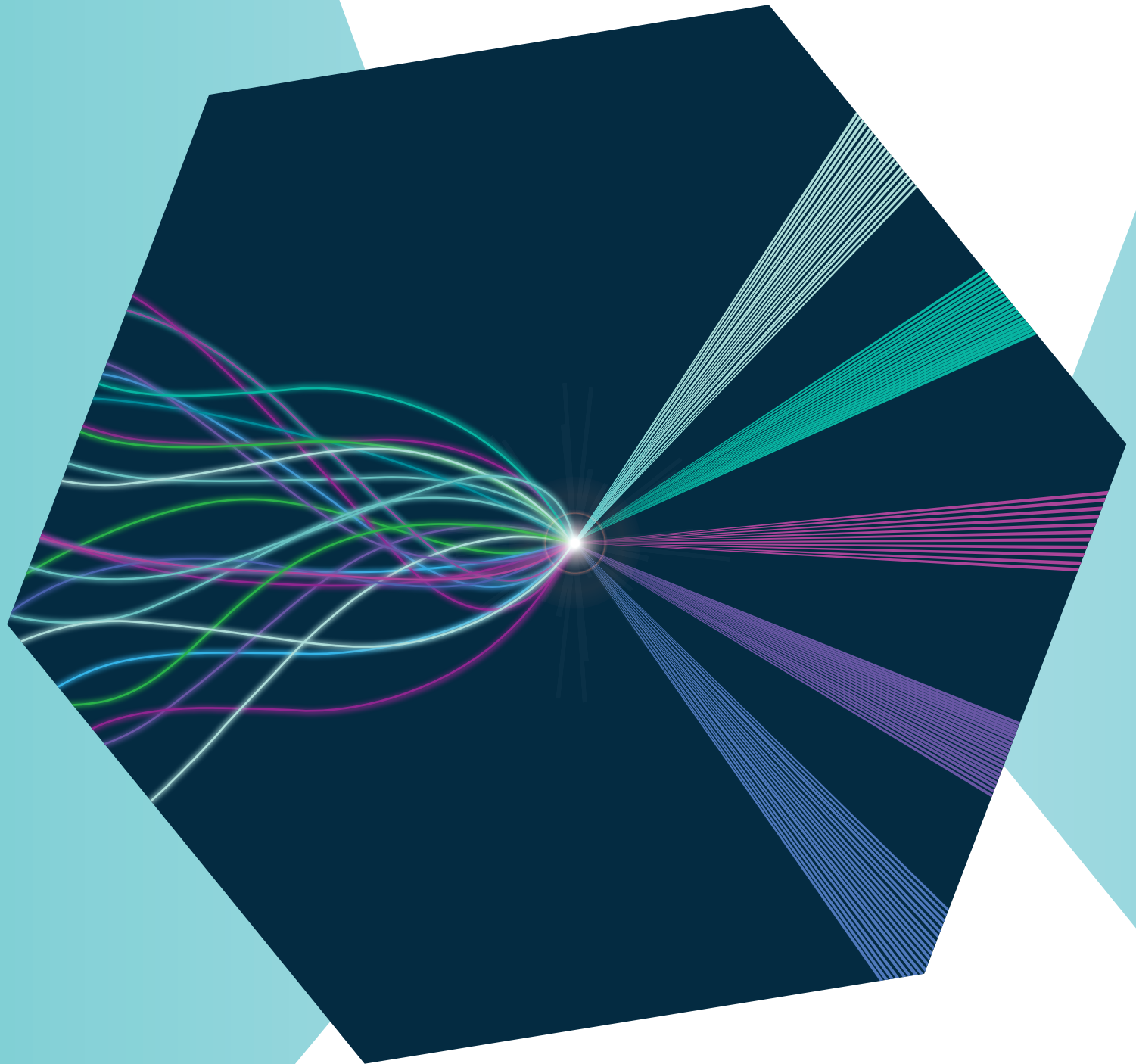


GLOBAL
EUROPE



Strategic Autonomy

A Spectrum of Choices for the EU and Ireland

By Alexander Conway | March 2021

Introduction

The term “strategic autonomy” is at the centre of the debate about the place of the EU in the world. However, the meaning of this term is contested within the EU and there is no political consensus among Member States as to what exactly it means or on the direction in which it could lead the EU as the Union seeks to establish itself as a global actor. This paper will explore the inherent contradiction for global Europe between the concept of “closed” strategic autonomy, which is perceived by some observers as a move towards a more protectionist approach to trade and competition policy and which suggests isolation from the world economy, and the need to reboot the European economy in the context of the COVID-19 pandemic by fostering a more “open” strategic autonomy.

The paper will explore the current political and economic debates on strategic autonomy in the Member States across a range of policy dimensions and seek to elicit the implications of this concept for small EU Member States and small open economies like Ireland.

Background to Strategic Autonomy

The departure of the United Kingdom from the EU on 1 January 2021, the impact of United States’ policy of “America First” under President Trump, China’s heavily subsidised Belt and Road Initiative and the COVID-19 pandemic have cast the EU’s reliance and dependency on external actors into stark relief, revealing the EU’s vulnerabilities. This has raised the concept of European strategic autonomy as both a geopolitical imperative and a necessary geo-economic response to the [European Union’s shrinking competitiveness and relative economic weight](#) in the world and to avoid potential global irrelevance if it cannot assert itself on the global stage.

European strategic autonomy has been described by Charles Michel, President of the European Council, as the EU’s [number one goal](#) for the 21st century. The term ‘strategic autonomy’ was originally a French-driven concept aimed at enhancing the EU’s (French-dominated) defence industry in order to improve the Union’s ability to better address its own security needs by working with its partners. It appeared as a narrowly formulated concept in the 2013 European Council [Conclusions](#) on defence policy. However, the concept of strategic autonomy has since expanded from the defence sector into other domains, including: technological, industrial, competition, climate, trade, agriculture and economic policies.

