

STRATEGIC AUTONOMY AND THE TRANSFORMATION OF THE EU

NEW AGENDAS FOR SECURITY, DIPLOMACY, TRADE
AND TECHNOLOGY

Niklas Helwig (*ed.*)

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Reports can be ordered from the Finnish Institute of International Affairs.
+358 9 432 7721 / asiakaspalvelu@fiia.fi

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FIIA

FINNISH
INSTITUTE
OF INTERNATIONAL
AFFAIRS

Arkadiankatu 23 b
POB 425 / 00101 Helsinki
Telephone +358 (0)9 432 7000
Fax +358 (0)9 432 7799

www.fiia.fi

CONTENTS

List of abbreviations	7
Acknowledgements	9
Key findings of the report	11
Introduction: the EU's choices in advancing Strategic Autonomy	15
Niklas Helwig	
1 A multi-dimensional view of US-China great-power competition	27
Elina Sinkkonen & Ville Sinkkonen	
2 The EU as an autonomous defence actor	53
Nicole Koenig	
3 Strategic Autonomy and the EU as a diplomatic actor	69
Niklas Helwig	
4 Threading the trade needle on Open Strategic Autonomy	87
Tobias Gehrke	
5 Principled Big Tech: European pursuit of technological autonomy	105
André Ken Jakobsson & Marcel Stolz	
Contributors	131
Previously published in the series	133

LIST OF ABBREVIATIONS

3GPP	3rd Generation Partnership Project
5G	5 th generation mobile network
AI	Artificial intelligence
BRI	Belt and Road Initiative
CCP	Chinese Communist Party
CAI	Comprehensive Agreement on Investment
CARD	Coordinated Annual Review on Defence
CBAM	Carbon Border Adjustment Mechanism
CFIUS	Committee on Foreign Investment in the United States
CFSP	Common Foreign and Security Policy
CPTPP	Comprehensive and Progressive Trans-Pacific Partnership
CSDP	Common Security and Defence Policy
DG TRADE	Directorate-General for Trade
DG DEFIS	Directorate-General for Defence Industry and Space
EDA	European Defence Agency
EDF	European Defence Fund
EEAS	European External Action Service
EI2	European Intervention Initiative
EUGS	EU Global Strategy
EU	European Union
EULEX	European Union Rule of Law Mission in Kosovo
EU3+3	Germany, France and the United Kingdom + China, Russia and the United States
FCAS	Future Combat Air System
FDI	Foreign Direct Investment
FOIP	Free and Open Indo-Pacific
FONOP	Freedom of Navigation Operation
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GPS	Global Positioning System
HR/VP	EU High Representative/Vice-President of the Commission
INSTEX	Instrument in Support of Trade Exchanges
IPCEI	Important Projects of Common European Interest
IPI	International Procurement Instrument
JCPOA	Joint Comprehensive Plan of Action

MERICCS	Mercator Institute for China Studies
MPIA	Multi-Party Interim Appeal Arrangement
MPCC	Military Planning and Conduct Capability
NATO	North Atlantic Treaty Organization
NCSC	National Cyber Security Center
NGC	Next Generation Core
NGO	Non-Governmental Organization
NDS	National Defense Strategy
NSS	National Security Strategy
OECD	Organisation for Economic Co-operation and Development
PESCO	Permanent Structured Cooperation
QMV	Qualified Majority Voting
RAN	Radio Access Network
RCEP	Regional Comprehensive Economic Partnership
RF	Radio Frequency
R&D	Research and Development
R&T	Research and Technology
SOE	State-owned Enterprises
SWIFT	Society for Worldwide Interbank Financial
TDI	Trade Defence Instruments
TEU	Treaty of European Union
TFEU	Treaty on the Functioning of the European Union
TPP	Trans-Pacific Partnership
UE	User Equipment
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organization
USD	United States dollar
WHO	World Health Organization
WTO	World Trade Organization

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KEY FINDINGS OF THE REPORT

The EU is caught up in a major debate concerning whether to increase its autonomy with regard to the wider world. The instabilities in its neighbourhood, the challenging experience of the Trump presidency, the (re) emergence of China as a global economic power and the disruptions of the Covid-19 pandemic raised the question of whether Europeans should be more adept at managing the risks stemming from their exposure to global trade and their possible over-reliance on allies for security.

The debate is not entirely new. However, the EU's global perspective on strategic autonomy of today is different from the conventional vision of a Europe that was more self-reliant on defence matters, which emerged in the 1990s. Back then, neighbourhood instabilities and uncertainties over the continuous engagement of the US in European security after the end of the Cold war drove the development of autonomous crisis-management capabilities in the EU. The current debate on strategic autonomy is propelled by a wider set of global trends that put the EU and its member states under pressure, namely the great-power rivalry between the US and China, the technological disruption related to the digital transformation and leveraged interdependence among states to further their geostrategic interests. These trends have accelerated with the outbreak of the Covid-19 pandemic, which exposed the vulnerabilities of global supply chains and stoked a race between the US and China to emerge out of the crisis in a relatively stronger position. As far as Europe is concerned, the risks related to its interdependencies have become more pronounced and have led to calls for strategic autonomy in the EU.

This report identifies three approaches to promoting strategic autonomy.

- **Autonomy through protection**

Achieving strategic autonomy through the protection of industries and supply chains, as well as through the build-up of military capabilities, is intuitively plausible. Because it tends to be associated with economic or military decoupling, it is frequently met with criticism in member states with a strong liberal or transatlantic orientation. At the same time, there is an increasingly urgent need to protect values (related to data privacy and climate protection, for example) through restrictive measures, regulatory instruments as well as tax incentives. The EU and its member states attempt to combine a protective strategy with cooperative and liberal elements, as exemplified in the Commission's concept of "open strategic autonomy" in trade matters as well as in the increased efforts to foster deeper EU-NATO cooperation in the field of defence.

- **Autonomy through provision**

Arguably, the biggest obstacles to enhanced strategic autonomy reside at home. The demarcation between domestic policies and external capacities is becoming increasingly blurred. Whether the EU will be strategically autonomous in the future is of lesser concern to planners of defence and foreign policy than to economists, health experts and education specialists. It may be commonplace to state that the EU and its member states need to provide conditions to ensure the economic wellbeing and safety of its citizens and to improve solidarity between and within member states. Still, in the current international context the need to improve innovation and health policy, as well as economic governance, has taken on a geopolitical dimension.

- **Autonomy through projection**

Externally, the EU could increase its strategic autonomy through the projection of its interests and values on the international arena, engaging partners, and promoting the further development of the rules-based international order. The mitigation of great-power competition is a key objective in this regard, the aim being to contain rivalry by guiding confrontations towards practices of multilateral cooperation. The better the EU is able to agree on strong standards and policies internally, the better is its position to project its values and interests internationally. Its single-market regulatory power, which sets international standards, is one example of that. Another example is its ambition for climate leadership on the basis of the European Green Deal.

