

Book “EU Industrial Policy in the Multipolar Economy”

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The book gives an interdisciplinary perspective on the current challenges faced by EU policy-makers in framing and implementing a coherent European industrial policy. It analyses the historical, constitutional and structural long-term cause of the absence of a strong industrial policy at the EU level, the existing tensions between the Member States and the EU institutions regarding industrial and competition policies and the conditions for an integrated EU industrial policy to emerge. It further explains how the EU and its Member States may keep their position in global value chains while other major partners such as the US and China are pursuing strategic trade and industrial policies to maintain or to increase their dominant position. The book contains historical, legal and economic contributions both on the development of EU industrial policy tools and on the evolution of industrial strategic sectors. In addition, it develops comparative analyses, in order to identify from the experiences of other large economies the US, Japan, Korea, China elements that could be of relevance to the EU in terms of vertical and horizontal industrial policy. It concludes by evidencing scenarios as regards the evolution of the global position of the EU in the near future.

Abstract

Since the 2010s, the concept of industrial policy “ceased to be taboo” and came back at the forefront of policy debates in the European Union (EU or Union) (Monti, 2010). In his 2017 State of the Union address, Commission President Jean-Claude Juncker advocated a “*new Industrial Policy Strategy for the EU that will allow our industries to stay or become the world leader in innovation, digitisation and decarbonisation*” (Juncker, 2017). The terminology used on that occasion contrasts strongly with that of the previous two decades.

After the Airbus and Ariane successes of the 1970s and 1980s, the failure of the flagship technological projects of the 1990s such as the EU High-Definition TV standard, combined with the completion of the Single Market, lead the EU to abandon for a time the idea of promoting a common vertical industrial policy (Cohen, 2000; Gillingham, 2003; Warlouzet, 2017). Over that period, the powerful EU competition policy also limited state intervention in support of specific industries or enterprises. Within EU institutions, influent commissioners such as Leon Brittan, reflecting their national business constituencies, acted in favour of a minimalist economic role for the state.

At the turn of the millennium, the EU faced, on the one hand, a rising technological gap with

the US. The latter had turned into a knowledge-intensive economy with a wave of innovations in ICT, nanotechnologies, biotechnologies, nurtured by state intervention in the defence industries and their dual technologies. On the other hand, the Union faced the rise of the emerging economies, notably in East Asia, in mature and even advanced industries. These developments threatened the EU position in the international division of labour and in the global value chain, as clearly identified in various studies such as the “Agenda for a Growing Europe” (Sapir et al, 2003).

The EU institutions’ response was to adopt the Lisbon Strategy in order to transform the Union into a “knowledge-based society” and into “the most competitive economy of the world by 2010” (European Council, 2000). This ten-year strategy consisted in a horizontal industrial policy that aimed at boosting the level of competitiveness of the EU economy by increasing R&D spending and at reforming the labour market (increasing flexibility and qualifications of EU workers). With too many objectives, no clear binding targets and a loose monitoring mechanism (the Open Method of Coordination), the Lisbon Strategy has been widely considered by experts and stakeholders as a failure (Arday, 2011; Sapir, 2007). Still, at the end of the 2000s, the EU adopted a similar strategy for the next decade, the “Europe 2020” strategy, again with mixed results since the EU has experienced only a modest rise of R&D spending and is increasingly dependent on the US’s ICT GAFAs. The crises of 2008-2010 revealed a rising technological divide between the most technologically advanced EU Member States from the Northwest of the EU and the Mediterranean and Eastern Member States, which lag behind the advanced Asian emerging economies.

In the 2000s, it became increasingly clear that the Union was the only large economy where competition policy prevailed over industrial policy. With the George W Bush administration, the US adopted in the 2000s a more lenient Schumpeterian approach toward monopolies in high tech industries, notably in the ICT sector (Defraigne, 2017). Emerging economies like China, Russia and South Korea were pursuing vertical industrial policies to promote their national champions and develop their own technological standards in order to reduce their dependence on Western technology (Chaponnière, 2014; Defraigne, 2016; Kroeber, 2016). The crisis of 2008, with the slowdown of trade and the rise in protectionism, accelerated this trend. With the adoption of a neo-mercantilist trade policy to contain China’s commercial and technological rise, the Trump administration is using military expenditures, tax breaks and subsidies to foster high-tech manufacturing and services on US territory. The confrontation of the American and Chinese strategic trade and industrial policies reveals the absence of a coherent response from the EU. Juncker’s Investment Plan for Europe and Emmanuel Macron’s recent proposals cannot hide the fact that Germany and the most technologically advanced Member States do not consider an EU-level industrial policy as desirable or as a priority compared to their national economic development plans.

