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HOW THE QUEST FOR STRATEGIC AUTONOMY COULD UNDERMINE EUROPE'S POWER AND PROSPERITY

BY FREDRIK ERIXON

The idea of strategic autonomy goes straight to the heart of European prosperity. If the union wants to stay relevant as a geopolitical actor in the future, it needs to think long and hard about what strategies can help it punch above its weight.

If not done correctly, the quest for strategic autonomy could end up undermining Europe's standing in the world.

A central task for the EU, says Commission President Ursula von der Leyen, is to develop "strategic autonomy". This may be a laudable ambition, if the meaning of strategic autonomy is that Europe should improve its autonomous capacity to remain prosperous and shape global norms, standards and outcomes.[1] Challenges abound, and Europe's influence on their management is weakening – partly because of the region's declining economic power.

Europe's share of the global economy has been spiralling downwards for quite some time, with the result that Europe's voice in the world counts for less. In 2050, the EU will represent less than ten percent of the global gross domestic product (GDP). The effect is already being felt: 85 percent of forecasted global GDP growth in the next couple of years will happen outside of the EU, leading many businesses and governments – also in

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1 Unless specified, Europe refers to the European Union

Europe – to neglect Europe.[2] Europe's poor growth outlook exacerbates the relative economic decline. An economy that grows at around one percent per year simply won't be able to command much attention in the world.

In the past, many commentators used to think of Europe as an "economic giant but a political pygmy", meaning that Europe didn't have the political and military leadership to equal the United States but was powerful because of the size of its economy and its strong support for global institutions. Soon, however, Europe won't be an economic giant – at least not one that can use its economy as the basis for consequential economic statecraft. Inevitably, this will have consequences for Europe's autonomy, and even more so for the autonomy of individual European nations. Therefore, if the EU wants to have a strong global role in the future (which arguably it should!), it needs to think long and hard about what strategies can help it punch above its weight.

The quest for strategic autonomy also goes to the heart of European prosperity, since relative economic decline isn't just manifested in raw GDP numbers and falling economic power. This development also entails the emergence of a greater part of all new technological breakthroughs and innovations in other parts of the world. In the past half century, rising global prosperity has meant that new knowledge and new talents increasingly come from regions that aren't mature economies like Europe and the United States. In this age of human capital and knowledge, a rapidly falling share of all new investments in higher education and research & development (R&D) in the world will be made in Europe. Obviously, this will reshape current patterns of competitiveness between countries and regions.

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This development is a natural reflection of growing economic equality between nations. It also provides new opportunities: if Europe keeps its economic borders open, the region can increasingly raise its prosperity by using knowledge, technologies and innovations from a growing number of talents, patents and entrepreneurs in the world. However, the trend of relative economic decline also makes it more urgent to address Europe's structural economic weaknesses, because it won't be as easy as in the past for European firms and countries to make their way in the world as competitive enterprises and nations.

The competition for human capital can serve to illustrate this point. At present, there is a global race for talent reinforced by structural economic change and demographic shifts in countries like Germany, Italy, Japan and China, which leads to growing demand for new human capital. The EU could certainly improve its position in this race. In Europe, there is already a big shortage of computer and artificial intelligence (AI) engineers, which is draining European firms of competitiveness. Moreover, an estimate by the European Investment Bank suggests that Europe has a big investment gap in AI and only accounts for 7 percent of global equity investments in AI (the United States and China account for 80 percent of the total).[3] Investments in R&D facilities have already moved out of European countries because of poor access to talent. Human capital shortages, especially for

2 European Commission, *Trade Policy Review – An Open, Sustainable and Assertive Trade Policy* COM (2021) 66 final

3 European Investment Bank Innovation Financing Advisory, Artificial Intelligence, *Blockchain and the Future of Europe: How Disruptive Technologies Create Opportunities for a Green and Digital Economy*, 2021.