THREE APPROACHES TO ADVANCING STRATEGIC AUTONOMY



Autonomy through protection

The pursuit of strategic autonomy by decreasing dependencies on trade partners and allies.



Autonomy through provision

The pursuit of strategic autonomy by supporting the economic and political foundation of the EU.

Autonomy through projection

The pursuit of strategic autonomy by shaping the political and security environment in favourable ways.

Each chapter in this report offers issue-specific suggestions concerning how to improve European strategic autonomy. The following high-level recommendations are based on the overall findings.

- *Don't look back in anger!* Leave the trenches of the traditional debate on strategic autonomy that pits Europeanists against Atlantacists, and protectionists against free marketeers. It is no secret that, rather than unifying EU member states, the debate around strategic autonomy has so far underlined their differences. Nowhere is that as obvious as in the area of defence policy. For example, Baltic security perspectives focused on a strong conventional defence within NATO are confronted with calls for more European crisis-management capabilities in the Southern neighbourhood. At the same time, a large number of export-reliant member states, including the Nordics, find it difficult to accept calls for the reshoring of critical industries and a more value-based trade policy (e.g., a carbon border adjustment tax). Instead of focusing on the divisive question of autonomy *from* others, member states should find more constructive approaches to strengthening strategic autonomy. They could, for example, further increase efforts to safeguard and shape the multilateral system as well as ensuring a solid foundation at home for a competitive EU abroad, through a strong single market and adherence to the rule of law. Even in the often-controversial area of defence, recent experiences with the threat assessment under the strategic compass have shown that member states have shared

interests and can agree on a strong EU defence dimension within a strong transatlantic and NATO partnership.

- *A little less conversation, a little more action!* The debate on strategic autonomy has rightly been criticised for diverting attention away from the more concrete challenges that stand in the way of a more capable EU. There is still a fair amount of less controversial homework to be done that will in itself bring the EU forward. In the area of defence, the multitude of initiatives within and outside the EU framework still lack consistent implementation and coordination. With regard to trade dependence, the EU's ability to manage interdependencies would improve if it had the capacity to acquire a better situational picture of supply-chain and technological vulnerabilities. Its standing in global technological competition could be improved by fast-tracking the transatlantic technological alliance. On foreign policy, member states should acknowledge that the current system of unanimity in decision-making is no longer appropriate at a time when single member states are willing to halt the process in order to push their interests.
- *With a little help from my friends!* EU strategic autonomy does not necessarily require more competences and action on the EU level. In certain areas the EU could be instrumental in boosting strategic autonomy, in others, national activities or more flexible cooperation might bring advantages. With regard to Europe's technological autonomy, for example, the EU's regulatory and anti-trust power could help to advance technological innovation in line with Europe's data-privacy and security interests under the label of 'Principled Big Tech'. On diplomacy, more flexible formats and contact groups have produced positive results in recent years, such as the EU3+3 Iran nuclear negotiations. However, the CFSP framework and Brussels-based institutions play an important role in ensuring coordination and in linking the diplomatic activities to the overall EU agenda. On defence matters, added value is provided by the EU's ability to foster defence innovation and the respective industries, and to help with the regulatory and infrastructure aspects of military mobility.

Even though the term strategic autonomy is still contested, the principle behind it, namely, to increase the EU's capacities to better manage its global interdependencies, is widely acknowledged. Implementing the principle requires strategic choices, and not only on traditional foreign- and security-related portfolios. A concentrated effort across policies and on various levels of European governance is needed.

INTRODUCTION: THE EU'S CHOICES IN ADVANCING STRATEGIC AUTONOMY

Niklas Helwig

“The Union must have the capacity for autonomous action, backed up by credible military forces, the means to decide to use them, and a readiness to do so, in order to respond to international crises.”

This quotation is not from a recent European Council conclusion, it is from the 1998 British–French St Malo declaration that led to the creation of the Common Security and Defence Policy.¹ Contrary to what one might believe from the countless op-eds, speeches and position papers, the idea of European strategic autonomy is hardly new: it goes back over 20 years.²

The debate has come a long way since then. The first wave of the debate that broke in the 1990s focused mainly on the question of European military capabilities in the possible event of US disengagement from Europe.³ The second wave started to gather momentum in the 2010s, when Europe was confronted with increasingly assertive China and Russia as well as a more confrontational US under President Trump.⁴ In particular, the use

1 Joint Declaration on European Defence issued at the British–French Summit (Saint-Malo, 4 December 1998).

2 In fact, when considering the Europe's industrial ambitions in the 1970 to create Airbus as a European alternative to the US aviation company Boeing, the debate on strategic autonomy might be close to 50 years old.

3 This does not mean that the strategic autonomy debate on defence was concluded. Instead we make the point in this report that the debate still reverberates today. See D. Fiott, Strategic autonomy: Towards 'European sovereignty' in defence? European Union Institute for Security Studies, Brief 12/1018; P. Järvenpää, C. Major, & S. Sakkov, Sven, European Strategic Autonomy: Operationalising a Buzzword, International Centre for Defence and Security, 2019; B. Kunz, & R. Kempin, France, Germany, and the Quest for European Strategic Autonomy: Franco–German Defence Cooperation in A New Era, Notes du Cerfa, No. 141, 2017; J. Howorth, Strategic autonomy and EU–NATO cooperation: threat or opportunity for transatlantic defence relations?, Journal of European Integration, 40(5), 2018, 523–537.

4 B. Lippert, N. von Ondarza & V. Perthes (eds.), European Strategic Autonomy: Actors, Issues, Conflicts of Interests, Stiftung Wissenschaft und Politik, Research Paper 4/2019.

of economic instruments to further geostrategic objectives became a pivotal point of discussion and risked limiting the EU's freedom to operate.

The third wave in the discussion followed the outbreak of the Covid-19 pandemic in 2020. The EU's ability to act autonomously is connected more and more closely to the questions of welfare, health and post-crisis economic recovery. The protection of European values in areas such as climate protection, human rights and data privacy also moved centre stage.⁵

The evolution of the debate on strategic autonomy is largely driven by three trends: the great-power rivalry between the US and China, the technological disruption that propels the digital transformation and the increasing use of leveraged interdependence (see Box 1). What was once a debate on whether the EU's conventional military capabilities would suffice to maintain its security in a fragile post-Cold war context has transformed into something much broader. Now, experts and policymakers have to determine how the EU can defend itself and further its interests in the global context of a reemerging China, a fierce technological race and geo-economic competition.⁶ The aim of this report is to analyse how the debate is transforming EU policies in the fields of security, diplomacy, trade and investment as well as technology. It includes recommendations on how the EU can further advance its strategic autonomy while striking a balance between protectionist tendencies and the need to stay open to international engagement and cooperation.

