

1. The need for a common response from EU Member States to geopolitical challenges: Fair and open strategic autonomy

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Abstract: Geopolitical turbulence frames this chapter's examination of fair and open strategic autonomy as a common EU response to competitiveness and dependency pressures. The discussion draws on EU institutional debates and Treaty provisions governing trade, competition and industrial policy. It shows that a workable autonomy agenda must preserve open relations with trustworthy partners while enforcing fair competition inside the Single Market and in external relations. Common Commercial Policy tools, state-aid control and industrial coordination are presented as mutually dependent instruments, not separate policy silos. The chapter also warns against government failure, sectoral favouritism, unequal Member State capacities and potential retaliation by third countries. A credible European strategy therefore requires precise instruments, inclusive coordination with business, and acceptance by all Member States.

Keywords: strategic autonomy, competition policy, trade policy, Common Commercial Policy, industrial policy, European Union.

Introduction

A discussion on strategic autonomy began in the European Union (EU) shortly after the 2008–2010 economic and financial crisis. At the time, the concept focused primarily – through France – on military, political security, and defence dimensions (European Commission, 2013). Only with Brexit, growing competitive pressure from China, and the protectionist actions of President D. Trump's administration in the US has the discussion on strategic autonomy shifted to economic and social challenges, particularly the issue of dependence on unpredictable third-country partners in many areas. Both the EU's major partners, namely China (the Belt and Road Initiative of 2013, the Made

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in China programme of 2015) and the US (Chips and Science Act and the Inflation Reduction Act of 2022), have their own industrial policies aimed (directly or indirectly) at undermining the EU's position. Huge subsidies in China and the discriminatory system of preferences in the US make the EU less attractive investment-wise, not only for third-country companies but also for European ones.

The above-mentioned actions by the major world economies, coupled with disruptions to supply and production chains resulting from the COVID-19 pandemic and the war in Ukraine, have undermined the foundations of the EU's previous economic policies across the trade, industrial, and market dimensions. Instead of open, horizontal policies, a debate has emerged over assertive (closed) and sectoral (interventionist) policies in these areas. On that basis, numerous definitions of strategic autonomy have been developed. This chapter adopts the one proposed by Grevi (2019), which states that strategic autonomy "is about setting objectives, making decisions and mobilising resources in ways that do not primarily depend on the decisions and assets of others."

However, according to different researchers, strategic autonomy should consist of different elements, including only military defence and security (Katsioulis, 2022; Ochman & Biziewski, 2020; Zandee et al., 2020). Other authors argue for a broader scope, including other dimensions: economic (especially energy: Ryon, 2020), technological (Grevi, 2019; Darnis, 2021) and digital (Van den Abeele, 2021), or even political (Lefebvre, 2021), or only the foreign policy dimension (Beaucillon, 2023). Other works adopt a horizontal approach, identifying institutional, material, and political autonomy (Helwig, 2020). At this same time, some researchers call for more restrictive rules regarding European sovereignty, power, autonomy, and strategic responsibility (Dupré, 2022) or, in contrast, for openness from the European Union while seeking strategic autonomy (Van den Abeele, 2021).

The above analyses overlook both the current policy choices and the legal basis of the concept of strategic autonomy (in the economy). Therefore, this chapter aims to identify the objectives, the scope of possible action (from a legal and political perspective), and the interdependencies between the three economic dimensions: trade, industry, and market (competition), within the framework of the concept of fair and open strategic autonomy proposed by the author. To this end, we have analysed the policy debate within the EU institutions and a current treaty framework for coordinated (common) actions to address the problem of competitiveness, including resilience of the EU economy.