advanced labour, are about to become a fundamental economic problem that could dull much of the productivity gains from new technology in Europe.[4] For some countries, there is now a net outflow of engineering talent. For instance, in 2019 Sweden had an inflow of 267 engineers (of certain categories for engineering education) and an outflow of 501 of the same type of engineers.[5]

Human capital is central to any realistic notion of strategic autonomy. If Europe wants to maintain *its autonomous capacity to understand, access, use and develop new technologies and be at the frontier of innovation* – which should be the core meaning of "strategic autonomy" – it will have to invest far more resources in creating world-class education and research institutions. In a ranking of the 25 best universities in the world, eight are European – but none are located in the EU.[6] Among the top 50 universities in the world, there are seven times more universities in Asia than in the EU. This is just one of many examples of how Europe needs to improve its attractiveness to foreign talent and capital. However, without world-class universities that are close to or at the frontier of new knowledge and technological development, Europe won't be able to maintain and improve its autonomous capacity to understand and keep up with the pace of change at the frontiers of innovation. Hence, strengthening Europe's autonomous capacity to generate prosperity – and to make countries interested in following Europe's example – is most likely to happen by making the region far more dynamic, innovative and attractive to the enterprises and individuals who are shaping future technology and markets.

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Vision and Reality: Fusing Strategic Autonomy with Economic Illiberalism

Frustratingly, this is not the EU's agenda for strategic autonomy – at least not for now. In fact, it is difficult to find many traces of it in EU initiatives on commercial and regulatory policy. Europe is rather stuck in an economic policy and power model that have been tried in the past but didn't succeed. Historian A.J.P. Taylor once remarked about Napoleon III that 'he learned from the mistakes of the past how to make new ones'. Increasingly, the same thing can be said of Europe's approach to strategic autonomy.

Take spending on R&D, which has been stagnating for decades.[7] When the EU budget was released last year, it included real cuts to R&D spending. It doesn't look much better in the new long-term budget and the recovery plan: boosting R&D spending isn't a priority. With a 13-plus trillion euro economy, the EU as a whole still misses almost 110 billion euros in R&D spending to reach the 2000 Lisbon Strategy's target to spend 3 percent of GDP on R&D – a target that is far too unambitious in the 21st century.

There are some smaller initiatives – and one major one, the Transatlantic Trade and Technology Council – that take aim at improving Europe's position

4 For some indicators of vacancy gaps of human capital shortages, see Philipp Lamprecht, *What is Wrong with the German Economy? The Case for Openness to Technology and Human Capital*, ECIPE Policy Brief, 4/2021 and IT och Telekomföretagen, *IT-kompetensbristen*, 2021.

5 Stefan Fölster et al., "Invandrade ingenjörer stängs ute från arbetsmarknaden", *Göteborgs-Posten*, 12 October 2021.

6 QS World University Ranking, 2022. The best-placed EU university is at rank 44. Other rankings – for instance the ranking by The Times Higher Education – differs slightly but not in any significant way from the QS ranking.

7 For an analysis of European R&D spending over decades, see Fredrik Erixon and Björn Weigel, *The Innovation Illusion: How so Little is Created by so Many Working so Hard*. Yale University Press, 2016.

to shape norms and outcomes for global economic development. But domestic or intra-EU initiatives that aim to improve economic dynamism and performance are conspicuously absent from the Commission's programme. Remarkably, there is no special agenda anymore for deepening the single market or raising the EU's competitiveness, meaning neither of them have been considered a priority by the current Commission. In practice, there is no trade agenda anymore either, despite efforts by some in the Commission (and some member states) to expand the concept to "open strategic autonomy". The only new Free Trade Agreement (FTA) up for ratification – the one between the EU and Mercosur – has been rejected by certain member states and faces strong opposition in the European Parliament. Like Voltaire's old joke about the Holy Roman Empire, it is more correct to say that the EU's quest for open strategic autonomy is neither open, nor strategic, nor aiming for autonomy.