At the heart of the concept of strategic autonomy as a guiding policy principle is the notion of the EU working together with like-minded partners where possible, and acting alone when it must; an EU free from external interference and able to protect and promote its values and strategic interests. On the one hand, strategic autonomy is about developing sufficient EU military self-reliance, and on the other hand ensuring that the Union is economically resilient and autonomous of either the United States or China. These twin principles of protection and promotion are closely tied to Europe’s attempts to reduce its reliance on external actors for critical resources, reinvigorating the European economy and facilitating the COVID-19 recovery.

In his speech in September 2020 to the Bruegel think-tank in Brussels, Charles Michel [argued](#) that strategic autonomy was not a form of protectionism, but rather the opposite. He described it as a three-fold concept which would:

- First, allow the EU to ensure its own internal physical, environmental, economic and social security;
- Second, enable the EU to leverage the so-called “[Brussels Effect](#)” to set [global standards](#) like climate policies and GDPR in an era where [regulation has become an arena for geopolitical competition](#);
- Third, allow the EU to make its own decisions, to reinforce European values at home and to enhance the EU’s credibility on the global stage as an international actor.

A broader conception of European strategic autonomy and security was introduced in a 2016 EEAS [policy paper](#) which included not just military capacity, but also trade resilience and commitment to international norms and values. This echoed French President Emmanuel Macron’s proposal of “[souveraineté européenne](#)” which includes European defence, industrial, economic and monetary autonomy. The position on economic autonomy was broadly shared by the German government as reflected in a [joint Franco-German 2019 policy paper](#) on industrial policy which called for European investment, reforming European competition policy to enable European firms to act on a global scale and effective tools to defend European firms, markets and jobs against unfair competitive practices.