1.1. The political framework

Even before the outbreak of the COVID-19 pandemic, the European Council, in *A new Strategic Agenda 2019–2024*, underlined that “in a world of increasing uncertainty, complexity and change, the EU needs to pursue a strategic course of action and increase its capacity to act autonomously to safeguard its interests” (European Council, 2019). The importance of this approach was confirmed in the Commission Communication released in May 2020, just two months after the COVID-19 outbreak, which addressed the breakdown in supply and production chains, and stated the importance of “strategic autonomy while preserving the benefits of an open economy” (European Commission, 2020). This meant that the Commission did not want to introduce any protectionist mechanism, which was certainly not accepted by all Member States. At the same time, it noted “the need to reduce dependency and strengthen security of supply.”

In September 2020, ministers responsible for competitiveness in EU Member States supported the aforementioned concept, albeit limiting it to “sensitive and key technological sectors” (Council of the European Union, 2020). Just one month later, in October 2020, the European leaders confirmed that “[A]chieving strategic autonomy while preserving an open economy is a key objective of the Union” (European Council, 2020). This meant that strategic autonomy was no longer a foreign and defence policy concept, but also an economic one. Moreover, they requested the Commission to “identify strategic dependencies, particularly in the most sensitive industrial ecosystems (...), and to propose measures to reduce these dependencies, including by diversifying production and supply chains, ensuring strategic stockpiling, as well as fostering production and investment in Europe.”

However, this position proved insufficient for some countries. During its presidency of the Council of the EU, France forced European leaders to adopt much stronger commitments to “take further decisive steps to build (...) European sovereignty” (Versailles Declaration, 2022). The French tone was somewhat softened a few months later by the European Council, which, firstly, came back to “strategic autonomy”, secondly, listed “the most sensitive areas such as critical raw materials, semi-conductors, health, digital and food, and by pursuing an ambitious and robust trade policy, as well as by fostering investment” (European Council, 2022). In 2023, European leaders specified that those objectives can be achieved by strengthening the industrial and technological base, enhancing economic resilience, and securing connectivity, global market access, and productivity (European Council, 2023).

A detailed political outline of this vision, reflecting the positions of individual EU Member States, can be found in the Conclusions of the Competitiveness Council of May 2024. This provides a detailed reference to a range of factors that impact and ensure the EU's competitiveness (Council of the European Union, 2024). This list is significant because it outlines the scope of the instruments and their functions that Member States have agreed to (unanimously). Among these, four are worth highlighting: a) the reduction of strategic dependencies on third countries in strategic sectors, b) the emphasis on the coordinating nature of the EU Industrial Policy, c) the launch of a discussion on the financing of industrial policy, and d) aligning actions with other policies, including the Single European Market, EU Competition Policy, EU Industrial Policy, and the Common Commercial Policy.

1.2. The legal framework

A response in the real economy to new tendencies in the world, including protectionism, interventionism, and discriminatory actions by third countries, could involve action at three theoretical levels in the European Union: purely national, purely EU, and mixed (national and EU).

In a purely national action model, a wide range of instruments under broad industrial policy can, in theory, be used to make national economic actors more competitive. Such instruments tend to be both interventionist (offensive) and protectionist (defensive). The former are characterised primarily by various legal and financial measures to intervene in the free market, such as subsidies for domestic companies. In contrast, the latter approach (defensiveness) is predominant in trade policy tools and administrative policies that regulate market entry for products or traders. As mentioned, both types of instruments may be effective in protecting against third countries in the short term, but could disrupt the targeted market and relations with external partners over time. Nevertheless, due to the complexity and advancement of EU integration processes and treaty provisions, the purely national actions model is not available to the EU Member States.

As regards a purely EU (common) model, it is worth noting that the European Union has exclusive competence over certain economic policy instruments, including the European Commission's authorisation of state aid (under EU Competition Policy) and the use of Common Commercial Policy tools. Both areas of economic policy are strictly regulated and controlled by existing legislation to maintain a level playing field within the European

Single Market. Such an approach should ensure EU Member States use the instruments effectively.

