

EIAS Book Launch

“EU Industrial Policy in the Multipolar Economy: How to Ensure Europe’s Strategic Autonomy vis-à-vis China and the US?”

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REPORT

On 15 November 2022, The European Institute for Asian Studies, UCLouvain-Saint Louis Institute for European Studies, UCLouvain, and the Leuven Centre for Global Governance Studies of the KU Leuven jointly organised a book launch on ‘*EU Industrial Policy in the Multipolar Economy: How to Ensure Europe’s Strategic Autonomy vis-à-vis China and the US*’. During the event the authors of the book, Jean-Christophe Defraigne, Edoardo Traversa, Jan Wouters, and Dimitri Zurstrassen, presented their respective perspectives on the topic. They offered an overview of the EU's industrial policies over time, analysing the challenges through a political science, economic, legal, and historical lens.

The EU’s industrial policy has increasingly become a crucial topic, especially since its technological and strategic sovereignty is currently squeezed by the world’s biggest economic superpowers, notably the US and China. While the two superpowers are setting global technological standards, the EU has found itself lagging behind. In this regard, the book not only highlights the limitations and problems of implementing the different EU industrial policies, but also demonstrates the conditions that need to be fulfilled for the EU to overcome them. The book offers three possible scenarios for the EU’s future role in the world’s technological arena, as further explained below.

In terms of the EU’s industrial policy limitations, the authors argue that Europe was severely fragmented, with different and very small national markets, while American and Chinese firms managed to dominate the market due to their big economies of scale. This was the case for several reasons. Firstly because of the EU’s lack of R&D budget and legally binding clauses within the Lisbon and Europe 2020 Strategies. Even though the EU has established its single market, allowing the creation of bigger firms with a larger economy of scale to better compete with the US, American big tech forms were still on the rise, performing better than their European counterparts in developing new technology and industry, particularly in ICT, nanotechnology, and biotech. Second, the US and China have a network economy that dominates new technology, which could challenge the comparative advantage of the European traditional industry. Americans and Chinese are capable of controlling software and innovation, and therefore have powers to control global value chains, while the EU may only act as a halfway provider. Thirdly, the EU’s lack of effective coordination between its Member States and a rivalry between national business elites that makes it difficult to create a bigger economy of scale and centralisation of high-tech business clusters like Silicon Valley. Only 10% of the EU industrial policy is implemented at the Member States level, while the other 90% is applied from internal policy. This leaves the EU’s industrial policy as a medium sized one as compared to the US and China’. This is unlike the US, whose policy is centralised through a strong federal state

and united capital market, and China, whose political system is centralised through the Communist Party.

Since von der Leyen took over the European Commission Presidency in 2019, there has been a revival of national industrial policies, the US-China trade and tech war, but also a clear focus on the green deal and climate change, strategic autonomy and industrial ecosystems. The EU has introduced FDI screening mechanisms, while corporate taxation has not (yet) been harmonised. The EU has been very efficient in the automotive and technology sectors. Yet, with the rise of Artificial Intelligence new challenges arise, including who will be in control of the related software and networks. The EU does not have a well-connected financial market and major digital challenges await in view of connectivity and for instance the Internet of Things. The authors identified three possible future scenarios for the EU and its industrial policy:

1. In a first and most likely potential scenario the EU would be a junior partner in a continuing transatlantic alliance, where the transatlantic tie would be strengthened as the bloc has militarily and technologically relied on the US for a long time. In this case, the US would be a technological standard setter, while the EU would likely suffer from a brain drain. In parallel, the rise of geopolitical tensions with China would mean less cooperation with Beijing and more of a decoupling to reduce dependency on the Chinese economy.
2. The second and less likely scenario is a 'Finlandization of the EU', where the EU would not choose between the US and China, but rather rely upon either of them depending on the materials they need. This scenario would become more likely should the US become a less reliable partner for the EU and move more towards protectionism.
3. The third scenario entails that the EU would act as a global power with strategic autonomy on par with the US and China in a multipolar world. In this scenario, the EU will need to undergo structural changes, through a capital or banking union that facilitates mergers of European businesses. This would enlarge the European economy of scale, which would later allow the EU to grow its strategic autonomy.

The international dimension is not to be disregarded, with new dynamics in economic policies taking the upper hand and new partnerships emerging. The authors of the book highlighted that such limitations may leave the EU in a difficult position to develop new technological standards and without a coherent industrial policy it may be incapable of facing the looming environmental and other challenges. The EU, in the end, would have to adapt itself to the US and China, and would be a standard-taker without its own strategic autonomy, which may not be the most desired scenario. The book gives an interdisciplinary perspective on the current challenges faced by EU policy-makers in framing and implementing a coherent European industrial policy. It analyses the historical, constitutional and structural long-term cause of the absence of a strong industrial policy at the EU level, the existing tensions between the Member States and the EU institutions regarding industrial and competition policies and the conditions for an integrated EU industrial policy to emerge. It further explains how the EU and its Member States may keep their position in global value chains while other major partners such as the US and China are pursuing strategic trade and industrial policies to maintain or to increase their dominant position. In addition, it develops comparative analyses, in order to identify from the experiences of other large economies the US, Japan, Korea, China elements that could be of relevance to the EU in terms of vertical and horizontal industrial policy. It concludes by evidencing scenarios as regards the evolution of the global position of the EU in the near future.