After the outbreak of the COVID-19 pandemic in Europe, a narrower economic understanding was mentioned in the Roadmap for Recovery, jointly published in April 2020 by European Council President Charles Michel and European Commission President Ursula von der Leyen, which stated that European strategic autonomy refers to the, “need to produce critical goods in Europe, to invest in strategic value chains and to reduce over-dependency on third countries”. Sweden, however has cautioned against using the perceived vulnerability of EU supply chains for key resources, as evidenced in an [exceptional crisis like the COVID-19 pandemic, to shape the general rules underpinning EU trade, competition or economic policies](#) as it could distort competition and the economic level-playing field.

Member State Positions on Strategic Autonomy

Ireland is currently aligned with the “[Friends of the Single Market](#)” group of Member States, who are broadly in favour of a more open strategic autonomy which would improve the EU’s global competitiveness by removing existing barriers within the Single Market. This group of now 19 Member States (Austria, Belgium, Croatia, Czechia, Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, and Sweden), outlined its views in a [joint letter](#) published on 3 March 2020. The letter called for the EU to focus on making the Single Market fairer, more open, and to improve competitiveness in order to strengthen the EU’s economic base.

A subset of this above grouping, the “[Stockholm Six](#)” ([FI, DK, DE, NL & CZ](#)), led by Sweden and which includes Germany, and has since expanded [to include Ireland and Estonia](#). This is a group of like-minded Member States who oppose protectionist tendencies which could negatively affect EU exports and imports and unfairly shelter uncompetitive industries in the EU by promoting European Champions. Member States in this loose grouping, notably [Finland](#), [Sweden](#), and the [Netherlands](#), are wary of the concept ‘strategic autonomy’ and see it as veiled economic protectionism, promoted by France and to a lesser extent Germany, and as a possible threat to their globally-oriented free-trade economic systems. Germany is also keen to protect the free-market, [ordo-liberal](#)¹ philosophy under-

1 [Economic theory which advocates government regulation of markets to prevent monopolies or cartels and promote competition to maximise economic output.](#)

pinning EU competition policy in the context of proposals to develop a “new EU industrial policy”. In this regard, strategic autonomy could be seen as an enabler of digital sovereignty, as described in a [letter](#) of 1 March 2021 signed by the German, Estonian, Finnish and Danish Heads of Government, as building strengths and reducing strategic weaknesses, and not about excluding others or taking a protectionist approach.

For certain Member States, the concept of an overarching or supranational strategic autonomy is viewed with suspicion. Some countries in central and eastern Europe (CEE), like Hungary and Poland, see [echoes](#) of Soviet “[limited sovereignty](#)” in discussions of European strategic autonomy, especially in terms of possible interventions into national competencies, like industrial or economic policy. Europe’s strategic autonomy for many CEE countries is expressed through European fiscal solidarity, such as cohesion funds, and reinforced by the military primacy of [NATO based defence cooperation](#) against Russia. Other member states like Romania and Greece favour a vision of strategic autonomy more centred on close transatlantic ties rather than greater intra-EU cooperation or cooperation with China’s belt and road strategy.

Smaller Member States, like Ireland, are also particularly concerned that possible revisions to state aid rules could mean that smaller Member States would be unable to match the industrial bases and fiscal resources of larger countries to foster so-called European champions. Ireland has a very outwardly oriented economic model and is a [strong proponent of a more open and liberal conception of strategic autonomy](#), and [is wary of measures which would erect protectionist barriers to trade or competitiveness](#).

[Spain](#) and [Portugal](#) are perceived to be moving towards the traditional free-traders in the EU and Germany, the bastion of ordo-liberal free trade, is understood to be partially moving away from the French approach through its participation in the Stockholm Six grouping. The ambition of France and Germany to create a European digital platform, [GAIA-X](#), has met with some resistance from smaller Member States who would prefer a European approach to strategic autonomy rather than one driven by the interests of France and Germany. Ireland would welcome an approach which favours cooperation and collaboration with other Member States, for example, by investing in research and development (R&D) and fostering public-private partnerships to achieve these goals.