BOX 1: THE DRIVERS BEHIND THE DEBATE ON EUROPEAN STRATEGIC AUTONOMY

The increasing *great-power rivalry* between the US and China exposes the EU to economic and security challenges.⁷ This competition impedes the proper functioning of multilateral organisations, the WTO in particular, and increases risks connected to the possible decoupling of technological standards, supply chains and export markets. With a shift of US attention to the Indo-Pacific region and instability in Europe's neighbourhood, new questions regarding Europe's autonomous defence capabilities are also being raised. The EU has recognised China as a systemic rival, but

5 G. Grevi, Strategic autonomy for European choices: The key to Europe's shaping power, Discussion Paper, European Policy Centre. 2019.

6 N. Tocci, 'European Strategic Autonomy: What It Is, Why We Need It, How to Achieve It', IAI - Istituto Affari Internazionali (26 February 2021).

7 See Chapter 1 on Great-Power competition in this report; B. Gaens & V. Sinkkonen, eds., *Great-power Competition and the Rising US-China rivalry: Towards a new normal?* (Helsinki: FIIA, 2020).

it is still in search of the right approach given its close economic ties and multilateral cooperation with Beijing.

Technological disruption related to the digital transformation is another key driver of the debate. Europe is under pressure to innovate with regard to future critical technologies such as artificial intelligence and quantum computing. The software and hardware that drive new technologies are increasingly complex, which thus increases their vulnerability, as the discussion on 5G security exemplifies. Moreover, changes in the nature of labour exemplify the power of technology to transform societies.⁸

The risk of *leveraged interdependence* has become more pronounced over the last decade as states use economic ties to further their geostrategic goals. Strategies such as binding others through trade and investment relations are best exemplified by the Chinese Belt-and-Road initiative.⁹ More aggressive powers use their dominant position in economic networks to coerce partners or opponents. The extraterritorial sanctions of the US on European businesses with regard to Iran constitute a prominent example of this weaponised interdependence.¹⁰

A CONTESTED CONCEPT

As the term “strategic autonomy” featured more and more in the vocabulary of European policy in the 2020s, it became clearer how contested the notion really was. It is popular among the Brussels policy community in particular, with prominent representatives such as European Council President Charles Michel and High Representative Josep Borrell calling for a more confident and self-sufficient approach to foreign policy so as “to defend our interests and values in an increasingly harsh world”.¹¹ Experts from Berlin and Paris also frequently speak out in favour of reforms that

8 See Chapter 5 on technology in this report.

9 M. Wigell and A. Soliz Landivar, ‘China’s Economic Statecraft in Latin America: Geostrategic Implications for the United States’, in M. Wigell, S. Scholvin and M. Aaltola (eds.), *Geo-Economics and Power Politics in the 21st Century: The Revival of Economic Statecraft*. London: Routledge, 2018

10 H. Farrell & A.L. Newman, ‘Weaponized Interdependence: How Global Economic Networks Shape State Coercion’, *International Security*, 44/1 (Summer 2019), 42–79.

11 Recovery Plan: Powering Europe’s strategic autonomy – Speech by President Charles Michel at the Brussels Economic Forum, September 8, 2020, <https://www.consilium.europa.eu/>; J. Borrell, Why European strategic autonomy matters, December 3, 2020, EEAS, <https://eeas.europa.eu/>.

would make the EU more capable on a range of policies.¹² French President Emmanuel Macron made European sovereignty the central theme of his 2017 Sorbonne speech, and since then he has argued vehemently for enhanced strategic autonomy.¹³ The 2020 German presidency put a discussion of the matter on the official Council agenda.¹⁴

However, the autonomy ambitions soon faced opposition. Baltic and Central European member states in particular are cautious given the possible consequences of a more self-sufficient Europe, specifically the risk of loosening transatlantic ties.¹⁵ Poland, for example, harbours long-held concerns that an independent and capable European defence capacity might undermine NATO and in turn reduce the incentive of the US to stay committed to European security.¹⁶ With the deterrence of Russia as their primary interest, they are cautious not to send signals to Washington DC that could indicate a loosening of ties. German Defence Minister Annegret Kramp-Karrenbauer signed an opinion piece in late 2020 asserting that “illusions of European strategic autonomy must come to an end.”¹⁷ Her intervention showed once again the critical attitude to the concept in European defence circles.

The traditional, defence-related interpretation of strategic autonomy has long been the subject of intensive debate among member states, with transatlantic-minded nations such as the Baltic states, Poland, the Netherlands, Denmark and the pre-Brexit UK urging caution about moving too quickly towards self-sufficiency. France has been consistently on the other side of the argument, underlining the need to accumulate sufficient strategic and material resources to sustain independent operational capacity in Africa, where it anticipates further US disengagement.¹⁸ Germany, Italy and Spain joined France in its call for more European action at

12 See for example FIIA Webinar, EU Strategic Autonomy: Views from Berlin and Paris on a more capable and self-sufficient Europe, October 10, 2020, https://www.youtube.com/c/FIIA_fi.

13 Sorbonne speech of Emmanuel Macron, September 26, 2017, Paris, <http://international.blogs.ouest-france.fr/archive/>; Macron, Interview granted to Le Grand Continent, 16 November 2020, <https://www.elysee.fr/en/emmanuel-macron/2020/11/16/interview-granted-to-le-grand-continent-magazine-by-the-french-president-emmanuel-macron>.

14 Federal Foreign Office: Last Foreign Affairs Council during Germany's Presidency of the Council of the European Union - strengthening human rights and transatlantic relations, December 7, 2020, <https://www.auswaertiges-amt.de/en/>

15 U. Franke & T. Varma, Independence Play: Europe's pursuit of strategic autonomy, European Council on Foreign Relations, 2018, <https://www.ecfr.eu>.

16 L. Strauß and N. Lux, European Defence - Debates in and about Poland and France, SWP Journal Review 1, 2019, <https://www.swp-berlin.org/>. M. Błaszczak: Europe's alliance with the US is the foundation of its security, November 25, 2020, Politico, <https://www.politico.eu/>.

17 A. Kramp-Karrenbauer, Europe still needs America, November 2, 2020, Politico Europe, <https://www.politico.eu/article/europe-still-needs-america/>.

18 A. Pannier, Between Autonomy and Cooperation: The Role of Allies in France's New Defense Strategy, War on the Rocks, November 2, 2017, <https://warontherocks.com/2017/11/between-autonomy-and-cooperation-the-role-of-allies-in-frances-new-defense-strategy/>.

times. The election of Joe Biden increased doubts as to whether holdouts among member states would eventually embrace the concept, as the new president reconfirmed the US commitment to allies and might render European autonomy ambitions futile and untimely.¹⁹

EU officials, in contrast, interpret the concept of strategic autonomy beyond the traditional frames of defence alliances. Borrell, Michel and Commission representatives discuss strategic autonomy from a global perspective, including concerns regarding the EU's economic and technological dependency and its ability to shape global norms and policies.²⁰ They refer more often to the EU's relationship with and dependence on China. Strategic autonomy frequently features in discussions on health security, climate change and the reform of the World Trade Organisation. These themes are distant from issues that are considered vital among those involved in defence policy when confronted with the term strategic autonomy, which include hard security issues such as nuclear deterrence and NATO Article 5 commitments.

