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The Red Queen Dilemma and the Single Market

Running Forward to Stay Competitive in a World of Politicised Trade and Industrial Policy

By Alexander Conway | January 2023

Abstract:

This paper explores implications of the EU's new industrial policy for maintaining the EU's competitiveness in an era of intense global competition. It examines the associated risks and opportunities both for the Single Market and for Ireland in two sections. The first section analyses the global geopolitical and geoeconomic context and the challenges for the European Union and Ireland in relation to their main trading partners. The second section explores the nature of the new EU industrial policy and the tools available to the EU to maintain its competitive advantage and to foster an outward looking approach to trade with third countries based on open strategic autonomy and encapsulated in the Global Gateway.

Introduction

Now, here, you see, it takes all the running you can do, to keep in the same place.[1]

The foundations underpinning the economic and trade policies of Ireland and the European Union are shifting. Renewed great power competition between the United States and China, UK regulatory divergence post-Brexit, and major shifts in industrial policy within the European Single Market all pose significant challenges for global supply-chains and for countries like Ireland which depend upon them for their prosperity. In this context, the EU risks potentially being caught between the Scylla of global economic fragmentation and the Charybdis of industrial subsidy races-to-the bottom as the principles of multilateralism, economic openness, interdependence, and respect for international institutions come into question. These significant developments represent both a philosophical and economic pivot for the EU as a body founded on the notion of removing barriers to economic and political cooperation, and for countries like Ireland whose economies are predicated on globally open free-and-fair trade. In this context, the EU and its member states face the dilemma of how to adapt, evolve, and advance their interests in order to survive and thrive in an increasingly competitive global environment, much like the Red Queen in Wonderland.[2]

Politicisation of Global Trade and Industrial Policy

The former pre-eminence of multilateralism on the world stage in an era of free-and-fair global trade, which the EU and Ireland have hitherto benefited from immensely, is increasingly under threat. This is due to renewed geopolitical competition between the US and China, disruptions to global supply-chains caused by the Covid-19 pandemic, climate change, UK regulatory divergence, and now further exacerbated by the Russian invasion of Ukraine and subsequent disruption of natural gas flows. These trends have been exacerbated by the increased politicisation and effective weaponisation of economic, trade and industrial policies in order to secure strategic objectives and to protect citizens and producers. While the instrumentalisation of interconnections is not a new phenomenon, the breadth due to globalisation and technological advancements has significantly increased the scale. [3]

In an era of renewed great power conflict, the EU may be forced to adopt a more hard-nosed approach to international politics and become more geopolitical as a result to manage economic asym-

1 The Project Gutenberg eBook of Through the Looking-glass, by Lewis Carroll
2 VanValen 1973 Evol Theor .pdf (rutgers.edu)
3 Welcome to the age of unpeace – POLITICO

metries. In this context of increased intervention and the erosion of free-and-fair global trade, the EU has explored the adoption of a policy of "Open Strategic Autonomy" in order to defend its interests, assert its values, effectively counter economic coercion and forge new economic ties in a changing international environment. This means ensuring that the EU is not dependent on other countries and can act autonomously in strategically critical policy areas.[4] An "open" strategic autonomy, requires the EU to strike a balance between protecting the Single Market against potentially negative external impacts while ensuring it remains competitive and open to the world.[5] European support for Ukraine and the consequent financial and energy sanctions against Russia have engendered knock-on policy consequences in order to shore up domestic resilience to external shocks, diversify EU trading partners and conclude agreements with Chile, Mexico, New Zealand, Australia, India, and Indonesia among others.

EU Responses to Weaponised Interdependence

As a result, the EU, and Ireland as a constituent Member State, are being forced to equip themselves with legislative and regulatory instruments and strike up new partnerships and to assert their strategic economic and political interests at home and abroad, such as through the Global Gateway initiative and with the Single Market Emergency Instrument (SMEI), the Anti-Coercion Instrument (ACI) and a proposed European Sovereignty Fund. These more interventionist measures undertaken since the Covid-19 pandemic reflect public demands for greater protection, necessitating greater state intervention to ensure sufficient supplies of critical goods to assert the EU's strategic autonomy in practice. Crafting an industrial policy which is aligned with the ambitions of the EU Green Deal, and which also protects European citizens and firms may prove a considerable challenge. An example of this is assuring security of supply of energy especially if the requisite raw materials needed to power the transition and build the infrastructure become subject to geopolitically motivated restrictions.