This division between Member States was evident in the [European Council Conclusions](#) following the summit on 1-2 October 2020, where the achievement of EU strategic autonomy was referred to as a “key objective”, while also noting this must be balanced against “maintaining an open [EU] economy”. There is generally broad agreement amongst Member States on the spectrum of possible actions available, ranging from more closed to more open versions of strategic autonomy. The precise location of where a proposed European strategic autonomy would fall on this spectrum however, and the measures necessary to attain it, are disputed.

The key points of contention regarding the concept of European strategic autonomy are its practical implications and the determination of a coherent interpretation of it across the EU across policy areas from foreign and industrial policy to trade and competition policy and from digital to defence policy. In other words, the fact that strategic autonomy is still loosely defined calls for reflection on just how open, ambitious or appropriate policies which fall under the aegis of this concept will be. This ultimately depends on how the EU Member States and the European institutions define them.

Global and EU Context of Strategic Autonomy

The EU's position in an increasingly multipolar and bilateral international system, in which strategic supply chain vulnerabilities have been exposed by COVID-19, has given added impetus to the concept of strategic autonomy. While the election of President Biden is likely to reorient the US towards more multilateral engagement, it may still require EU policy-makers to carefully consider the option of strategic autonomy, as the US is likely to shift its primary focus and resources towards the Indo-Pacific region and devote less attention towards Europe and its neighbourhood. In turn, European policy-makers are unlikely to want to rely upon voters in Pennsylvania and Wisconsin every four years to effectively decide upon Europe's economic, defence, and strategic autonomy.

Uncompetitive economic practices by Chinese state-backed firms as well as very significant Chinese investments abroad, and the comparatively strong management of the COVID-19 pandemic by Beijing authorities have issued a challenge to democratic societies as an alternative governance model seemingly better able to protect and provide for its citizens' health and prosperity. In this context, the EU may be unable to convince or coerce an [economic competitor and systemic rival](#) like China to raise its standards in line with the EU's. If so, it may be forced to either accept these uncompetitive practices undercutting European producers, lower its labour and environmental standards to compete with Chinese firms or else raise regulatory non-tariff barriers to protect European industries and consumers.

The twin ecological and digital transitions, namely the [European Green Deal](#) and [Europe's Digital Future](#), provide the policy underpinnings for the EU's [New Industrial Strategy](#) in terms of achieving the Union's climate neutrality targets and transition to a more digitalised European economy while maintaining firms' competitiveness. The new [Trade Policy Review](#) is currently being examined to take into consideration the issue of strategic autonomy. The challenge the EU now faces is how to reduce its reliance on asymmetric relationships with external partners, like China or the USA, while still maintaining and defending the global, open rules-based trading system. In addition, if the EU is to assert its normative power in determining global rules, regulations and values, it may need to reduce its dependence, and by extension, strengthen its autonomy, and [rebalance its relations with countries with different normative or institutional arrangements](#), like China. This is particularly difficult without resorting to protectionist measures such as raising tariffs or else potentially providing significant state aid to select firms, which would distort both domestic and international competition and could involve EU treaty changes. It is this apparent paradox that the European Commission's "strategic autonomy" seeks to solve.

The following section of this paper outlines in more detail what is meant by the concepts of closed and open autonomy.

Closed Strategic Autonomy

In the context of its broader policy objectives, the question arises as to whether the EU's ambition for strategic autonomy in a more "closed" variant could conflict with its advocacy for multilateralism. Efforts to promote and preserve global multilateralism while implementing qui-protectionist policies could present the EU with a dilemma. How could the EU continue to support an open global free-trade regime, while simultaneously reducing European reliance on third parties by relocating man-

ufacturing facilities or critical services away from external partners? Furthermore, relocating strategic industries could also cause friction between Member States. The competition between Member States to attract certain firms, could be materially detrimental to certain Member States, especially if existing supply chains or transport networks are altered.

It also raises the question of what strategic autonomy would mean in terms of internal and external trade-offs by the EU. Would it, for example, mean changes to labour or environmental standards in order to compete with less well-regulated external competitors? Would international perceptions of strategic autonomy revive the image of the EU as an exclusive, “fortress Europe”?