It is far more common that the concept of "strategic autonomy" is charged with policies that are defensive, protectionist, or aim for excessive regulatory interventions that suppress economic dynamism. Moreover, the ideas and rhetoric that accompany such initiatives are often nodding in the direction of reducing Europe's dependence on the world and developing "technological sovereignty".[8] For some, the model of self-sufficiency or import substitution is now beginning to look attractive. Others think there are transactional opportunities for a Europe that is less open to the world – or a world that is less open to Europe. "We must have mastery and ownership of key technologies in Europe", argued Ursula von der Leyen

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in a speech to the European Parliament.[9] Thierry Breton, the Commissioner for the Internal Market, argues that "globalization has gone too far" and last year launched a proposal for a new industrial policy with the ambition "to make the most of localization as an opportunity to bring more manufacturing back to the EU in some sectors".[10] Outgoing German chancellor Angela Merkel has expressed support for Breton's ambition and in April 2020, Merkel and French president Emmanuel Macron went a step further and called for economic sovereignty in Europe.[11]

This is a dangerous development, as economic or technological sovereignty are concepts that easily spur economic nationalism. Economic sovereignty is not an à la carte menu which allows a country to be liberal in the choice of *entrée* and *plat principal*, and sovereign when it comes to the dessert. Economic sovereignty is a set menu. Once it is unleashed, it will trigger chain reactions and tit-for-tat retaliation, leading other countries to make themselves sovereign vis-à-vis Europe.

8 For quotes and views from leading European politicians, see Matthias Bauer and Fredrik Erixon, *Europe's Quest for Technology Sovereignty: Opportunities and Pitfalls*, ECIPE Occasional Papers, 2/2020, and Fredrik Erixon, *Work for Others, not Yourself: Globalization, Protectionism and Europe's Quest for Strategic Autonomy*, ECIPE Policy Brief, 7/2020.

9 Ursula von der Leyen, "Speech by President-elect von der Leyen in the European Parliament Plenary on the occasion of the presentation of her College of Commissioners and their programme", 2019.

10 European Commission, *A New Industrial Strategy for Europe*, COM (2020) 102 final.

11 See Fredrik Erixon, *Work for Others, not Yourself: Globalization, Protectionism and Europe's Quest for Strategic Autonomy*, ECIPE Policy Brief, 7/2020. See also Élysée, "Initiative franco-allemande pour la relance européenne face à la crise du coronavirus", 18 May 2020.

Expectedly, calls for strategic autonomy have also trickled down to EU member states who increasingly want their own sovereignty – sometimes in conflict with the single market and other EU countries. For instance, several countries now run their own industrial policies with the aim to repatriate value chains. Big EU countries now plan to take a larger share of tax revenues from smaller EU countries. For example, the French Economy Minister Bruno Le Maire has repeatedly been hounding carmakers Renault and Peugeot for having production in other EU countries like Slovenia.[12] Some governments want stronger regulatory oversight of big (US) platforms but resist the idea of outsourcing supervision to the Commission because they want to preserve the right to be more restrictive against firms that are established in another EU country. And no, France hasn't lost its appetite for impossible technology projects. In fact, the French government is now intent on creating a digital platform for tourists that should compete with Airbnb and Booking.com – the latter being a Dutch company.[13]

While strategic autonomy could be a useful concept for understanding influence, power and dependence, its application has been fused with an illiberal economic attitude. It is invariably used to motivate policies that support greater discretionary power for either Brussels or member state governments. By and large, it stands in opposition to a rules-based economic order – in the EU or globally – because rules are firm, and leaders now want flexibility. This development was expected. The champions in Europe of strategic autonomy in economic policy have without exception been leaders and opinion leaders who do not embrace rules that advance open markets and instead constrain government behaviour in economic and regulatory policy. Across Europe, it has been common for a while to hear the phrase that "Europe has been naïve" in opening its markets to the world. It follows that Europe should now go in the opposite direction with a raft of defensive measures in trade, investment and regulatory policy. For supporters of economic sovereignty or strategic autonomy in economic policy, the right way forward is to cut dependencies on other parts of the world with policies that resemble import substitution.

