factors affect the present and future of the EU and what are the implications for its policies? This paper analyses the main characteristics of European strategic autonomy in the wider context of the economic and social changes observed in international trade and international relations, in order to better understand what strategic autonomy means for European democracy.

## EU Strategic Autonomy imperatives gaining prominence

A working, resilient and prosperous economy, industry, and internal market, are the condition of the European social model progress. Strategic autonomy also intersects with sovereignty and defence. The implications of the strategic autonomy policies are not to be defined in isolation, but as a major ingredient of the Conference on the Future of Europe<sup>1</sup>.

Strategic autonomy has progressively gained prominence among EU objectives and policies. As exposed in a 2021 Istituto Affari Internazionali Report<sup>2</sup>, European Strategic autonomy was first used in the context of EU security and defence and remained a non explicitly defined concept until “[...] it was elevated as a broader strategic ambition in the 2016 EU Global Strategy, agreed immediately after the Brexit [...]”. The EU Implementation Plan on Security and Defense defined strategic autonomy as: “[...] the EU’s ability to act in security and defense together with partners when it can, alone when it must<sup>4</sup>.” The concept was originated from the security and

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<sup>1</sup> <https://www.consilium.europa.eu/en/policies/conference-on-the-future-of-europe/>  
<sup>2</sup> <https://www.iai.it/sites/default/files/9788893681780.pdf>  
<sup>4</sup> Council of the European Union, *Implementation Plan on Security and Defence* (14392/16), 14 November 2016, p. 4, <http://data.consilium.europa.eu/doc/document/ST-14392-2016-INIT/en/pdf>.

defense domain until it became used interchangeably with the notion of European sovereignty in the policy field “[...] heralded by French President Emmanuel Macron in 2017 and echoed by former President Jean-Claude Juncker in his 2018 State of the Union address.”<sup>5</sup>

Since then, the Covid crisis has induced re-visiting or tweaking of long accepted rules and definitions like budget equilibrium, the role of competition policy, reluctance to industrial policy, benefits of free trade. It can be said that the resulting *re-balancing* of economic objectives, priorities, and instruments is still a work in progress. Truth be told, those past imperatives had never been fully imperative. Budgets among Member States have been balanced, or not. And it has been a long time now since achieving free trade in the multilateral arena is not any more a shared objective at world level or even among Western countries. “My country<sup>6</sup> first” slogans are deeply imbedded in protectionist economic policies and international exchanges everywhere. The EU *popular sovereignty* itself is still under construction as the democratic institutions in place at Union level have not subsumed European nations popular sovereignties. As a result, the EU has gone a long way towards defining its *multi-faceted strategic autonomy ambitions*.

The main current perceptions among European citizens, according to which it is possible to build a discourse around the concept of European strategic autonomy, can be listed as the following “policies” and “abilities”:

- to design EU’s own rules and establish its own laws;
- to conduct its own sustainable growth and social development path relying whenever needed on its own industrial resources, and to withstand negative or hostile initiatives from foreign powers;
- to withstand economic shocks in cases of international crises;
- to successfully conduct an EU common foreign policy;
- to exert EU own military powers whenever its core interests are at stake.

Because of the geography and cultural differences among EU members, an immediate objection comes to mind: are the 27 EU Member States, split as they are on many issues, able to overcome their divergences and to implement a coherent strategic autonomy agenda? Putting it briefly, the EU has surprised its detractors recently by its ability to rise, however lopsidedly, to its challenges.

In this respect, the concept of European Union strategic autonomy has inspired numerous intertwined initiatives in different strategic areas:

Technology and Digitalisation	Industrial policy and sustainability	Foreign Affairs and Security
Comprehensive EU legal framework on privacy and the digital market, such as the GDPR and DSA/DMA;	Attempts at industry “re-shoring”	Progress towards common foreign and defence policies.

<sup>5</sup> Jean-Claude Juncker, *State of the Union Address 2018: The Hour of European Sovereignty*, Strasbourg, 12 September 2018, [https://ec.europa.eu/commission/presscorner/detail/en/SPEECH\\_18\\_5808](https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_18_5808).