These ambitions may however risk distorting the Single Market which has been so crucial for Ireland's prosperity, and which is particularly exposed as a very open economy dependent on foreign direct investment, on international trade flows and on complex global supply-chains. In a global context of renewed geopolitical competition and a growing prospect of economic decoupling, industrial policies are increasingly politicised and pose a significant challenge for the EU and Ireland.

The obverse side of the economic weaponisation coin is a growing securitisation of economic relations where a broad range of industries, markets, products, and raw materials are deemed critical from national security perspectives and subject to increased public scrutiny and control.[6] Against a backdrop of fragmenting and competing global regulatory frameworks, this trend demands a shift away from a purely market-led form of economic development towards a more strategic conception of "managed trade"[7] which requires public authorities and private representatives to more closely together to navigate the risks posed to supply chains, inventories and revenue flows posed by security considerations. This will require an all-of-Government approach to industrial and trade policy discussions, whereby firms and the State work together to identify possible risks, develop strategies to minimise them and ensure that critical demands for raw materials and essential products are met. How can the EU address concerns about ensuring sufficient internal competition within the Single

4 EU Strategic Autonomy Monitor (europa.eu)
5 Subscribe to read | Financial Times (ft.com)
6 Navigating geoeconomic risks: Towards an international business risk and resilience monitor (fiia.fi) p.21
7 Free Trade Is Dead. Risky 'Managed Trade' Is Here. (foreignpolicy.com)

Market or promoting a global level-playing field while also fostering the growth of so-called European industrial champions? What would this mean for physically non-contiguous littoral Member States like Ireland or smaller countries unable to match the fiscal resources of larger states like France, Germany or Italy who are better able to sufficiently subsidise industrial champions and accordingly benefit from investments? How will the EU manage a move away from multilateralism towards more politicised bilateral and plurilateral relations? What will this mean for countries with strong bilateral ties to countries which may be at odds with the broader economic and trade objectives of the Union? How can the EU determine which partners to forge trusted and sustainable relationships with?

Caught in the Middle with EU: Global Fallout from Sino-American Tensions

Whether the world is witnessing the emergence of a supposed "Cold War 2.0" remains unclear, the escalating tensions between the United States and China, and retaliatory trade and sanctions measures have increasingly eroded many of the norms and rules governing the present international economic order. Given the global economic reach of the US and China, this clash risks potentially spilling over further and creating a divide between those favouring more democratic, open visions of the world and those backing a more authoritarian, closed conception. The overall undermining of mutual trust risks rendering the EU at best a bystander in the Sino-American crossfire, and at worst a collateral victim of deteriorating ties between its two main trading partners if it fails to sufficiently assert its interests against the extraterritorial expansion of US and Chinese policies.

The EU's ability to respond to these threats will be largely shaped through its ability to strike up new partnerships around the world and defend its interests at home. **The Global Gateway** programme is an essential instrument in this arsenal, as the Union's €300bn flagship sustainable and trusted infrastructure and connectivity investment programme across digital, energy, transport, health, education, and research programmes between 2021-2027. Whether the stated goals of the Global Gateway of fostering shared values like democracy, good governance, transparency, ecological sustainability, and mutual security in African, Asian, and South American countries will succeed or whether it will be predicated on 'interests', transactional trade and investment while sidestepping political concerns remains to be seen.

Made in America - Greening US Industrial Policy

Traditionally the US has been an indispensable partner for the EU both within the context of transatlantic trade and of the crucial importance of the NATO military alliance and nuclear umbrella. These close ties were strained by the "America First" approach of the Trump Presidency (2016-2020) which cast doubt on the iron-clad certainty of US commitment to the NATO alliance and led to the unilateral US exit in 2018 from the Iran nuclear deal, the JCPOA and the imposition of sanctions against European firms engaged with Iran and the imposition of tariffs on EU exports such as aluminium and steel. 2016 marked a turning-point that demonstrated how changes in US foreign policies "interests" can be economically and geopolitically detrimental to the EU's own "interests".