Strategic autonomy is also debated in the context of economic policies. Critics from free-trade and market-oriented member states, including the Nordics, discuss whether the focus on autonomy implies growing EU protectionism and state intervention in order to compete in the global economy.²¹ Among the strongest sceptics are liberal economies relying on small and medium-sized businesses that stand to lose a lot from international trade barriers and single-market competition skewed towards big companies in France and Germany. Free-market-oriented countries are also questioning the extent to which the EU should use trade instruments to promote its values and to push more forcefully for carbon neutral production and human-rights standards, for example.

In the current geo-economic era of international politics, states devise economic policies and instruments not only with purely commercial interests in mind, but also to gain an upper hand in the growing geopolitical competition.²² Here the risk is that the EU's push for strategic autonomy in areas such as trade and investment is seen not only as an economically beneficial move, but also as a geopolitical attempt to use its combined economic power in strategic or even coercive ways. This tension was visible when the EU concluded the Comprehensive Investment

19 M. Barbero, Europe May Cheer Biden's Win—But It Threatens Macron's Grand Project, Foreign Policy, November 27, 2020 <https://foreignpolicy.com/2020/11/27/biden-win-macron-independent-europe/>.

20 N. Helwig, EU Strategic Autonomy: A Reality Check for Europe's Global Agenda., FIIA Working Paper No. 119, 2020, https://www.fiaa.fi/wp-content/uploads/2020/10/wp119_strategic_autonomy-2.pdf.

21 N. Helwig, J. Jokela, P. Kuusik & K. Raik, Nordic-Baltic Perspectives on European Sovereignty and Strategic Autonomy: A Northern Agenda for an Open and Secure Europe, Estonian Foreign Policy Institute, forthcoming 2021.

22 Wigell, Scholvin, Aaltola, *Geo-Economics and Power Politics in the 21st Century*, 2018.

Agreement (CAI) with China in late 2020. The conclusions of talks with Beijing were quickly interpreted in terms of the EU's relationship with the US, as media organisations reported discontent in the Biden team over the timing just before the US presidential inauguration. The Polish Foreign Minister promptly criticised CAI on the grounds that the transatlantic ally needed to be consulted first.²³ In a politicised international environment in which industry and trade policies are readily interpreted from a geopolitical angle, there is little opportunity for EU politicians to advocate strategic autonomy without quickly entering the often reflexive and guarded debate on alliance relations.

Criticism of strategic autonomy is amplified when the EU fails to achieve its own ambitions. A gap between targets and reality is often visible in the area of security and defence policy, the EU and its member states having failed consistently to meet their self-set levels of ambition regarding the military capacity to run operations.²⁴ With regard to economic and health policy, the EU's difficulty in procuring necessary amounts of Covid-19 vaccines during the early stages of the immunisation campaign, despite its joint purchasing power, sparked criticism. In terms of foreign policy, the EU is frequently criticised for failing to deliver on its goal to promote its human-rights and rule-of-law values in its relations with authoritarian regimes. Its limits in promoting values surfaced again following the careful EU approach to the imprisonment of Russian opposition leader Navalny in early 2020. Indeed, there is substance in the argument that if the EU wants to be strategically autonomous, it will have to measure its success against delivering on the goal set in its own treaties "to consolidate and support democracy, the rule of law, human rights and the principles of international law" (Art. 21 TEU). This ambition is further weakened by rule-of-law challenges in EU member states such as Poland and Hungary, which undermine the EU's legitimacy to act as a normative power abroad.

THE QUESTION IS NOT "WHETHER?", BUT "HOW?"

Not surprisingly, there is already a broad pushback on the question of whether the EU is doing itself a favour by discussing or promoting strategic autonomy. However, it should not be a question of whether the EU or Europe should pursue the goal more forcefully. The ability to manage

23 Tweet by Polish Foreign Minister Zbigniew Rau, 22 December 2020, <https://mobile.twitter.com/RauZbigniew/status/1341454786747641859>.

24 European Defence Agency, '2020 CARD Report – Executive Summary', Brussels, 2020, <https://eda.europa.eu/docs/default-source/reports/card-2020-executive-summary-report.pdf>.

interdependencies is an essential quality of every political entity (see the definition in Box 2). The strategic challenge is rather to achieve more autonomy without sacrificing Europe's general free-trade orientation and defence alliances.

BOX 2: DEFINING STRATEGIC AUTONOMY

The debate on strategic autonomy reveals a lack of common understanding regarding what the concept entails. For the purposes of this report, we define strategic autonomy as *the political, institutional and material ability of the EU and its member states to manage their interdependence with third parties, with the aim of ensuring the well-being of their citizens and implementing self-determined policy decisions*. Let us unpack the definition piece by piece, starting from the back.

Strategic autonomy, as we see it, is not desirable just for its own sake. It is rather a means for the EU to achieve its goals, which are defined here as *ensuring the well-being of EU citizens and implementing self-determined policy decisions*. Both aims are central to the legitimacy of the EU as a political entity. The extent to which EU citizens accept the Union's authority rests to a large extent on their perceived well-being, which includes a sense of security, prosperity and health. In addition, the credibility of the EU as a democratic entity depends on the extent to which its decisions and their implementation reflect the will of its people as opposed to being directed by outside actors and determined by external dependency. In short, a degree of strategic autonomy is needed for the EU to be a legitimate and sovereign political entity.

Strategic autonomy is about *managing interdependence*. This is the acknowledgement of the fact that in the international economy and with regard to global threats, no state or actor can or should be completely independent. The EU's security rests on alliances and multilateral organisations. Without trade or technological cooperation, it could not sustain its economic development. Recently, however, the Covid-19 pandemic and its repercussions on supply chains and medical equipment have revealed that asymmetrical interdependencies also have security implications.

Monitoring and possibly adjusting them across different domains has become an important task for the EU and its member states.

The EU needs certain *political, institutional and material* capacities to manage its interdependencies. Political capacity is determined by ideational factors and the question of whether member states share the same perception of their strategic environment. Institutional capacity is conditioned by the EU's organisational structures and instruments that facilitate the planning and implementation of policies. Finally, material factors and the extent to which the EU can rely on its technological, industrial and military strength are of critical importance.

As a consequence, the concept of strategic autonomy should be clearly separated from the notions of independence, which is neither a realistic nor a desirable goal, and sovereignty, which is a broader concept to describe a legally distinct and politically legitimate entity.