A more interventionist industrial policy which seeks to create European champions, while fostering “winners”, would also create “losers”, the negative impacts of which are likely to be more locally and regionally concentrated, potentially fuelling greater intra-Union inequality. In essence this means exchanging a “fair” model of competition between firms on a level-playing field for one which arbitrarily picks certain firms and supports them to the detriment of others. National and EU-wide state aid for strategically sensitive industries, such as [proposed German strategic investments](#) in microchips, semiconductors, open radio access networks (RAN), and 5G/6G technologies could also prioritise EU or national firms to the detriment of third-country competitors, as part of broader security concerns over non-EU technology firms like [Huawei](#). Such policies which could fall under “Important Projects of Common European Interest” (IPCEIs) and are [approved under EU state aid rules](#), could potentially benefit or threaten smaller states which do not participate in these projects.

On the other hand, proposals for the EU’s [Circular Economy Action Plan](#) to incorporate more aspects of the manufacturing cycle, from production to distribution to recycling, within the EU itself and reducing reliance on external actors could benefit Ireland in terms of attracting high-quality jobs and increasing potential exports.

Open Strategic Autonomy

An “open” vision of strategic autonomy is central to Commission President von der Leyen’s “[geopolitical Commission](#)” where the EU can better protect itself from outside influences and also better promote higher standards and best practices through its economic power via trade deals and agreements, such as investment screening and the proposed carbon border adjustment mechanism.

Combining a more protective orientation with the EU’s avowedly global outlook and deeply interconnected economic profile is expressed by the European Commission’s notion of an open strategic autonomy. The former High Representative for Foreign Affairs and Security Policy, Federica Mogherini, summarised this by stating that the EU [would look for partners when it could, lead on global cooperation where possible, but also that it would go alone when it had to](#). The upcoming 2021 [revised trade policy](#), as outlined in Vice-President Dombrovskis’ hearing for the Trade portfolio, will be guided by this principle of open strategic autonomy, by both recommitting the EU to free and fair global trade, but also a more robust defence of EU consumers and firms from unfair practices by others. Tools to enforce this include reinforced investor-screening mechanisms, a proposed carbon levy for EU imports as well as supply chain diversification, critical resource stockpiling and on-shoring efforts. Reducing EU industrial reliance for [critical raw resources](#) through diversification, internal production

and greater recycling is also part of this effort across a range of sectors, such as [medical supplies](#), [defence](#), [energy](#) and [microelectronics](#).

Part of this effort to balance openness to and protection from external partners can be seen in efforts on foreign direct investment (FDI). For example, the [FDI Screening Regulation \(EU 2019/452\)](#) which entered into force on 11 October 2020 obliges Member States, when requested by fellow Member States or the European Commission, to [provide information](#) on any relevant FDI transactions including: target's ownership structures, business operations, services and (if relevant) locations in other EU Member States. This stems from a [concern amongst EU Member States](#) over the purchase of strategically sensitive firms by non-EU companies, notably those in the healthcare, biotech and infrastructure sectors. This screening mechanism employs a broad criteria for screening FDI, "[on the grounds of security or public order](#)", which coupled with Member States' sole responsibility for ensuring their own essential security interests² and national security³, grants Member States a wide remit in screening FDI. Similar provisions are contained in the [EU-China Comprehensive Agreement on Investment \(CAI\)](#), which has yet to be formally agreed and concluded. The Department of Enterprise, Trade and Employment (DETE) is likely to introduce such measures in the future, following a [public consultation](#) on the issue which closed in May 2020. Moreover, the heads of an Investment Screening Bill were approved by Cabinet in July 2020. This bill is scheduled for parliamentary scrutiny as part of the [Irish Government's Legislation Programme for the 2021 Spring Session](#).