While President Biden's administration may have ameliorated some of the transatlantic tensions, the CHIPS and Science Act (2022)[8] commits US$280bn to bolster US semiconductor capacity, catalyse

8 FACT SHEET: CHIPS and Science Act Will Lower Costs, Create Jobs, Strengthen Supply Chains, and Counter China | The White House

R&D, and create regional high-tech hubs and the 2022 Inflation Reduction Act (IRA)[9] which subsidises US domestic production[10] to the tune of US$369bn through encouraging consumers to buy products "Made in America"[11] present a challenge to EU industries,[12] which could disadvantage them or pose a possible existential risk to EU industrial production.

The US hoped to temper EU concerns with an informal understanding negotiated at the biannual meeting of the EU-US Trade and Technology Council (TTC), which took place on Monday (5 December 2022) in Washington D.C., co-chaired by European Commission Executive Vice President Margrethe Vestager, and European Commission Executive Vice President Valdis Dombrovskis, US Secretary of State Antony Blinken, US Secretary of Commerce Gina Raimondo, US Trade Representative Katherine Tai. Following French President Macron's visit to US President Biden ahead of the TTC, the US "Buy America" provision of the IRA, a proposal was made to amend it and to suggest that EU firms could also benefit from the IRA's largesse and be exempted from "local content" obligations for production.[13] What exactly this will mean in practice however remains to be seen, particularly if the IRA Bill needs to be sent back to Congress to be amended. Furthermore, its precise implications may undermine EU credibility as a supporter of free trade, if European participation violates WTO rules. A key objective for the EU is to ensure that the US does not strike out on its own and pursue a protectionist course which negatively impacts the competitiveness of the Single Market or contributes towards deindustrialisation in Europe due to the repatriation of American firms and cheap US energy supplies, but rather engages in sustainable transatlantic trade relations.[14] Any tension between the US and EU situation is potentially awkward for the EU, as it attempts to maintain Western unity in the face of threats from autocratic states like China and Russia while also seeking to avoid losing out economically to the United States or undermining the level-playing field of the Single Market.[15]

Made in China

China's status as a partner, but also an economic competitor and systemic rival to the EU underscores the multifaceted EU-China relationship where economic entanglement is increasingly viewed as a risky prospect for European investors, firms, and states. EU-Chinese tensions have been heightened with the effective suspension of the Comprehensive Agreement on Investment (CAI) in 2020 in response to the treatment of the Uyghurs in Xinjiang and the repression of democratic activists in Hong Kong. This was followed by targeted sanctions on Chinese individuals by the EU and retaliatory Chinese measures against EU institutions and MEPs. Growing ties between Taiwan and certain EU Member States, like Lithuania and the Czech Republic have had broader negative consequences for EU-China relations. The imposition of US sanctions against telecommunications firm, Huawei, on national security grounds, and tit-for-tat tariffs, market restrictions, and export bans have had knock-on disruptions for European suppliers and producers which are interwoven into US and Chinese supply-chains for pharmaceuticals, microelectronics, consumer goods, and advanced manufacturing.

9 H.R.5376 - 117th Congress (2021-2022): Inflation Reduction Act of 2022 | Congress.gov | Library of Congress
10 Inflation Reduction Act of 2022 | Department of Energy
11 Trade rift between EU and US grows over green industry and jobs | Financial Times
12 European business confidence hits rock bottom | Financial Times (ft.com)
13 Trade war averted? Macron gets Biden to 'tweak' his industrial subsidies – POLITICO
14 https://subscriber.politicopro.com/f/?id=00000184-ddc4-da2c-a3af-ffe6a2e50000
15 EU countries say action needed against US subsidies but options are limited | Euronews

Concerns over the potential weaponisation of these trade linkages and dependencies by China have also increased tensions, particularly regarding the Belt and Road Initiative (BRI). The BRI as an infrastructure investment programme which aims to reshape and (re)politicise global trade routes, relations, and norms. These developments have significantly altered the global trading environment for the EU and Ireland, as countries' political and economic trajectories are in part moulded by their degree of integration or exclusion from Chinese-oriented trading relations. This is particularly relevant in the growing contest to forge partnerships in order to secure sufficient raw material exports from producers in Africa, Asia, and South America, such as aluminium in Argentina and Chile, uranium from Kazakhstan or neodymium from Angola. If China were to exploit bottlenecks in the supply of critical raw materials like rare earths, EU climate and technological initiatives could be severely disrupted as a result.