It is notable that France and Germany are the main champions of economic sovereignty. Two years ago, their governments argued in a petition for a new industrial policy that Europe's economic naïveté consisted of prioritising competition over the creation of European champions (industrial giants that dominate their sectors). As a result, European multinationals remain pygmies in a global market where industrial behemoths from the United States and Asia increasingly set the tone. As a consequence, European firms are robbed of an opportunity to benefit from economies of scale and cannot invest as much as foreign rivals in R&D, leading to a loss of autonomy. Therefore, when officials in Brussels side with consumers and block industrial mergers that would lead to oligopoly, if not monopoly, they are putting a straitjacket on European autonomy.[14] Or so we are told by the French and German governments. In the real world, if the EU market is further drained of competition, which is the result

12 See, for instance, Pauline Ducamp, "Bruno Le Maire tacle PSA et Renault qui produisent au Maroc, en Slovénie et un Turquie", *BFM Business*, 2 December 2019.

13 Francois De Beaupuy, "France to Build Online Platform to Rival Airbnb, Booking.com", *Bloomberg*, 14 May 2020.

14 The Franco-German petition came hard on the heels of the Commission's decision to block a train merger between Alstom and Siemens – a merger that was opposed not just by the Commission but several national authorities in Europe because it would reduce competition so much that the merged company would in effect be in a monopoly position in several European markets.

of strong market concentration, economic dynamism and autonomy would be reduced. By decreasing competition, we would centralise our capacity to understand, access, use and develop new technologies within a sector into the hands of fewer firms.

"A Europe that protects" – Losing Sight of Economic Dynamism

The climate of ideas in European public policy has changed markedly in recent years. A fitting motto for the emerging economic philosophy that is now powering much of the commercial and regulatory policymaking is "a Europe that protects" (une Europe qui protège). It is a phrase that was first used by former Commission president Jean-Claude Juncker, and then became a slogan for Emmanuel Macron's 2017 bid for the Elysée as well as the headline for Austria's 2018 EU Presidency. Initially a phrase to signal a different approach to migration and security policy, it gradually found its way into economic policy – first as a notion of a grand economic bargain between Europe's north and south, then as a sovereignty-based attitude to foreign economic policy.[15]

A key mission for EU economic policy now is to protect its citizens from foreign companies, including making Europe less dependent on global markets. In this section, we will consider some major policy initiatives that work in this spirit, either by means of reducing the dependence on others or by excessive regulation. They all arrive at the same destination: the notion that political control of the economic process is the ultimate method to achieve autonomy. However, these initiatives are likely to make Europe less capable of shaping norms, standards and outcomes both in Europe and in the world. In short, these

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initiatives risk making Europe less strategic and far less autonomous.

Internal – More Market Regulation and Industrial Policy

There has been an extraordinary amount of regulatory activity in Brussels since the new Commission took office, but hardly any of these initiatives have been aimed at freeing up the EU market for cross-border exchange within the EU. It's equally difficult to find policies that genuinely seek to boost economic dynamism by reducing the role of government in the economy. Rather, most of the initiatives are focused on regulating business and technology behaviour in Europe, or raising barriers to those outside of Europe who want to engage in deeper commercial relations.

For starters, the Commission has updated its industrial strategy, which takes aim at providing state resources and regulatory guidance to important industrial production and industrial 'ecologies' that receive the embrace of government. As part of that strategy, the Commission launched a review of its strategic dependence on important goods from non-EU countries. This provided a buffer for those who believe that industrial policy needs to become far more activist and that there is an economic premium for Europe in trying to reshore as much industry as possible. Recently, a new 'Chips Act' was launched that seeks to increase the production and supply of semi-conductors in Europe – possibly with extraordinarily large subsidies from tax payers. The common theme in these initiatives is that they are all efforts to make

15 Mark Leonard, 2017, *L'Europe Qui Protégé: Conceiving the Next European Union*. ECFR.

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the Commission, governments and regulators more consequential in shaping economic development.