What we are currently witnessing is a debate on the right mix of approaches to strengthening strategic autonomy (see Figure 1). Should the EU increase its *autonomy through protection*, i.e. by becoming increasingly self-sufficient and reducing dependence on alliance and trade partners? Alternatively, is *autonomy through provision* the solution, meaning that the EU could become more effective in following its objectives by sustaining its economic and political foundations at home? Another approach is *autonomy through projection*, namely to shape the environment in a way that is conducive to EU interests and values.

The debate on strategic autonomy has been criticised for diverting attention from the practical shortcomings of the EU and its member states (such as low military spending and the lack of a joint strategy). However, we believe it is worth analysing how the debate on the different approaches to achieving strategic autonomy plays out across several policy fields. Only by looking into the specific discussions on defence, diplomacy, trade and technology is it possible to understand the current transformation of the EU and the policy choices it faces in achieving its objectives.

The dynamics of the debate differ in each of the policy fields. In defence policy it is still defined largely by the contrast between Atlanticist and Europeanist member states.²⁵ The former are concerned about a possible

25 See Chapter 2 on defence cooperation in this report.

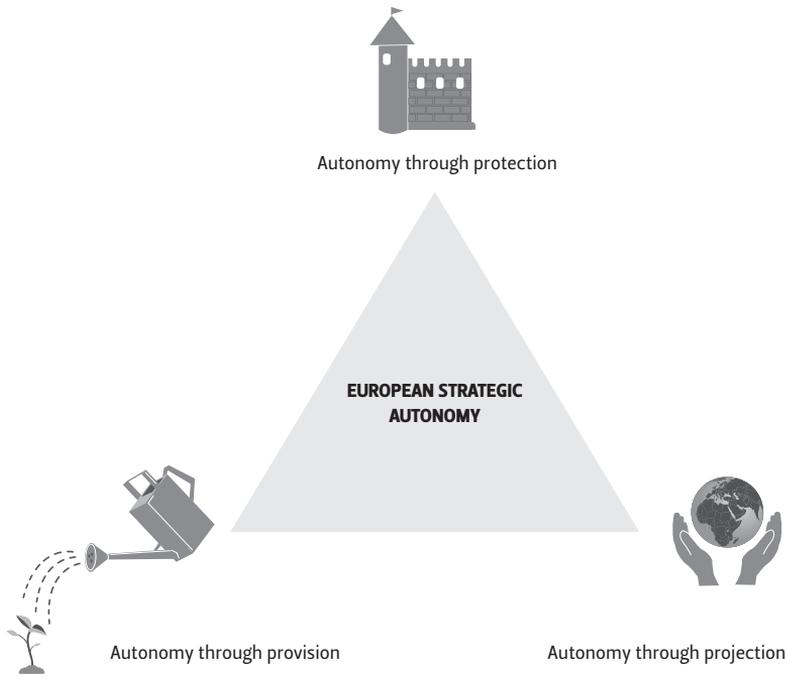


Figure 1. The right mix in advancing strategic autonomy

decoupling from the US in connection with a protectionist agenda and point out that the EU could best project its security interests in a strong transatlantic alliance. Europeanists, on the other hand, highlight the need for the EU to support the provision of military capabilities through its defence industrial policies and through European collaboration among military planners and forces. Combining both objectives, a strong EU in a strong transatlantic alliance, is the ideal, although not always an easily implemented solution.

In diplomacy, the focus of EU activities is on autonomy through projection, in particular by shaping the international multilateral environment such that it upholds European interests and values.²⁶ Nevertheless, there is a debate on whether the EU should become more protective of its value base and make economic cooperation more contingent on adherence to human rights, the rule of law and even climate-protection standards.

EU trade policy has traditionally been based on the projection of its rule-based free-market model onto a global and open trade policy

²⁶ See Chapter 3 on EU diplomacy in this report.

agenda.²⁷ However, the intensifying US–China competition and its fallouts have led to calls for an increase in autonomy through protection in order to foster European companies and secure supply chains. Calls for “European Champions” in crucial industries – meaning globally competitive companies – show that the EU is seeking strategies to promote autonomy through provision by sustaining a globally competitive edge. Whether this objective can be achieved through strong internal single-market competition, or a more targeted industrial policy is hotly debated.

Finally, on the level of technology the EU is intent on projecting norms globally through the regulatory power of its single market on the one hand²⁸, while on the other hand it realises that its autonomy increasingly relies on the protection and provision of its own technological innovations.

Our aim in opening up the various debates in each of the policy fields in this report is to leave the simple dichotomy of protectionism vs free markets, or Atlanticist vs Europeanist behind. We acknowledge that, with regard to the different policies, the key to more strategic autonomy lies in the right mix of protection, provision and the projection of EU interests and values.

THE STRUCTURE AND FINDINGS OF THE REPORT

Following this introduction, the first chapter provides insights into the changing international context that set the scene for the debate on European strategic autonomy. Elina Sinkkonen and Ville Sinkkonen explain the implications of the new era of intensifying great-power rivalry for the EU. They highlight in particular the role of technological transformation as a force behind current shifts in the distribution of military, economic and normative power in the international order. As a consequence, the EU’s efforts to monitor foreign direct investment in strategically important sectors and to promote international norms and standards for new technologies are of the essence and should continue in close cooperation with the US, if possible.

In the second chapter, Nicole Koenig explains why strategic autonomy still remains a sensitive and contested concept in the area of defence, despite the official use of the term in EU documents. She points to the diverging strategic cultures of member states, which continue to differ on the preferred modes of international cooperation and threat perceptions, as well as with regard to attitudes towards the use of force. A stronger

²⁷ See Chapter 4 on trade and investment in this report.

²⁸ See Chapter 5 on technology in this report; A. Bradford, *The Brussels Effect: How the European Union rules the world*. Oxford: Oxford University Press, 2020.

focus on the practical application of strategic autonomy would be welcomed. Towards that end, member states should use the opportunity of the Strategic Compass process to tackle controversial questions and to consider how to link institutional and more flexible intergovernmental defence frameworks more effectively.

The focus in the third chapter is on EU diplomatic activities. Niklas Helwig examines how the competitive global environment affects the EU's ability to shape international politics. Despite talk of a geopolitical awakening, there is little progress in improving the EU's decision-making and diplomatic presence. However, the strategic autonomy narrative reflects a more realist approach in terms of foreign policy, in line with the notion of principled pragmatism. To promote European strategic autonomy, the EU should focus its diplomatic activities on containing the increasingly intense competition between the US and China.

In the fourth chapter, Tobias Gehrke dissects the various trade- and investment-related initiatives of the EU in line with the current theme of open strategic autonomy. Despite the EU's preference for openness, it is currently developing policies to better address economic distortion and coercion, to promote values and sustainability, and to protect critical infrastructure and supply. It needs more data and capacities to identify precisely where it should secure critical assets and supply chains. At the same time, a global geo-economic agenda is needed to better address technological, environmental, security and economic concerns.