Belt and Road Initiative

The Belt and Road Initiative launched in 2013 is China's US$1.2-1.3trn ambitious global infrastructure development and connectivity project. This policy aims to support Chinese exports and enhance China's economic and political influence around the world through infrastructure investment and construction projects on land and at sea. A strategically significant component of the "hard" infrastructure aspect of the BRI is Chinese investment in transport infrastructure like ports and airports. The strategically significant location of these investments by Chinese state-owned or controlled enterprises in critical ports in Europe, such as COSCO's presence in Zeebrugge in Belgium, Hamburg in Germany, and Piraeus in Greece, may potentially give China considerable direct or indirect influence over vital trading infrastructure, or possibly sensitive commercial data which could be strategically exploited to the Single Market's disadvantage.

A New EU Industrial Policy

The response from the EU to these American and Chinese developments has been swift and strong. Commission President von der Leyen has argued that the IRA could lead to "unfair competition, could close markets and fragment... critical supply chains". She concluded that the EU must "simplify and adapt its industrial policy and rules on state aid" in order to counteract the competitive effects of the new US climate package, which could encourage European companies to relocate, as the US Act includes measures such as tax credits and subsidies for producers of electric cars. She proposes a "structural answer" to the new assertive industrial policy of our competitors" by taking action to "rebalance" the playing field...(and) improve our state-aid frameworks'.[16] In this context of geopolitical pressures and more assertive industrial policy pronouncements by competitors to the EU's Single Market in the United States and China, Commission President von der Leyen announced the need for a "structural answer" to this challenge. The EU's answer is a bold new industrial policy based on open strategic autonomy. According to President von der Leyen "*the goal of our European industrial policy is for European industry to be the leaders in the clean transition. This means over the mid-term, beefing up the resources available for upstream research, innovation and strategic projects at the EU level.*"[17]

Such a policy would effectively require:

- Changes in how state-aid investments are made in strategically important sectors,

16 https://www.ft.com/content/19a28687-0172-445a-829d-a8fd08592197
17 Speech by the President: College of Europe in Bruges (europa.eu)

- Consideration of Common Funding at the European level
- A fundamental reassessment of the relationship between the Single Market and the United States. [18]

The rationale for the new industrial policy seems, according to IEA Executive Director Fatih Birol to be rooted in the recognition that "*the EU's Fit for 55 package and the REPower EU plan have set the path for the bloc, but the magnitude of the actions being taken elsewhere and the immense fall out of the energy crisis in Europe call for a bold new industrial strategy*."[19] EU state aid rules were relaxed during the Covid-19 pandemic, raising concerns about potential disparities and a fracturing of the Single Market between wealthier EU states, like Germany, which could skew the internal market in their favour through mobilising extra public and private investment spending and weaker economies with less readily available financial firepower. As this scenario could create distortions within the Single Market proposals to reopen discussions on common financing such as a European Sovereignty Fund[20] to help bolster the EU's industrial base have re-emerged. A new **European Sovereignty Fund**, first mooted in President von der Leyen's 2022 State of the Union address, would be aimed at reinforcing the economic resources needed for research, innovation, and strategic projects at the EU level for industrial policies. The need to re-assess common financing has also received tacit support from European Council President Charles Michel.[21] Several Member States, including Germany, are against issuing new EU monies and contend that there is no need, as there are as yet untapped funds available within existing facilities