<sup>6</sup> Insert here the country name of your choice

A set of initiative in strategic industrial sectors like health, micro-chips, car batteries, AI, and new technologies;	Coordination of green and decarbonated policies and the “Fit for 55” package, to achieve carbon neutrality by 2050;	Establishing a common European agenda for re-visited EU-China relations;
Initiative to foster the EU’s digitalisation and the internal digital market, such as broadband, regulation, competition, industrial policy (5G), cybersecurity.		Reassessment of the transatlantic dialogue to find a common ground in industry priorities and trade.
		Reinforcement of political, economic, and military relationships with Japan, South and SE Asia, Africa, which will also play a significant role in power plays and re-balancing the international trade order.

Considering the overall structure of the Union, composed of different sovereign States with different prerogatives and approaches not necessarily aligned to a common objective, difficulties, shortcomings, setbacks are unavoidable. However, the historical experience in the path toward European integration, encourages us to move forward and pave the way for potential progress.

### Forward looking Strategic autonomy

Looking at European strategic autonomy perspective<sup>7</sup> the following section consider the future of EU industries and value chains, considering its implications on the broader context of the relationships with China and the US.

#### Global Value Chains (GVCs)

It has often been considered that the Covid-19 pandemic induced economic crisis questions the impact of global value chains on GDPs. Three recent studies provide welcome factual evidence.

A recent research paper, (Giglioli et al<sup>8</sup>) conclude that: *“... contrary to what could be expected on the basis on past crises, during the current Covid-19 pandemic, Global Value Chains (GVCs) may have sheltered countries and firms, contributing to their resilience [...], we provide some*

<sup>7</sup> [Speech by Mario Draghi](#), President of the ECB, on the award of Laurea honoris causa in law from Università degli Studi di Bologna, Bologna, 22 February 2019

<sup>8</sup> S. Giglioli, G. Giovannetti, E. Marvasi, and A. Vivoli. 2021. The Resilience of Global Value Chains During the Covid-19 Pandemic: The Case of Italy. *UniFI DISEI Working Paper No. 07/2021*. Florence, Italy: Università degli Studi Firenze Dipartimento di Scienze per L’Economia e L’Impresa.

*evidence showing that countries more integrated into international production suffered lower GDP losses.”*

An August 2021 Asian Development Bank Study<sup>9</sup> concludes its cross-economy study of global value chains reporting that: *“Participation in GVCs and the size of the pandemic-related shock to gross domestic product (GDP) appear to have a U-shaped relationship. Greater participation is associated with a larger negative shock in 2020, but the relationship reverses beyond a certain point.”*<sup>10</sup> This points out to the diversity of outcomes among economies: *“GVCs clearly have the power to both mitigate and amplify global disruptions.”*<sup>11</sup> The interpretation of these discrepancies is straightforward: smaller, less diversified or protectionist economies suffer more from international trade shocks than larger diversified economies.

This result is in line with the conclusions of a 2021 OECD study<sup>12</sup> which investigates the impacts of shifting away from global value chains towards a localized regime, concluding that: *“The localized regime, where economies are less interconnected via GVCs, has significantly lower levels of economic activity and lower incomes. Furthermore, the localized regime is also found to be more – not less – vulnerable to shocks, as shown by greater instability of key economic variables such as real GDP”.*

Brendan Murray, writing in August 2021 in the Bloomberg Supply Lines Newsletter<sup>13</sup> observes: *“So as companies re-evaluate their supply chains and try to make them more durable, they’re doing things like increasing inventories and adding vendors rather than scrapping GVCs and going full tilt into re-shoring production.”* The same Newsletter quotes Soren Skou, CEO of container-shipping line Maersk: *“That’s because distance isn’t the main problem during the pandemic: “If you near-shore and you put a factory in Mexico instead of China or you put a factory in Eastern Europe instead of China, that factory can still be hit just as easily in a pandemic scenario as it can if it’s based in China [...] so we are not seeing any dramatic move to near-shoring as a consequence of this.”*

Identifying all the risks facing our economies is beyond our capabilities. Once we have listed and experienced recurring economic crises, pandemics, climate change, natural catastrophes, political crises, we are left with all *“those ills we know not of”*<sup>14</sup>, the irreducible uncertainty of the future. The public often would like to think our governments master not only the present but also of the future, but the truth is we can explore the future, but we have no way to make the unpredictable, predictable. Confronting the limits of our knowledge, we only have two imperfect lines of economic policy action against risks: identifying “strategic” industries, and diversifying.