However, it is impossible to apply a single common model in the European Union, as the EU lacks exclusive competence in industrial policy, or even shared competence with the Member States. On the basis of the Treaty, in the areas of industry, the Union has competence to carry out actions to support, coordinate, or supplement the actions of the Member States. Therefore, the current model, available under the EU law, is a mixed one, combining national and EU elements. Firstly, industrial policy in the EU is implemented by individual Member States, although the European Commission seeks to coordinate their actions through some forums (e.g., Industrial Forum, Industrial Alliances, Important Projects of Common European Interests, European Commission, 2021). Secondly, EU Member States can support companies using both national and European funds available to them (e.g., through Cohesion Policy or the National Recovery Resilience Plan), although only after gaining Commission approval (or under many exemptions, e.g., General Block Exemption Regulation, European Commission, 2014). Thirdly, EU state aid rules are so diverse that it is difficult to claim that Member States are fully pursuing EU objectives when granting national financial support (even if such measures comply with EU law, they are not necessary to achieve EU objectives (Ambroziak, 2023, 2024).

It is therefore necessary to rebuild understanding and acceptance of the new interrelationships between the three pillars of EU economic policy: external trade, competition, and industrial policy.

1.3. The concept

Although treaty provisions on industrial policy do not currently mandate unified action or oversight by EU institutions as they do for trade and competition policy, they are justified at the EU level by the logic of intervention. This is because the objective of making the Union's industry more competitive must be pursued while maintaining a level playing field in the European Single Market. This requires strict adherence to EU Competition Policy and Common Commercial Policy rules, with mutual interplay between them (Figure 1.1). Otherwise, instruments supporting companies in one country would undermine the competitiveness of businesses in other EU Member States. Indeed, boosting the competitiveness of a national entity through interventionist-protectionist instruments inevitably can harm the position of other businesses within the European Single Market.

First and foremost, FOSA should fulfil the EU's main economic objective, i.e., the creation of a European internal market which “shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy (...)” (TEU, 2016, Article 3). At the same time, it should take account of specific Treaty objectives: the EU's Industrial Policy should “ensure that the conditions necessary for the competitiveness of the Union's industry exist” (TFEU, 2016, Article 173); its trade policy “shall contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and foreign direct investment, and the lowering of customs duties and other barriers” (TFEU, 2016, Article 131); and its state aid policy should protect the European Single Market from distortions of competition (TFEU, 2016, Article 107).

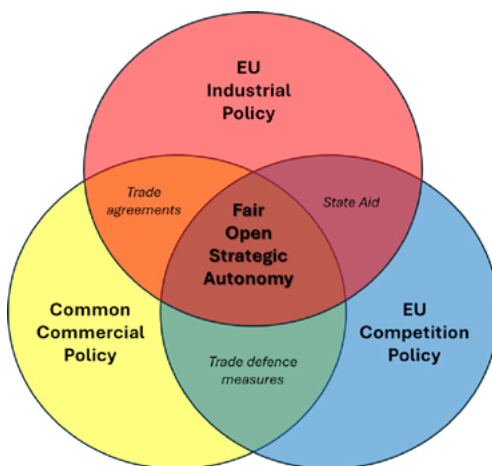


Figure 1.1. Three policies of fair and open strategic autonomy

Source: own elaboration.

In light of the above, the following inter-linkages between the areas depicted can be identified. Firstly, while various regulatory and financial instruments can be used to implement Industrial Policy objectives at the EU level, the latter must comply with the strict state-aid rules under EU Competition Policy. The idea is to ensure a level playing field within the European Single Market. At the same time, competitiveness can be enhanced by ensuring that European companies have access to components and (strategic) raw materials from reliable trading partners from outside the EU. This can be achieved by concluding free trade agreements with third countries within the framework of the (OPEN) Common Commercial Policy. The uniform application of this policy should ensure both

the creation of a level playing field for all EU Member States in their trade relations with third countries and a stronger position in building partnerships with them. At the same time, the Common Commercial Policy should be assertive to ensure (FAIR) relations with third countries by protecting the European Single Market against unfair practices from outside the EU that undermine internal competition.