The final chapter addresses the EU's challenges in the field of technological autonomy. Andre Ken Jakobsson and Marcel Stolz have no illusions about Europe's current weak position in a world dominated by American and Chinese technological giants. They put forward the concept of "Principled Big Tech" as the Union's answer to global competition. The EU should expand its technical knowledge capacity and increase its efforts towards developing and setting secure and open multilateral standards in line with its liberal political values.

The research presented in the chapters thus highlights the fact that the EU is currently facing crucial choices in advancing strategic autonomy. There is no simple solution to Europe's deficits in the increasingly competitive international context. Instead, in each of the policy fields, the EU and its member states are confronted with different options ranging from targeted protectionist measures and regulatory policies to further international engagement. Finding the right mix between openness and protection, alliance commitment and self-reliance, as well as between principles and pragmatism, is the strategic challenge that the EU faces in pursuit of its autonomy.

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1 A MULTI-DIMENSIONAL VIEW OF US-CHINA GREAT-POWER COMPETITION

Elina Sinkkonen & Ville Sinkkonen

SUMMARY

- Assertions that the world has entered a new era of intensifying great-power competition have become commonplace in the US, China and the European Union. This less cooperative and more confrontational international environment has multidimensional implications for how the EU navigates its relationships with both Washington and Beijing.
- In recent decades the international order has developed into an extremely complex entity. Power is shifting away from state actors and the world is becoming ever more interconnected and interdependent. Technology is altering the relative weight of military, economic and normative power, thereby causing qualitative changes in how power is manifest within each of these dimensions.
- As great-power competition in military, economic and normative domains is increasingly linked to technological transformation, the regulation of technological development has a legitimate place at the heart of debates on European strategic autonomy.

RECOMMENDATIONS

- If the EU wishes to ensure strategic autonomy, it is essential to protect companies domiciled in EU countries against acquisitions in strategically important sectors and to harmonise investment screening mechanisms. Although the EU framework for the

screening of foreign direct investment (FDI) has been operational since 11 October 2020, member states are still reforming their own mechanisms.

- As they conduct negotiations related to tech regulation and technical standards, the US and the EU should be conscious of the fact that China is advancing rapidly in strategically important fields. There is the risk that China will be able to establish its standards for some of the new technologies if the US and the EU become embroiled in complicated discussions on which norms and standards to promote. Here, the proposed EU-US Trade and Technology Council could be helpful.
- Despite various points of contention, the Biden administration presents an opportunity for the EU to work with the US to buttress the international rules-based order for a rainy day – keeping in mind that bolstering the capacity to act in a more autonomous manner might serve Europe well if the US approach to the world shifts again in four or eight years' time.

1.1. INTRODUCTION: COMPETITION, POWER AND THE SHIFTING FOUNDATIONS OF THE INTERNATIONAL ORDER

Much has recently been made of the worsening relationship between the United States, an allegedly declining superpower, and China, a rising near-peer challenger. In attempts to grapple with this state of affairs, a new narrative of great-power competition has engulfed the pages of leading policy journals, thinktank reports and strategy documents. The concept, along with similar constructions such as 'great-power rivalry', '(geo)strategic competition' and 'comprehensive competition', is ever more present in the speeches of foreign-policy leaders around the world.

The Trump administration's National Security Strategy (NSS; 2017) and the National Defense Strategy (NDS; 2018) are central to the discussions in the US, although a shift in thinking regarding its relationship with China was already evident in the later Obama years.²⁹ These documents refer to China (along with Russia) as 'a strategic competitor'³⁰ and 'a revisionist power'.³¹ This framing of the global strategic environment has also been

29 U. Friedman, 'The New Concept Everyone in Washington Is Talking About', *The Atlantic* (6 Aug. 2019), <https://www.theatlantic.com/politics/archive/2019/08/what-genesis-great-power-competition/595405/> (all links in this chapter were last accessed on 25 March 2021, unless otherwise indicated).

30 J. Mattis, *Summary of the 2018 National Defense Strategy of the United States of America*, 2, <https://www.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf>.

31 D.J. Trump, *National Security Strategy of the United States of America* (Dec. 2017), 2, <https://trumpwhitehouse.archives.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905-2.pdf>.

embraced across party lines in Washington, suggesting a durable shift regarding the need to take a tougher stand on Beijing.³² A sea change is also visible in Europe – the EU used the term ‘systemic rival’ with reference to China for the first time in March 2019.³³ In Beijing, especially since the 2015 Military Strategy, defence documents have frequently pointed to increased competition in international affairs. China’s 2019 defence white paper claims that ‘international strategic competition is on the rise’ and blames the US for ‘provoking and intensifying competition among major countries’,³⁴ although Beijing has disputed the interpretation of systemic rivalry in China–EU relations multiple times.³⁵

What might this era of great–power competition entail in theory and practice, and what might the implications be for European aspirations of strategic autonomy? On the one hand, this novel 21st–century contest is about the building up of capacity or capabilities that can be harnessed to exercise power through different means, particularly in the military and economic domains. In this sense, great–power competition is both a function of and also exacerbated by a gradual transition of power. In particular, the US appears to be declining relative to China in terms of its material attributes.³⁶

On the other hand, worsening great–power relations cannot be disaggregated from the broader crisis of what is often termed the liberal international order. Largely a creation of the United States and its Western allies in the post–World War II era, this order has been defined by a body of multilateral institutions, (liberal) values such as human rights, freedom, representative government and non–aggression, free trade and market–based solutions, and a security architecture built around mostly US–centric alliance networks.³⁷ China and Russia in particular

32 D. W. Drezner, ‘Meet the New Bipartisan Consensus on China, Just as Wrong as the Old Bipartisan Consensus on China’, *The Washington Post* (28 Apr. 2020), <https://www.washingtonpost.com/outlook/2020/04/28/meet-new-bipartisan-consensus-china-just-wrong-old-bipartisan-consensus-china/>.

33 European Commission, ‘EU–China – A Strategic Outlook’ (12 March 2019), <https://ec.europa.eu/commission/presscorner/api/files/attachment/858891/communication-eu-china-a-strategic-outlook.pdf>.

34 The State Council Information Office of the People’s Republic of China, *China’s National Defense in the New Era* (2019), http://english.www.gov.cn/archive/whitepaper/201907/24/content_ws5d3941ddc6d08408f502283d.html.

35 H. von der Burchard, ‘EU Slams China as “Systemic Rival” as Trade Tension Rises’, *Politico* (12 March 2019), <https://www.politico.eu/article/eu-slams-china-as-systemic-rival-as-trade-tension-rises/>; ‘State Councilor and Foreign Minister Wang Yi Gives Interview to Xinhua News Agency and China Media Group on International Situation and China’s Diplomacy in 2020’, *Ministry of Foreign Affairs of the People’s Republic of China* (2 Jan. 2021), https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1844079.shtml.