### Strategic industries and diversification

As there is no general definition of what a “strategic” industry is we could extend the concept of strategic industries linking it to the one provided by the ECI directive about critical

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<sup>9</sup> <https://www.adb.org/sites/default/files/publication/720461/ki2021.pdf>

<sup>10</sup> Ibid. p.229

<sup>11</sup> Ibid. p.230

<sup>12</sup> <https://www.oecd.org/coronavirus/policy-responses/global-value-chains-efficiency-and-risks-in-the-context-of-covid-19-67c75fdc/>

<sup>13</sup> <https://www.bloomberg.com/news/newsletters/2021-08-24/supply-chain-latest-pandemic-shocks-fuel-debate-on-supply-chains>

<sup>14</sup> Hamlet, Act 3 scene 1

infrastructures, “an asset [...] which is essential for the maintenance of vital societal functions, health, safety, security, economic or social well-being of people”<sup>15</sup>. Simplifying the concept while a global pandemic crisis still hitting us, we rely on the obvious: Health products are top of the list in today’s Covid tragic times. A close second come products affected by current shortages (i.e., microchips) or accelerated industrial transitions (such as car batteries). Myopia is a big risk here, as we tend to focus on the immediate needs and shortcomings. The risks are mitigated by the EU having public money poured not only on what can be defined “strategic” industries, but on a whole range of industries. The latter policy in a way addresses the issue of diversification, identified in the studies mentioned above as a buffer against crisis. Diversification, however, cannot be overly extensive. It has its obvious limits in terms of natural resources, competences, or finance.

However, the size and integration of the EU internal market is a notable competitive advantage for that matter. As noted by former BCE President Mario Draghi right before the Covid crisis in February 2019: *“Two-thirds of EU countries’ trade is with other Member States, compared with about half for the NAFTA region. Around 50% of euro area cross-border financial holdings are from other euro area countries. Practically speaking, this means that Italy exports more to Spain than to China, and more to Austria than to Russia or Japan. In 2017, German direct investment in Italy was five times higher than that of the United States. [...] The EU accounts for 16.5% of global economic output,<sup>[9]</sup> second only to China, which gives European countries a large domestic market to fall back on in the event of trade disruptions. EU trade makes up 15% of world trade,<sup>[10]</sup> compared with around 11% for the United States, providing the EU with significant weight in trade negotiations”*.<sup>17</sup>

The EU areas of critical dependence are rather localised. As indicated in an EC Report<sup>18</sup>: *“A bottom-up (quantitative) mapping using external trade flows for more than 5,000 products as its starting point identifies 137 products in the most sensitive ecosystems where the EU can be considered highly dependent on imports from third countries (representing about 6% of the extra-EU import value of goods)”*. The report identifies three main foreign sources of EU import value, China (with 50% of total value), Vietnam and Brazil. When it comes to the product dependency, they range from energy industry related products *“including raw/processed materials and chemicals”*, to the health ecosystem *“[including] pharmaceutical ingredients [...]”*, to products relevant for the support of the sustainable transition and digital transformation. It is worth to notice that the 0.6% of extra-EU import products *“could be considered as potentially more vulnerable given their possibly low potential for further diversification as well as substitution with EU production.”*<sup>19</sup>

Overall, the EU strategic autonomy remains an imperative for its industry and value chains. To define *Core Strategic Industry Set (CSIS)* and connected values, the European approach to the re-definition of strategic autonomy should be built around the following requirements:

Vertical Requirements	Horizontal Requirements
Production of “essential” goods	Social standards

<sup>15</sup> Council Directive 2008/114/EC of 8 December 2008 ; Art. 2 / a)  
<sup>17</sup> Ibid. M. Draghi (2019)  
<sup>18</sup> European Commission, “Strategic Dependencies and Capacities”, [SWD\(2021\) 352 final](#)  
<sup>19</sup> Ibid. EC (2021), pag. 2

Energy supply	Environmental standards
Communication, network infrastructure	Health standards

Core Strategic Industry Sets and International Trade

The practical implementation of Core Strategic Industry Sets (CSIS) warrants competitive efficiency. The drawbacks of overly bureaucratic decision-making processes can potentially hamper this development, as well as protectionism, and such practices shall be avoided as much as possible. The CSIS includes already existing initiatives to protect companies from foreign take-overs and acquisitions.