An interesting case is pharmaceuticals, one of Europe's most competitive sectors. The Commission is currently working on a new pharmaceutical strategy, but it does not look promising. A prior consultation by the Commission basically demonstrated that the sector needs competitive markets and business conditions to encourage massive private investments in biotechnology, which is a hugely important area for Europe's autonomous capacity to understand, access, use and develop frontier technology. However, in the Commission's review of strategic dependencies, it was concluded that Europe's dependency on active pharmaceutical ingredients (APIs) from abroad was worrying and deserving of policy attention by industrial policy activists. Commissioner Thierry Breton used that conclusion as a basis for laying out a programme for the sector that makes it more dependent on the Commission and on European input and API supply. The industry responded that these APIs aren't at all subject to vulnerable dependencies and that forced localisation of these ingredients would lead to a flawed allocation of investments, since API production is low value-added output that has been outsourced form Europe to free up limited resources for more productive uses higher up in the value chain.[16] In the industry's view, policies that break the input supply chain would actually reduce Europe's capacity to be at the frontier of biotechnology.

There is also a spirit of 'functional socialism' in some of the new policies. Unlike Marxist socialism, the goal isn't to seize capital owners' property but to make them the handmaidens of government.[17] For instance, when it comes to corporate governance and capital markets, there are new calls to regulate business behaviour and make firms a polity of stakeholders. Moreover, the Commission is offering 'taxonomies' that will steer investments towards politically approved sectors. A 'green taxonomy' is hotly debated, partly because it is uncertain if investments in nuclear energy can be classified as supportive of climate ambitions. Likewise, forestry management will be affected by the taxonomy, leading forest owners and forestry-dependent countries to balk at the clumsy regulators in Brussels. Moreover, a 'social taxonomy' is working its way through the Brussels machinery, based on a report tasked by the Commission to develop a way to categorise socially acceptable investments. The working group behind the report has aimed for an intimidating taxonomy that would generally discourage many investments that support growth.

On digital issues, the Commission is proposing far-reaching regulations of big and small platforms that most certainly will reduce the economic usefulness of platforms and slow down digitalisation around Europe. For example, a Digital Markets Act proposes to regulate the big platforms – or 'gatekeepers', in Brussels speak – in a way that could have substantial consequences for current platform products offered by the likes of Google and Apple.[18] A Digital Services

16 See, for instance, Koen Berden and Elisabeth Kuiper, "EU Strategic Resilience in Pharmaceuticals: Global Value Chains and Innovation", 15 July 2020.

17 Bhaskar Sunkara, "The World after Capitalism", *Foreign Policy*, 15 January 2020.

18 Helge Sigurd Naess-Schmidt et al., *The Implication of the DMA for External Trade and EU Firms*, Copenhagen Economics, 2021.

Act also includes these platforms, plus other digital service providers that are smaller, and will take Europe's level of digital restrictiveness higher and make it more costly for small firms to transact on platforms. On a more positive note, a Digital Governance Act is proposing better norms for the reuse of public data.

At the same time, the data 'privacy shield' with the US has been invalidated by the European Court of Justice, leading to much higher costs for transatlantic data portability. This is especially harmful for small and medium-sized companies that don't have the resources and the knowledge to use alternative mechanisms for data portability.[19] Unfortunately, no one in Europe seems to be in a hurry to propose a new system that would ensure easy data access between the EU and the US.

The proposed regulation on AI also deserves an honourable mention. An extraordinarily complex system for classifying different risks associated with AI is laid out in the Commission's proposal, leading many to observe that under this system there will be a migration of AI development in several industries to other countries where there is a freer system for development – before the application and the potential use is even known.[20]

External – Europe No Longer Has a Trade Policy

There has also been a profound change in Europe's agenda for negotiating and signing trade agreements. In the past, the EU has usually been front-footed and provided leadership in trade policy. Now, the trade

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agenda is defined by its weak or absent ambitions to negotiate better market access with emerging economies around the world. If trade policy is defined as *negotiations with other countries to improve market access*, there is surprisingly little of it in the new EU trade strategy. Obviously, this is also reflected in the general attitude to trade from the Commission and many member states. In the EU's Trade Policy Review, which was launched in the spring of 2021, the only thing it had to say about new trade deals with growth regions and markets is that the Commission will "seek to consolidate the EU's partnerships with key growth regions – in the Asia Pacific and Latin America – by creating conditions to conclude negotiations and ratify outstanding bilateral agreements".[21] Yes, this is as far as the strategy goes. In fact, there is so little in terms of outward-oriented market access thinking in the EU right now that it's fair to ask: is there even a trade policy anymore?