However, France and Germany have agreed upon a common approach to improve future competitiveness of the Single Market. Furthermore a 2022 German Government policy paper[22] which provides the essential foundations for the **Clean Tech Europe Platform** which will bring together EU manufacturing in critical sectors like wind, solar, electrolysers, heat pumps and the electrical grid, and is championed by both the French and German governments. This enthusiasm may be tempered by a decision by the German Constitutional Court, made on 6 December 2022,[23] which dismissed two challenges to the legal basis of the EU's €750bn Recovery and Resilience Fund, but underscored the national limits in the German constitution for future EU fiscal integration. This ruling circumscribes the legal room for manoeuvre to replicate a similar vehicle for industrial policy purposes.[24] Common funding to support industrial development and match the US' IRA is also opposed by German Finance Minister Christian Lindner, exposing potential fractures within the German government coalition.[25]

The US Inflation Reduction Act (IRA) has also provided a catalyst for EU industrial policies discussions, as the IRA has channelled hundreds of billions of dollars into building and future-proofing energy and manufacturing industries in the United States. IEA Executive Director, Fatih Birol, has asserted that it requires the EU to reassess its own industrial strategy with the aim of positioning the region's economy for new growth in the decades ahead in the context of the energy transition and threat of climate

18 Speech by the President: College of Europe in Bruges (europa.eu)
19 https://www.ft.com/content/2a68ef41-76ee-4406-a1f1-b64b2efc58a0
20 State of the Union Address by President von der Leyen (europa.eu)
21 https://www.ft.com/content/19a28687-0172-445a-829d-a8fd08592197
22 backgroundpaper-european-plattfom-for-transformation-technologies.pdf (bmwk.de)
23 Bundesverfassungsgericht - Press - Constitutional complaints against the Capital Adequacy Ratification Act ("EU Reconstruction Fund – NGEU") unsuccessful
24 Germany can take part in EU's €800bn Covid recovery fund, court rules | Financial Times (ft.com)
25 Germany rebuffs EU joint borrowing to match US – EURACTIV.com

change.[26] The debate now hinges on whether to pursue the industries of the future or else risk the effective deindustrialisation of Europe, especially those industries predicated on cheap Russian hydrocarbons such as chemicals, food processing, steel and paper, which generate over €600bn per annum and employ over 8mn people.

If the EU is to remain a global industrial leader, it will need to pursue a simultaneous twin-track approach which combines an internally focused strategy buttressed by tools such as the ACI, SMEI and the IPCEI to protect and strengthen companies in the Single Market, and a more outwardly oriented focus with the 'values'-led Global Gateway strategy which opens a pathway to new markets in Asia, Africa, and Latin America. Although such an approach may be interpreted as replacing a values-based approach with a more interests-based angle akin to the Belt and Road Initiative, the combination of the global energy crisis and the realization that the business-as-usual approach no longer appertains in a time of war and global crises, has alerted Europe's leaders to the fact that values and interests are two sides of the same coin, and that an industrial policy based on assertive open strategic autonomy is the main option available to them. How a more interventionist or protectionist approach will mesh with the EU's commitment to the principle of non-discrimination and support for the World Trade Organization (WTO) may pose a political challenge for the Union. The EU request for a WTO panel to adjudicate on a trade dispute between China and Lithuania may provide some succour to those supporting free trade, but the logjam in WTO procedures may also undermine the ultimate legitimacy or even relevance of the WTO's role in resolving trade disputes.[27]

The EU's Instrumental Quiver: Global Gateway, SMEI, ACI and IPCEIs

There are essentially four key instruments in the EU's quiver, namely the Global Gateway, the ACI, the SMEI and the IPCEI.

The Global Gateway

The Global Gateway is the EU signature programme to promote infrastructure development, connectivity and investment based on mutually shared values across digital, energy, transport, health, education, and research policies globally. These investments are themselves dependent upon the adoption of democratic values, good governance and transparency, equal partnerships, ecologically sound foundations, sufficient security provision, and private sector investment. The programme's tripartite goals are to secure export markets for EU products, to promote EU norms, standards, and values, and reduce European dependencies on third parties for critical sectors. A successful Global Gateway programme would diversify the EU's links around the world, while increasing its autonomy vis-à-vis the US and China, and help to contribute to the economic and political stabilisation of key regions for European security and prosperity. The Global Gateway programme is at its core a geopolitical project given the intrinsic importance of infrastructure to meet the political and economic challenges facing the EU and its partners. The signature of green hydrogen and critical raw material arrangements between the EU and Namibia and Kazakhstan is emblematic of this approach, as are the connectivity investments in road and rail transport corridors in North Macedonia and Serbia, vaccine production in Rwanda, Senegal, Ghana, and South Africa, as well as Mediterranean fibre optic networks.[28]