36 For a review of the ‘decline debate’, see A. Quinn & N. Kitchen, ‘Understanding American Power: Conceptual Clarity, Strategic Priorities, and the Decline Debate’, *Global Policy* 10/1 (2019), 5–18.

37 See e.g. H. Brands, ‘American Grand Strategy and the Liberal Order: Continuity, Change, and Options for the Future’, *RAND Corporation* (2016), 2, https://www.rand.org/content/dam/rand/pubs/perspectives/PE200/PE209/RAND_PE209.pdf, 2; G.J. Ikenberry, ‘Liberal Internationalism 3.0: America and the Dilemmas of Liberal World Order’, *Perspectives on Politics* 7/1 (2015), 71–87; S.Patrick, ‘World Order: What, Exactly, are the Rules?’, *The Washington Quarterly* 39/1 (2016), 7–27.

have recently shown they are not content with assuming the role of ‘re-sponsible stakeholders’ in this edifice, and are instead setting out their own visions of ordering the international arena. Moreover, the order no longer enjoys unequivocal support within the West, as illustrated by the rise of populist movements and the disenchantment of citizens with the negative externalities of globalisation.

In addition, the international order has become increasingly complex over the past thirty years, which affects how power is manifest in the global arena and, by implication, how 21st-century great-power competition looks set to unfold. At least three connected dynamics of complexification are distinguishable.

First, the locus of power is changing in the shift away from state actors. The proliferation of non-state actors, be they NGOs, multinational corporations, influential individuals or even terrorist organisations, has rendered the international order increasingly difficult to manage, even by its most powerful state custodians. In this sense power has ‘diffused’ away from the state as the fundamental unit of international politics.³⁸

Second, the international order is more interconnected and interdependent than ever before. Evolving networks into which actors are increasingly connected change the topography of power, at least in some sectors. Power does not necessarily diffuse as such complex systems evolve, however, and instead, access to it becomes ever more unequal. Complex economic networks tend to ‘generate even more asymmetric topologies in which exchange becomes centralized’, for instance.³⁹ Consequently, global economic networks have evolved into ‘hub and spoke’ systems that distribute power increasingly asymmetrically. Smaller players may disrupt the system, but only powerful actors such as the US, the EU and China can ‘weaponize interdependence’ due to rising network inequality.

Third, technological development has transformative implications for the military, economic and normative dimensions of power, as the global order becomes less state-centric and more interdependent. In the security sphere, new innovations create advanced technologies, which also tend to be more vulnerable than the previous generation in that increased complexity leads to increased vulnerability. With regard to the economy, technological innovations cause structural changes and the intensifying polarisation of labour markets, which fuels discontent among those whose employment position weakens. In the realm of norms and institutions, new technologies create new dilemmas. The regulation of systems such as the internet is complex, given that a significant

38 J.S. Nye, *The Future of Power* (New York: Public Affairs, 2011).

39 H. Farrell & A. Newman, ‘Weaponized Interdependence: How Global Economic Networks Shape State Coercion’, *International Security* 44/1 (2019), 49.

number of relevant stakeholders are non-state actors. Moreover, there is no consensus covering the guiding principles of internet governance or the direction regulation should take. The role of data in current and future societies further accelerates the processes that shift power from governments to companies.

Transformations of this magnitude leave the impression that technology is altering the relative weight of military, economic and normative power, and is causing qualitative changes in the ways in which power is manifest in each of these dimensions. The pace of change is accelerating, and structural changes seem to follow a 'winner takes it all' logic, exemplified by the commercial success stories of leading US tech companies. However, the whole sectoral infrastructure might soon face destruction if new competing technologies spread.

Against this backdrop, any discussion of EU strategic autonomy must come to grips with the complicated nature of great-power competition in a world that is increasingly complex, in which technological development has the potential to significantly change existing power hierarchies in all relevant sectors. Technical standards have been used to promote industrial and geopolitical agendas in this age of increasing great-power competition. These standards refer to processes of technical specification intended to ensure the compatibility of various goods and services as well as to set criteria covering the quality and security of various products. The *China Standards 2035* plan proposes uniting China's various bilateral agreements on standardisation cooperation in a regional organisation, the BRI Standards Forum, which could potentially further fragment the existing international standardisation infrastructure.⁴⁰ As set out in recent argumentation from the European Commission, the EU's strategic autonomy builds on the ability to influence international technical standards and make them compatible with the GDPR (General Data Protection Regulation) and technical standards already in use within the Union.⁴¹ Given that there are multiple issues on which the US and the EU have divergent views, it may be that China will be able to establish its standards for some of the new technologies that are on the table, while the US and the EU become entangled in complicated discussions about which norms and standards to promote.

In what follows, we provide snapshots of the current state of US-China competition within the *military*, *economic* and *normative* dimensions. A

40 T. Rühlig, 'China, Europe and the New Power Competition Over Technical Standards', *UI Brief 1/2021* (Swedish Institute of International Affairs), 8.

41 O.-P. Salmimies, 'Avoin strateginen autonomia: EU:n uuden kauppaja- ja investointipolitiikan monitulkintainen perusta', *FIIA Working Paper 123* (2021). https://www.fia.fi/wp-content/uploads/2021/02/wp123_avoin-strateginen-autonomia-eu-kauppapolitiikassa_salmimies.pdf.

discussion on each of these three issues is followed by a short and tentative analysis of how technological development and increasing systemic complexity affect the future of great-power competition and, by implication, potentially have an impact on the EU's aspirations for strategic autonomy.

1.2. THE MILITARY DIMENSION OF GREAT-POWER COMPETITION

The US continues to hold a commanding, albeit dwindling, lead over its principal great-power rival in the military domain, at least when measured in terms of capabilities-based indicators. In maintaining its position, it relies on three main pillars: a large military budget, a comprehensive alliance system and an advanced innovation infrastructure in its military technology.

At present, the US spends over three per cent of its GDP on its military. Although there is a continuous debate concerning how much China spends on defence, even the higher estimates place it well behind the US.⁴² In fact, according to recent figures, US defence spending outstrips that of the ten next top spenders combined.⁴³ The final defence bill to see the light of day in the Trump era totalled USD 740 billion.⁴⁴

The United States possesses the only military in the world with global power projection capabilities. Even in China's backyard the US retains a profound advantage over Beijing through its vast global security network of alliances and partnerships. These alliances can be harnessed for the purposes of great-power competition both politically and militarily. On the political level, America's allies could provide support by coordinating policies with the US or shunning cooperation with its adversaries. Militarily, the US has instalments in allied territory for power-projection purposes, and allies also function as force multipliers, putting their capabilities at the disposal of the US in times of need.⁴⁵ In contrast, Beijing's only formal alliance is with North Korea, although China and Russia have frequently held joint military exercises since the 2005 Peace Mission.