Trade politics in Europe are becoming increasingly charged. Currently, there is only one major Free Trade Agreement up for ratification – with Mercosur. It has been kicked into the long grass because of member state opposition, chiefly by countries like Austria and France. The EU-China Comprehensive Agreement on Investment (CAI), which was politically blessed by major leaders by the end of 2020, also has an uncertain future. In fact, many observers think it was dead on arrival. And earlier this year, political frictions in EU-China relations increased, not least after China

19 Nigel Cory et al., *'Schrems II': What Invalidating the EU-U.S. Privacy Shield Means for Transatlantic Trade and Innovation*, ITIF, 2020.

20 See, for instance, Mark Minevich, "European AI Needs Strategic Leadership, not Overregulation", *Tech Crunch*, 15 May 2021.

21 European Commission, *Trade Policy Review – An Open, Sustainable and Assertive Trade Policy*, COM, 2021.

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put sanctions on some members of the European Parliament. While there are also trade negotiations with Australia and New Zealand – both countries could potentially sign agreements with the EU in the foreseeable future – there is little energy in these talks. There are existing mandates for negotiating with other countries, including high-growth countries in Southeast Asia. The old FTA with Chile is up for modernisation, and there are talks about talks with other countries such as India. But this is about it.[22]

The absence of an agenda to negotiate better market access is in a way surprising. Obviously, growth in the world economy has moved from the Atlantic towards the Pacific. Already, a policy for the European economy to recover from the Covid-19 slump will have to look at improving trade opportunities with growing economies. In a few decades, the global economy's centre of gravity will be located between China and India.[23] If Europe's choice is to avoid deeper engagement with the new growth regions, it will have a negative impact on its prosperity. Making sure that Europe's economy gets a better connection with the economic dynamism in Asia is probably our most important trade policy objective. Moreover, if it really is Europe's intention to have the ability to "make its own choices and shape the world around it through leadership and engagement" – to quote the definition of open strategic autonomy in the EU's Trade Policy Review – there will have to be a lot more trade policy engagement from the EU with growth economies.[24] If the current strategy of little integration with new growth regions holds, Europe certainly won't be able to "shape the world around it". Key choices about norms and standards in the world economy will be made elsewhere.

The EU's current international economic policy moves in the direction of detachment. While it is still common to hear arguments for the EU to export its regulations to other parts of the world, that agenda has run out of steam. Neither market liberalisation nor the internationalisation of the EU's regulations is high up on the Commission's agenda anymore. In areas of digital trade – and, more broadly, the digital transformation – the approach is still oriented towards getting others to comply with the EU regulatory model. But all too often this approach disregards the fact that Europe is a successful trade power in digitally-enabled services with great interests in avoiding a regulatory development that chokes services trade and the 'servicification' of industrial trade. Indeed, in matters of innovative technology, the industrial Internet and services (e.g. transport, telecom and financial services), Europe has strong interests in an outward-oriented approach that also takes down non-standard forms of services market barriers, such as regulatory protectionism. However, there are very few such offensive interests in the Commission's thinking. The EU has called for an agenda at the World Trade Organization (WTO) where digital standards and regulatory approaches should be agreed – knowing, of course, that this isn't on the cards. There can, at best, be some smaller accords with a smaller

22 See also European Commission, *Overview of FTA and other Trade Negotiations*, updated October 2021.

23 A study from 2011 suggested that this point will be reached by 2050. Since then, growth in Asia has been surprising positively while growth in Europe has been weaker than expected. See Danny Quah, "The Global Economy's Shifting Centre of Gravity", *Global Policy Journal*, 2:1, 2011, 3-9.