Industrial policy cooperation with third countries, such as [possible defence-industrial cooperation programmes with Eastern Partnership countries](#), also features as part of broader understanding of preserving and maintaining the EU's strategic autonomy. This would incorporate European components with partner countries' manufacturing capacities, for example Ukraine or Moldova, and would better enable these countries to resist possible compromise by foreign actors and enhance EU industrial and commercial linkages. Such policies could foster closer commercial and political links, and also shore up European strategic autonomy through technology transfer and the build-up on indigenous manufacturing and trade capacity, such as [French commercial investments in India, Taiwan and Australia](#).

Finally, strategic autonomy may signal a fundamental shift in the purpose and fundamental conception of the European Union, away from being a European peace project towards a more active and robust player on the global stage and a more interventionist actor in internal EU policies. Greater European capacity to exercise its strategic autonomy would cover a wide range of critical areas including: defence, supply chains, infrastructure, industrial policies, trade and competition policies, and may demand the introduction of more rapid decision-making processes, such as qualified majority-voting in certain areas, to more quickly respond to crises, such as COVID-19.

An Assessment of the Options:

1. Option One is to maintain the status quo ante and effectively side-line the notion of strategic autonomy. This is unlikely because the two largest Member States, France and Germany, are [both in favour of greater economic autonomy](#), though Germany is more hesitant on the defence and

2 Art. 346 TFEU

3 Art. 4(2) TEU

competition aspects. Since Brexit, the German and French governments have been increasingly aligned with one another on EU policy positions and are able to wield significant influence to achieve them, although the picture in Germany is more nuanced in terms of both political actors and policies in a more heterogeneous political landscape.

2. Option Two would involve strong EU support for pursuing autonomy in the fields of trade and defence. This would involve enforcing strict standards for goods imported into the Union, screening investments and uncompetitive economic practices like state subsidies. This would also mean fostering European industrial champions through significant state aid policies, diversifying and on-shoring supply chains and reducing the EU's strategic, material and economic reliance on external partners. On the defence-side, this would involve discussions on greater EU responsibility and capacity-building, a review of PESCO and strengthening the European Defence Fund (EDF). This would help make the EU a more reliable and responsible global partner and maintain the multilateral order.

3. Option Three would comprise a more “open” approach to strategic autonomy, where the EU would develop the capacity to act on its own when it had to, but would seek to work with like-minded partners on issues of common interest. As Executive Vice-President Dombrovskis stated in his [hearing for the Trade Commission portfolio](#), it would mean that Europe would recommit itself to free-and-fair global trade while also ensuring robust protection against unfair practices which negatively impact European consumers and businesses.

Autarky or Autonomy: Implications of Strategic Autonomy for the EU

Status Quo Ante (pre-COVID)

The posture of maintaining EU trade and economic policy status quo ante (i.e., pre-COVID) with regard to strategic autonomy would change little in the short term. It may, however, have negative political consequences in the medium and long-term across the EU in the face of perceived European fragility and of [American and Chinese](#) global technological, political and military dominance. This is probably unlikely to receive support, given political pressure from Member States like France, which are calling for a [more muscular response to protect and promote European interests](#), and the impacts of COVID-19 on [global supply chains for critical resources like drugs and medical equipment](#).

“Closed” Strategic Autonomy

A more “closed” conception of strategic autonomy, closer to that advocated by France, could mean stockpiling critical materials within the EU, on-shoring manufacturing and production capacities within the EU and away from third country partners and building up EU defensive capabilities to reduce its reliance on external actors like the US or the UK.

This more closed strategic autonomy would permit the build-up of industrial champions through intra-EU corporate mergers, increased defence capacities and increased manufacturing capabilities and a diminished reliance on external supply chains. However, it would likely limit the EU's ability to export its products and services as easily and may prove difficult to reconcile seemingly protectionist measures with the EU's rhetoric of being a global champion of an open, global rules-based international trading order.