26 Europe urgently needs a new industrial master plan | Financial Times (ft.com)
27 EU takes China to WTO over Lithuania – POLITICO
28 First meeting of the Global Gateway Board (europa.eu)

Ireland's "Global Island" strategy may resonate with the ambitions of the EU's Global Gateway, but the seismic shift in the global geopolitical situation may require a review of the premises on which it was based. Furthermore, forging a coherent EU approach to the Global Gateway amongst EU Member States with 27 distinct foreign policies may pose a challenge for internal coherence and cooperation for the EU.

The Single Market Emergency Instrument (SMEI).

In response to disruptions to global supply-chains during Covid-19, the European Commission, as part of its New Industrial Strategy, has proposed a "Single Market Emergency Instrument" (SMEI) which is effectively an export control mechanism. This instrument seeks to ensure the free flow of "critical goods" and services during crises and to reinforce and strengthen the governance and resilience of the Single Market.

The four-pronged mechanism aims to (i) ensure that the EU can identify and address critical product shortages through coordinating EU export restrictions, (ii) harmonise assessments, (iii) enhance Single Market surveillance, and (iv) reinforce EU-wide public procurement cooperation. These efforts, in conjunction with EU-level collective public procurement for critical products, like vaccines would, also be aligned with the Health Emergency Preparedness and Response Authority (HERA), and the EU Contingency Plan for Transport and Mobility. The SMEI would enable the EU to counter pressing external challenges for critical supply-chains and maintain essential transport and logistics services, and could be expanded to a theoretically unlimited range of "critical" policy areas such as energy or food, in order to shore up the resilience and smooth functioning of the Single Market and reduce dependencies on countries like China or Russia.

The Anti-Coercion Instrument (ACI)

The aim of Anti-Coercion Instrument (ACI) regulation, which is currently the focus of urgent trilogue discussions between the Council of the EU and the European Parliament,[29] underscores the growing awareness within the Union for the need to better dissuade or counter economic coercion and the weaponisation of trade relations by third-parties. The measure evolved in response to US Trump Administration's measures against European firms engaged in constructing the Nord Stream II pipeline, but is now principally aimed at China and any threats posed to liberal open global trade flows. The concept of economic coercion encompasses interference by third countries of legitimate sovereign decisions made by the EU or individual Member States such as assuming political positions or policy choices through instrumentalising trade or investment policies. A key point of discussion is to strike a balance between the Commission and the Council in terms of which institution will hold the ultimate power over the ACI. Under the ACI, the Commission would assess if measures by third countries meet the definition of economic coercion, and engage directly with them on behalf of Member States and the Union. It could impose equivalent measures like, extra duties, exclusion from public procurement tenders, export and banking services restrictions, and limits on FDI and IP rights.

Anti-coercive measures could be requested by any Member State in response to a threat, which can be annulled by a qualified majority of Member States following an objective investigation by the Commission, which all 27 Member States would then be obliged to enforce. The need for a political

29 Trade: Council agrees negotiating position on economic anti-coercion rules - Consilium (europa.eu)

majority to give legitimacy to such decisions also brings in the role of the European Parliament in potentially driving the adoption of anti-coercion measures. Another debate is whether impacted Member States will be entitled to seek compensation for economic losses incurred by policy decisions by third actors, which may encourage moral hazards in foreign policy, risks escalations, and undermine EU solidarity if the Union is collectively liable for individual Member States decisions.

Important Projects of Common European Interest (IPCEIs)

IPCEIs are cross-border innovation, research, and infrastructure projects and a key component of the EU's New Industrial Strategy. Their purpose is to facilitate the EU's strategic autonomy ambitions in terms of ensuring sufficient industrial capacity and independence for critical sectors such as batteries, green hydrogen production and medical devices, by realising the economies of scale offered by the size of the Single Market.

These IPCEIs are exempt from state aid restrictions and can benefit from private investments once they meet sufficient criteria in terms of their strategic importance, size, and the need to suspend state aid rules due to technological or financial risks.