24 European Commission, 2021, *Trade Policy Review – An Open, Sustainable and Assertive Trade Policy.* COM (2021) 66 final, page 5.

group of WTO members. The EU also says that once these rules have been agreed, it can consider liberalising trade in services that go beyond e-commerce. Frankly, if this is Europe's market access policy in digital and digitally-enabled trade for the next few years, the European economy is going to be deprived of a lot of progress.

A New Agenda for Strategic Autonomy

Europe needs to change direction and develop a new approach to strategic autonomy that builds on competitiveness, making Europe attractive to the capital that will set the tone for 21st century innovation. Autonomy cannot be achieved by reducing Europe's exposure to the rest of the world – certainly not in a century that will see Europe's share of world knowledge, technology, innovation and growth shrink substantially. To punch above its weight in the future, five areas of improvement are critical.

1. Boosting Economic Dynamism

Europe needs to raise its economic dynamism. An economy with stagnant growth rates and little bandwidth for change and technological progress gets decadent and sparks very little interest from the rest of the world. For companies to substantially raise investment in European innovation and for the best global talent to choose Europe as their home, the region must become a far more attractive destination. Otherwise, Europe will find that the most exciting new knowledge and technology come from other parts of the world and that the stock of human capital that can understand and use this new knowledge and technology is too small. Technology and innovation often work according to the logic of agglomeration. Europe has a strong foundation to stand on in several sectors and fields of science, but it is far too common that agglomeration now works against Europe's economic geography. The centre of gravity in the world

> **Europe needs to change direction and develop a new approach to strategic autonomy.**

economy is moving towards the Pacific. For the past 300 years, the world had to orient itself towards Europe and the Atlantic to connect with mainstream economic development. Now, Europe needs to beat economic gravity and the only way to do so is to make itself a region where the future is shaped.

2. Build and Join Strategic Alliances

Alliances will be as important for Europe in this century as they were in the second half of the 20th century. In the economy, they will be even more important now that Europe and the US no longer are the world's dominant economic actors. In reality, Europe does not have a choice to make itself independent from either the world economy or global technological development. Unless we accept becoming a remote and poor part of the world, Europe's choice is about who we become more dependent on and the terms of those relations. Europe has extraordinarily strong interests to find closer ties with the US and other market-oriented democracies – in short, members of the Organisation for Economic Cooperation and Development (OECD) and emerging economies that favour closer ties with market-oriented democracies. Europe's quest for strategic autonomy has developed into a generic model for reducing our dependence on the US and other democratic nations as much as reducing our dependency on autocracies such as China. Such strategic arrogance will have to make way for greater strategic humility. Europe should develop alliances with greater care.

3. Join the Pacific Century

If the world economy is moving from the Atlantic towards the Pacific, Europe needs to develop a policy that connects the European economy with the developments in the East. There is a good ground to stand on, namely the substantial stock of EU Foreign Direct Investment (FDI) in Asia. This shows that many of Europe's largest companies have already reoriented themselves towards this new stream of growth. In fact, notable firms in sectors including automotive, chemicals and machine tools are now more Asian than European, when the shares of market sales are measured. However, EU policy has not jumped on this bandwagon. Following the Free Trade Agreements with Japan and South Korea, the European trade strategy was taken hostage by those who are defensive and sceptical of greater market openness with the new growth regions. A broader Indo-Pacific strategy was launched in the autumn of 2021, calling for greater cooperation with the region.[25] This is a good development.

However, the problem is that this strategy is – to put it generously – thin on economic issues. Moreover, it has little to say about the geopolitics in the region and what contribution Europe wants to make to stabilise the geopolitical situation, advance the values of liberal democracy, or both. This is unfortunate since many Asian countries want deeper political cooperation with Europe and the US, and they are keen to develop new alliances that could deter an increasingly aggressive China. Right now, Europe's political response is mainly to sit this period of Pacific

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economic regeneration and geopolitical rivalry out. A new and outward-oriented strategy would consider joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and deepening the economic and technological partnership with a host of countries in Asia and Latin America. It would also substantially reinforce European military presence in the Pacific.