Therefore, taking into account the internal and external factors of the European Union, the coherent system seems to be based on the following concept of fair and open strategic autonomy (FOSA) (Figure 1.1):

- Fair — ensuring a level playing field in the European Single Market, both among Member States and with third-country partners;
- Open — maintaining open (non-protectionist) relations with third countries, provided the condition of fair play is met;
- Strategic — aligning all policy, programming, legislative, and financial actions with EU priorities;
- Autonomy — ensuring economic security amid an unstable global geopolitical landscape by: a) increasing autonomy across the entire or strategic parts of the product lifecycle: from conception, development research, innovation, and design to production, sales, service, recycling, and disposal; b) reducing reliance on single suppliers in favour of multiple third-country suppliers.

In addition to the positive aspects of adopting a common EU approach through FOSA, it is important to note its potential negative economic consequences. The most important of these is the decision to intervene in free-market activities by designating sectors as strategic, supporting them by means of state aid, enabling their development through targeted agreements and trade partnerships with third countries, and protecting them from unfair competition from other global players. As this issue is crucial to FOSA's success, it poses a high risk of government failure. To avoid arbitrarily 'picking winners', it is necessary to structure and institutionalise the coordination process between the Commission and Member States, with significant input from business, to identify strategic areas for aforementioned actions.

Another key problem concerns the stark disparities between EU Member States in terms of their economic development, industrial and service structure, scientific and research potential and, consequently, their needs and expectations. Because sector contributions to GDP differ across Member States, the areas impacted by FOSA would need to address different industries in each country. Sectors with high international interdependence in global value chains and significant participation in international trade may be particularly vulnerable. Implementing FOSA would require efforts to make the EU more attractive investment-wise at

the level of individual components or semi-finished products that have previously been supplied to the EU from third countries. Shortening these supply and production chains would fundamentally reshape trade in intermediate goods, which would inevitably affect international trade in final goods and services.

Furthermore, the introduction of certain necessary requirements under FOSA, including productive investment within the EU, can be expected to significantly increase the prices of finished products manufactured in the EU. To ensure autonomy in the production of critical/strategic goods, the EU might feel compelled to introduce appropriate protective measures or interventionist actions to safeguard domestic producers. Setting aside any potential concerns about compliance with international trade regulations under the WTO framework, such steps would almost certainly provoke retaliatory actions from third countries. However, the negative effects of using such instruments at the EU level could be mitigated or eliminated by the above-mentioned diversification of supply chains (including those within the EU), as well as by the Union acting as a single economic bloc under the Common Commercial Policy.

Conclusions

In summary, after years of crises triggered by the COVID-19 pandemic and the war in Ukraine, which led to increased intervention in the Single European Market, Member States are gradually returning to a pre-crisis, more restrained approach to state aid. However, this does not signal a complete return to the notion that ‘the best industrial policy is no industrial policy’. As with any post-crisis period, broader and deeper integration among the European countries can be expected. At the same time, given the new and more serious challenges facing the EU, it is likely that state (financial and regulatory) intervention in the economy will continue, albeit at the EU level.

In summary, the adoption of FOSA, understood as a set of interventionist and protectionist instruments available at the EU level, should minimise the risk of competitive distortions in the European Single Market while strengthening the EU’s competitive position in the global economy (in trade relations). However, this concept requires precise definitions, with its instruments clearly specified, thereby taking into account the potential positive and negative consequences not only within the EU but also for third-country partners. Furthermore, its implementation should be accepted by all Member States, yet this can only be achieved if FOSA’s benefits outweigh its costs, not only at the EU-wide level but also within each individual Member State. Ultimately, the best way to gain acceptance for the activities carried out under the FOSA would be to involve

both the EU Member States and, crucially, the business community in the decision-making process, as industry leaders best understand the challenges posed by shifting geopolitics.

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