It is essential to reconcile legitimate policy goals with international trade mechanisms relying on comparative advantages. However, international trade cannot just refer to innovative advantages. For many developing and emerging countries the relatively low cost of manpower and the existence of natural resources are the major factors of competitiveness. Some trade-offs are needed, but how to define them? Beyond the CSIS, international trade principles shall define a playing field based on best practices and the lessons of the experience of the previous globalisation phase, particularly the necessity to dynamically accommodate transition phases. The definition of the playing field will address levels of social, environmental, and health standards and governments subsidies issues in a non-naive manner, consistent with the level of development of the countries concerned, resulting in different categories of trading partners being considered. To match the scale of international trading partners, both the *core strategic industry set*, and *International Trade Principles* for Europe must be defined at EU level, with special emphasis on consistency and solidarity principles.

How far can Core Strategic Industry Sets distance themselves from high-level international trade rules? Very importantly, and somewhat paradoxically, if a core set of strategic goods and services to be produced locally or regionally is to be defined, this definition better be agreed coordinated and as symmetrical as possible not only at EU27 level but with third countries trade partners. Internationally agreed *core strategic production sets* would help avoid trade wars and be the first step for future international negotiation to take place if and when the horizon is cleared after the current crisis.

International dimension: partners and rivals

When considering international dimension and trade, the European Union faces major challenges from economic, technological and industrial rivals, while at the same time having the opportunity to strengthen ties with historical partners.

First of all, there are obvious implications regarding the China conundrum the EU is facing<sup>20</sup>. The role and the game played by China in trade and international policy have taken an aggressive turn. The EU must evaluate what it must do and realistically can do when facing a non-democratic, 1.4 billion people behemoth pursuing mainly particularistic economic interests determined by national interest. Given the big difference with the 1947-1990 Cold War with the Soviet Union, the existing important economic linkages with China put EU and

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<sup>20</sup> European Commission, [Country and regions, China](#), (Trade and Policies section)



MS initiatives at risk of jeopardizing the interests of their industries. The multi-billion Euro question is how far strategic autonomy -and democratic- imperatives can trump existing economic and business interests. The EU policy regarding China fine-tunes a mix of political pressure, markets, and industrial transitions. Let us not forget though that dependence goes both ways and presents challenges to all those involved. China has engaged for some years in a re-orientation of its industry towards its own internal market. Even given the authoritarian nature of the regime, economic and social transitions are not painless and pose a political risk.

The US has much contributed militarily and economically to the development and welfare of Europe over the last decades. It is now partially pivoting away from Europe. After two decades of “America First” of diverse shapes and stripes, the US are shifting away from the (benign) hegemonic role that have held for years in international relations, seeming to favour a more combative posture in defending the fate of Western democracies (especially against Russia and China). Europe is still at pain to sort out the discrepancies between lenient speeches and tough realities. It is struggling to realize what kind of relationship it can now establish, not to be considered a second-rank partner. Strong EU Transatlantic relations however should remain an essential tenet to preserve a balance in the international system by matching the population and economic weight of Asian giants. Multinational companies, although multinational by name, and having interests in multiple regions, still have a prevalent nationality. Consequently, any EU-US cooperation includes cross-investments over the Atlantic. It would be reinforced by selected joint research projects, with potential industry spin-offs benefitting both regions. The September 29, 2021, launching of the US-EU Trade and Technology Council, as part of the EU Digital Strategy<sup>21</sup>, has provided a framework for a reset of transatlantic relations. It takes two to tango, and we will play our best music.

The Summer 2020 Economic Forecast published by the EC July 7, 2020<sup>22</sup>, - before the adoption of the Recovery Plan – and updated in 2021<sup>23</sup> emphasized “*Exceptionally high risks concerning [...] protectionist policies and an excessive turning away from global production chains could also negatively affect trade and the global economy*”. But from the same EC we hear strong words about regaining strategic autonomy in the technological, industrial, and digital areas. This clearly hints at re-assessing supply chains, re-localizing production, within a context not only of increasing mistrust of China. but of long-lasting echoes of « Made in America by American Workers », to quote from US Presidential election candidate Joe Biden’s program.