4. China and Russia – Get Real!

Improving its strategic autonomy inevitably means that Europe should wean itself off specific dependencies with hostile and aggressive countries. Obviously, China is one such country. It is increasingly a territorial aggressor and a regime whose state-centric economic policies more and more distort Europe's market economy and free competition. Russia is another territorial aggressor in Europe, whose leadership is attacking the norms and institutions of the EU. Arguably, the whole concept of strategic autonomy is laughable when major European economies are making themselves more dependent on energy supplies from Russia.

There is much talk about a new 'Cold War' with China. George Orwell said of the 1945 settlement that it was "a peace that is no peace", and that seems a more apt metaphor. There are many grey-zone aggressions – especially cyber-attacks – from China against chosen rivals, but the level of economic integration is so substantial that references to the Cold War get misplaced.[26] However, economic ties are changing and, from a qualitative viewpoint, deteriorating. Europe and the US are in a process of economic

25 European Commission and the High Representative of the Union for Foreign and Security Policy, 2021, *The EU Strategy for Cooperation in the Indo-Pacific*. JOIN (2021) 24 Final.

26 Elisabeth Braw, 2021, *The Defender's Dilemma: Identifying and Deterring Gray-Zone Aggression*. American Enterprise Institute.

”Europe should develop new policies and apply them specifically towards China – policies that treat China like-for-like.

decoupling from China because of choices already made in Beijing about the economic future. Europe should develop new policies and apply them specifically towards China – policies that treat China like-for-like. When China cuts the market access for European firms in important sectors, Europe should cut the market access for China in the same sectors. Equally, there should be reduced investment market access for Chinese firms that are state-oriented or that are not transparent about their ownership. Naturally, firms and products with a clear strategic connection to the military and security apparatus in China should be exempt from trading and investment rights in Europe.

This is not a policy that would substantially reduce the volumes of trade and investment with China, or that would reduce the space for cooperation in areas like science and climate change. On the contrary, the lion's share of Europe's trade with China is strategically trouble-free. Equally, it is important that measures are tailored to address specific strategic issues and concerns; protectionist abuses of strategic policies would backfire. The number of products that are currently traded between the EU and China, and that are of concern to the strategic autonomy of Europe, is limited. However, China should receive a more determined response from the EU and others when Beijing makes the choice to discriminate foreign firms and reduce free competition. After China's takeover of Hong Kong, it is obvious that there should be an economic tripwire to deter more aggression. If China again flaunts the rules of territorial sovereignty and international treaties, it should be faced with an overwhelming economic response from democratic market economies.

5. Invest in International Institutions

Finally, Europe has a strong interest in putting more effort into raising the vitality of international institutions that protect small countries against big ones, and that make principles rather than power the guiding norm for international cooperation. Europe has traditionally supported multilateral cooperation and usually sponsored efforts to make the world guided by rules. The EU itself is the product of a rules-based order. However, Europe is beginning to doubt the usefulness of international cooperation and institutions, and is increasingly going off-piste and searching for unilateral means to advance its policy. For instance, the EU is now planning to introduce a carbon tax on imports, knowing of course that such a policy sits uncomfortably with the rules of the World Trade Organization and that other countries are likely to retaliate. While praising the idea of international cooperation on technology, data and AI, the EU really hasn't considered regulatory cooperation with other countries and regions before pushing through policies that are highly restrictive and have the effect (perhaps also the intention) of reducing the market access for foreign firms in these areas. Such unilateralism may be politically cost-free if you are an economic giant. It isn't when your share of the world economy is substantially smaller. Thus, seeking cooperative solutions first, and thereby safeguarding the integrity of international institutions, is necessary to defend the EU's interests in the world going forward.