In this new international context, in which the Union is facing mounting challenges, rebuilding an EU industrial policy becomes crucial for the future role of the EU in the international division of labour in the digitalized global economy, for global environmental sustainability and for the stability of the world trading system. The EU could be in a position where it would become a standard-taker rather than a standard-maker in key new technologies, as well as in the fight against climate change. It might also mean that the EU Member States that are in the economic periphery in the South and East of the Union could find themselves in an

increasingly difficult position vis-à-vis emerging economies. The rising technological divide between the centre and the periphery of the EU could also become a source of social and political instability capable of weakening the Union's economic integration and even of jeopardizing the entire European integration project. At the same time, the adoption of strategic trade and industrial policies by the EU and other major economies is likely to weaken multilateralism and to increase protectionism. This could strengthen the perception of trade relations as a zero-sum game among the governments of competing global powers, with the same disastrous consequences that the world experienced before the two world conflicts of the twentieth century.

The EU thus faces the following dilemma: is it possible to develop a European industrial policy to preserve the European position in the global division of labour while reducing its technological divide and pursuing its environmental objectives, without strengthening the mounting protectionism that has characterized the world economy over the recent years?

Table of contents

Foreword	Etienne Davignon (former EU commissioner for Industry, President of Friends of Europe)
Introduction	The EU's industrial policy dilemma Prof. Dr. Jean-Christophe Defraigne (UCLouvain Saint-Louis), Prof. Dr. Edoardo Traversa (UCLouvain), Prof. Dr. Jan Wouters (KU Leuven) and Dimitri Zurstrassen (UCLouvain Sorbonne University)
<u>Part I</u>	<u>Setting the scene: international and EU industrial and competition policy frameworks</u>
Chapter 1	Industrial policy and EU State aid rules Prof. Dr. Edoardo Traversa and Pierre Sabbadini (UCLouvain)
Chapter 2	Industrial policy, competition policy and strategic autonomy Prof. Dr. Wouter Devroe (KU Leuven) and Dr. Pim Jansen (Erasmus University Rotterdam)
Chapter 3	The international legal framework for industrial policy: World Trade Organization disciplines and rules Prof. Dr. Jan Wouters (KU Leuven) and Júlia Marssola (Gide Loyrette Nouel)
<u>Part II</u>	<u>The history of EU industrial policy</u>
Chapter 4	Industrial policy in the European Union: lessons from the 1960's to the 1990's Prof. Dr. Eric Bussière (Sorbonne University)
Chapter 5	European industrial policy from 2000 to 2020 Prof. Dr. Franco Mosconi (University of Parma)

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Part III

EU industrial policy in light of international experiences

Chapter 6

The US Industrial Policy experience and its relevance to the EU
Prof. Dr. Jean-Christophe Defraigne (UCLouvain Saint-Louis)

Chapter 7

China's Industrial Policy and its relevance to the EU
Prof. Dr. Jean-Christophe Defraigne (UCLouvain Saint-Louis)

Part IV

Case studies of strategic industries

Chapter 8

EU industrial policy in the steel industry: historical background and current challenges
Dimitri Zurstrassen (UCLouvain -Sorbonne University)

Chapter 9

The European automotive industry: a strategic sector in search of a new industrial policy
Dr. Samuel Klebaner (Université de Bordeaux) and Dr. Sigfrido Ramírez Pérez (Max Planck Institute for Legal History and Legal Theory)

Chapter 10

Falling behind and in between the United States and China. Can the European Union drive its digital transformation away from industrial path dependency ?
Prof. Patricia Nouveau (ULg & UCLouvain)

Chapter 11

EU defence industrial policy : From market-making to market-correcting
Dr. Samuel B.H Faure (Sciences Po Saint-Germain)

Part V

Conclusions

Chapter 12

Riccardo Perissich (former Director-General, European Commission DG Industry, Member of the Board of Directors Jacques Delors Institute)