## Future perspectives

All this said, 100% Strategic autonomy does not exist. Easy references to elegantly coherent economic doctrines are now of little use. We have entered an era of *deep pragmatism*. As stated by a scholar of Darwin <sup>26</sup>:

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<sup>21</sup> European Commission, “[Digital in the Trade and Technology Council](#)”, 2021

<sup>22</sup> European Commission, “[European Economic Forecast. Summer 2020](#)” (2020)

<sup>23</sup> [https://ec.europa.eu/info/sites/default/files/swd-strategic-dependencies-capacities\\_en.pdf](https://ec.europa.eu/info/sites/default/files/swd-strategic-dependencies-capacities_en.pdf)

<sup>26</sup> 1963 June, Southwestern Social Science Quarterly, Volume 44, Number 1, Lessons from Europe for American Business by Leon C. Megginson, (Presidential address delivered at the Southwestern Social Science Association convention in San Antonio, Texas, April 12, 1963), Quoted by <https://quoteinvestigator.com/2014/05/04/adapt/>

*“Yes, change is the basic law of nature. But the changes wrought by the passage of time affects individuals and institutions in different ways. According to Darwin’s Origin of Species, it is not the most intellectual of the species that survives; it is not the strongest that survives; but the species that survives is the one that is able best to adapt and adjust to the changing environment in which it finds itself. Applying this theoretical concept to us as individuals, we can state that the civilization that is able to survive is the one that is able to adapt to the changing physical, social, political, moral, and spiritual environment in which it finds itself.”*

The best way to tackle the problem of European strategic autonomy, while sticking to our common values-driven approach, would be a mix of pragmatic considerations regarding economic policy and industry analyses. The Covid crisis has dramatically emphasized the blind spots, shortcomings, and fragility of the international trade order. National economies and the international trade order are now engaged in a confusing process of accelerated change, facing compounded risks.

To compete on a global scale, the EU must improve its footing, and, hopefully, enhance its status of international power, while enhancing strategic – and “smart” -policies. There is a widely shared view that globalisation is here to stay. It has been demonstrated the benefits of international competitive trade extend across countries and industries. However, even before the current crisis had highlighted its sometimes-critical shortcomings, it had reached a plateau. In the last 2 years, the opinion has gained ground that the new international order will combine in a principled, optimal and realistic way the dual requirements of strategic autonomy at national and regional (EU) level and the benefits of open economies. In March 2020 the EC announced an effort at defining a long-term industrial strategy<sup>27</sup> with three main priorities: global competitiveness with level playing field, climate neutrality in 2050, digital future. The September 2021 State of the Union address has affirmed a blueprint for EU policies.<sup>28</sup>

**Conclusions: strategic autonomy imperatives for Europe**

In conclusion, the path for the EU to pragmatically interpreted strategic autonomy imperatives would include the following actions:

Trade	Leverage and fine-tune trade relationships between market economies to alleviate the industrial and political constraints posed by trade with non-market economies.
Supply chains	Check supply chains (resilience, source duplication), with industry bodies (soft instrument), and possibly impose regulatory rules (hard instrument), keeping in mind companies themselves are best placed to optimize value chains within a given context.

<sup>27</sup> [https://ec.europa.eu/info/sites/default/files/communication-eu-industrial-strategy-march-2020\\_en.pdf](https://ec.europa.eu/info/sites/default/files/communication-eu-industrial-strategy-march-2020_en.pdf)  
<sup>28</sup> U. von Der Leyen, “[State of the Union 2021](#)”

Industry	Monitor industry adjustment in global value chains. Do whatever it takes to facilitate and possibly incentivize the needed changes.
Post-pandemic Future-orientation	Mobilize all EU industries and EU institutions competences to figure out not only catch-up areas, but “the day after”: what we want the EU economy to be after the pandemic and how to achieve EU its reckoning and adjust relations with non-market economies.

The concept of EU Strategic Autonomy remains an imperative for Europe. While the discussion around what is *strategic* and can led to strengthened *sovereignty*, the political debate should be built around the concept of *deep pragmatism*. This is by no means a shift toward protectionism or a tougher posture in relations with strategic partners, in fact it means rather strategically coordinating the political agenda at the level of EU 27 Member States. Policies that favour the free market and tend to strengthen the strategic nature of the actions undertaken by the Union will in turn strengthen the element of popular sovereignty. Smart (liberal) policies, in the era of digitisation and major changes in industry and the internal market, are essential if we are not to fall behind in strategic sectors.

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