It could also have considerable economic consequences for external partners, especially those on the periphery of the European Union whose largest trading partner is the EU itself, which could negatively impact their economies and their relations with the EU. Such an approach towards a protectionist vision of the state [could prove to be politically popular in some Member States, but economically damaging for EU firms' economic competitiveness](#) on the global stage, it could also prove politically divisive within the Union and exacerbate divisions between Member States.

"Open" Strategic Autonomy

The implications of adopting open strategic autonomy as a broad principle guiding a range of policy initiatives to address the Union's present fragility, could enhance its resilience in the face of internal and external challenges and [defend its strategic interests](#). Open strategic autonomy [does not mean that the EU would completely reduce its reliance on external partners entirely and pursue self-sufficiency](#). While the EU could diversify its supply chains, for certain key critical goods it may remain vulnerable to supply bottlenecks for certain products or services.

As a political imperative, pursuing a more open strategic autonomy would require the EU to potentially weigh in on geopolitically difficult or sensitive issues, in terms of implementing enforcement measures on unfair policies or balancing its interests and values against one another, and their possible consequences for individual Member States.

Open strategic autonomy could allow the EU to maintain its economic openness to the world, while simultaneously promoting and defending an international rule-based trading order and setting global standards. It could also allow the EU to strike a balance between those Member States advocating for a more protective Europe which defends its citizens, firms and interests with resilient supply chains while simultaneously preserving the EU's attractiveness for foreign investment and economic competitiveness. Greater European autonomy is not about counterbalancing the US, but rather [Europe investing in its own security and stability and of that of the transatlantic relationship](#).

Conclusion

In the short-to-medium term, it is in Ireland's economic self-interest to oppose a more closed protectionist interpretation of strategic autonomy, given its reliance on US multinationals, close links with the UK and foreign-direct investment from outside the EU. However, the political support Ireland has received from the EU in response to Brexit might require reciprocal gestures of solidarity on other policy portfolios.

The divergence of the UK away from the EU's economic model, as well as Western technological and industrial decoupling from China, suggest that the present Irish economic model based on globally-oriented exports may need to be re-evaluated. The particular stress placed on European self-sufficiency or the reduction of external reliance on strategically sensitive sectors like medical equipment and pharmaceuticals post-COVID, cloud services and digital technologies could prove challenging for the large concentration of non-EU firms in these sectors in Ireland.

Furthermore, a greater Europeanisation of the EU's collective defence could challenge Ireland's long-standing policy of effective neutrality, military non-alignment and non-membership of collective defence organisations like NATO in the medium-to long-term.

Ultimately defining the limits of strategic autonomy may prove difficult, as such a broad concept could theoretically cover every policy area, [but if everything is considered strategically critical, in effect nothing is](#). A more open understanding of strategic autonomy, which both protects Europeans at home and promotes their interests, values and standards abroad would be in Ireland's best economic and political interests in upholding a global open model of free and fair trade. It may perhaps be better, as Daniel Fiott, from the EUISS, argues, to consider [strategic autonomy not as a binary option between "open" and "closed" but as a spectrum representing degrees of autonomy and dependency](#) differentiated across different policy areas.

Autarky is effectively unfeasible in such a globally connected interdependent world, but the degree of economic interdependence raises the questions of how best to balance competing strategic concerns for the EU. These questions include how the EU should take greater responsibility for its own actions, how best to hedge against potential future risks and how to emancipate itself from negative constrictive dependencies.

The fundamental issue facing Ireland is how to balance its immediate and longer-term economic interests against its longer-term political position and obligations within the European Union, at bilateral level between the United States and United Kingdom, and at an EU level with regard to China. Although the shocks in international relations brought about by the COVID-19 pandemic and the rebalancing between the US and China is unlikely to revert in the short term, they could have implications for Ireland's economic model and its reliance on attracting FDI from outside the EU.

General shifts in the wake of the COVID-19 pandemic towards larger state capacities and state intervention could merit a national debate on the role of the state in the economy. Strategic autonomy poses profound and difficult questions about the future shape, position and direction of Ireland's political and economic policy and the role that the EU will play in determining just how open or closed the world will be.

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