A core aspect of the IPCEIs is a focus on ensuring a holistic supply and value chain is created which is as much as possible contained entirely within the bounds of the Single Market, such as in the IPCEI on batteries. One challenge however is that they are by design contrary to the principles of the Single Market in that they receive state aid and are artificially supported in order to achieve sufficient economies of scale for strategic political considerations rather than market efficiency.

In this regard there are risks given the difference in the economic capacities of Member States to support IPCEIs on their territories and the concentration effects this may have for future projects, as well as the geographical disadvantages faced by Member States which are physically distant from traditional European industrial heartlands in the Ruhr, the Italian Industrial Triangle or Central European Plain regions, like Ireland, Malta, Cyprus, Greece, or Baltic EU Member States. Member States' participation can also be dependent upon the precise industry under consideration for an IPCEI, given that smaller Member States may not be host to certain industrial sectors or ecosystems, such as battery value-chains or semiconductor production.

Conclusion

In a new global economic environment, the Single Market and Ireland need to adapt if they are to preserve their competitiveness and further their influence. Tensions between the United States and China, regulatory divergence by the UK, and supply-chain shocks emanating from the Covid-19 and Russian gas crisis, have reinforced the need for a new approach. Therefore, the Single Market has embarked upon a new industrial policy programme, which seeks to move beyond national conceptions of competitiveness and towards a common sense of sovereignty under the aegis of open strategic autonomy. As the Red Queen in Wonderland remarked to Alice, 'Now, here, you see, it takes all the running you can do, to keep in the same place," the situation is no different for the Single Market which needs to keep moving forward in order to maintain its position as an economic player.
In response to the competitive challenge of the United States and China, the two most crucial trad-

ing partners for the Single Market, the EU has equipped itself with tools needed to protect both the internal aspect of the Single Market, and to expand the possibilities to secure new external trading relationships. This strategy which foresees a more robust industrial policy framework would enable the EU to meet future challenges and to ensure that its autonomy is not circumscribed by overarching dependencies on third countries.

Irish policymakers face a considerable challenge in balancing these interventionist developments within the Single Market against Ireland's position as a small open economy which is deeply interconnected with the United States and United Kingdom. For example, the relative predominance of non-indigenous owned export firms compared with similarly-sized peers in the Single Market,[30] may expose Ireland to economic volatility if, e.g., US-owned firms are incentivised by the IRA to relocate their operations to the United States. The ongoing uncertainty over the future regulatory position of the UK also contributes to this potential vulnerability.

In this regard, the EU's new industrial policy could be significant in terms of enhancing the attractiveness of the Single Market to foreign investment and to reinforcing the geopolitical influence of the EU in the world. Although Ireland is in a strong fiscal position, it dispenses relatively little national state aid for industry,[31] compared with countries such as Germany.[32] So, these funds could potentially be funnelled into strategic industrial investments, such as IPCEIs, thus ensuring Ireland's long-term economic competitiveness within and beyond the Single Market.[33]

Furthermore, the EU's Global Gateway could contribute to shaping a trade policy governed by enlightened self-interest and which supports a "cooperative internationalist" vision of the world. This vision would be outcome-based, rather than strictly rules-based. It could work to secure mutually beneficial values such as sustainability and resilience between the EU and its non-likeminded trading partners, and could resonate with divergent political systems. The Red Queen dilemma which draws upon Lewis Carrol's Through the Looking Glass, suggests that that staying in the same place may become indistinguishable from falling behind, so in order to move forward, the Single Market and Ireland's place within it have to co-evolve with a changing world.

30 white-paper-on-enterprise-2022-2030.pdf
31 state_aid_scoreboard_note_2021.pdf (europa.eu) p.150
32 state_aid_scoreboard_note_2021.pdf (europa.eu)p.24
33 For example, Ireland alongside Sweden, dispenses relatively little national state aid for industry, and was one of the two Member States which dispensed the least state aid in relative terms in the Single Market with €851.7m, which is dwarfed in comparison with Germany which spent €114.94bn in 2020. Carney, M. (2021) "Value(s): Building a Better World for All", Penguin Random House, Canada. pp.553-554

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