China's aim in the short and medium term is to improve its security in the Asia-Pacific region. The focus is likely to remain near China's borders,

42 'Military Expenditure Database', Stockholm International Peace Research Institute (2020), <https://www.sipri.org/databases/milex>.

43 Peter G. Peterson Foundation, 'The United States Spends More on Defense than the Next 10 Countries Combined' (15 May 2020), <https://www.pgpf.org/blog/2020/05/the-united-states-spends-more-on-defense-than-the-next-10-countries-combined>.

44 M. Daly, 'Congress Overrides Trump Veto of Defense Bill', *Defense News* (1 Jan. 2021), <https://www.defensenews.com/congress/budget/2021/01/01/congress-overrides-trump-veto-of-defense-bill/>.

45 B.D. Blankenship & B. Denison, 'Is America Prepared for Great-Power Competition?', *Survival*, 61/5 (2019), 50-51.

at least as long as it takes to resolve the various territorial disputes in the region – most significantly regarding national unification with Taiwan. The US is involved in many of the territorial disputes, and secures Taiwan’s position via military backing and arms sales, which China interprets as interference in its internal affairs. The US also claims that China is hindering freedom of navigation in the region. After organising its first freedom of navigation operation (FONOP) in the South China Sea in May 2017, the Trump administration accelerated the pace of such forays throughout its tenure. The EU’s role in these FONOPS has been minimal, although French and British patrols have taken part in some operations.⁴⁶ In March 2021, the Union and the US confirmed their joint ‘aim to cooperate to promote secure, sustainable, free and open maritime supply routes and supply chains’.⁴⁷

The US has continued to invest in and develop its robust alliance structure in recent years. Unlike in Europe, where the role of NATO as a treaty-based multilateral organisation has remained central, the US has traditionally relied on a hub-and-spoke structure in the Indo-Pacific, based on bilateral agreements and key military bases in Japan, South Korea and the Philippines. However, China’s ascendance has added a level of urgency in developing the US approach to regional security. To this end, the Trump administration rolled out a vision for a Free and Open Indo-Pacific (FOIP), stressing ‘respect for sovereignty and independence’, ‘peaceful resolution of disputes’, ‘free, fair, and reciprocal trade’ as well as ‘adherence to international law’.⁴⁸ The FOIP construct generally follows on the heels of Obama’s signature ‘Pivot’ or ‘Rebalance’ approach to Asia, albeit with some original touches. Notably, it links the Indian and Pacific Oceans and aspires to forge a more heavily networked alliance and partnership structure.⁴⁹ This includes the deepening Quadrilateral Security Dialogue (the ‘Quad’) between the US, Japan, Australia and India,⁵⁰ alongside other bi- and multilateral cooperative forays in the broader region.⁵¹

46 Tuan Anh Luc, ‘Are France and the UK Here to Stay in the South China Sea?’, *The Diplomat* (14 Sep. 2018), <https://thediplomat.com/2018/09/are-france-and-the-uk-here-to-stay-in-the-south-china-sea/>.

47 European Union External Action Service, ‘Joint press release on the meeting between High Representative/Vice-President Josep Borrell and the U.S. Secretary of State Antony Blinken’ (24 March 2021), https://eeas.europa.eu/headquarters/headquarters-homepage/95609/united-states-joint-press-release-meeting-between-high-representativevice-president-josep_en.

48 US Department of State, ‘A Free and Open Indo-Pacific: Advancing a Shared Vision’ (4 Nov 2019), 6, <https://www.state.gov/wp-content/uploads/2019/11/Free-and-Open-Indo-Pacific-4Nov2019.pdf>.

49 A.J. Tellis, ‘Waylaid by Contradictions: Evaluating Trump’s Indo-Pacific Strategy’, *Washington Quarterly* 43/4 (2020), 129.

50 B. Gaens & S. Eisentraut, ‘The US–Japan–India–Australia Quadrilateral Security Dialogue: Indo-Pacific alignment or foam in the ocean?’, *FIIA Briefing Paper* 239 (2018), <https://www.fiaa.fi/julkaisu/the-us-japan-india-australia-quadrilateral-security-dialogue>.

51 J. Przystup, ‘United States Alliances and Security Strategy in the Indo-Pacific in an Era of Uncertainty’, in B. Gaens & V. Sinkkonen, eds., *Great-power Competition and the Rising US–China rivalry: Towards a new normal?* (Helsinki: FIIA, 2020), 95–111.

Paradoxically, however, President Trump consistently undercut his administration's stated goal of gearing America's alliances towards combatting great-power rivals by consistently questioning their viability and rationale, thereby eroding trust in America's commitments and credibility.⁵² In marked contrast to the inclinations of his predecessor, President Joe Biden has emphasised the role of alliances in confronting the challenges posed by authoritarian regimes, be they military, economic or political.⁵³ This has entailed assuaging fears by reiterating US commitment to NATO and its Asian allies in a series of statements and meetings. Notably, President Biden spoke at the Munich Security Conference in support of transatlantic cooperation in February,⁵⁴ and hosted the first ever Quad leaders' summit in March, where the four countries pledged to continue working towards a 'free and open Indo-Pacific'.⁵⁵ Such alliance and partnership management does not, of course, preclude calls for more equitable burden-sharing in the future, especially given that domestic priorities will likely consume much of Biden's energy.⁵⁶

However, any assessment of the current and future military balance must also take account of the rapid pace of technological development. Going forward, whether or not military superiority is achieved will depend significantly on innovations in military technology and in other fields contributing to the creation of dual-use technologies. The increasing complexity of military technology makes it more difficult to close the technological gap with the most advanced countries simply by investing more resources in defence and imitating the superior equipment that adversaries have developed. Imitation was easier at the beginning of the 20th century, when technological know-how from commercial sectors was more directly applicable to the military sphere. Nowadays, the age of lone inventor-builders has given way to teams of scientists whose expertise is increasingly tacit in nature. As the Chinese difficulties in imitating the US stealth aircraft programme exemplify, states intent on

52 M. Pesu & V. Sinkkonen, 'Managing Transatlantic Mistrust: The Trump Era in Perspective', *FIIA Working Paper* 107 (2019), <https://www.fia.fi/julkaisu/managing-transatlantic-mistrust>.

53 J.R. Biden, Jr., 'Why America Must Lead Again: Rescuing U.S. Foreign Policy After Trump', *Foreign Affairs* 99/2 (2020), 64–76.

54 J.R. Biden Jr., 'Remarks by President Biden at the 2021 Virtual Munich Security Conference', The White House (19 Feb. 2020), <https://www.whitehouse.gov/briefing-room/speeches-remarks/2021/02/19/remarks-by-president-biden-at-the-2021-virtual-munich-security-conference/>.

55 The White House, 'Quad Leaders' Joint Statement: "The Spirit of the Quad"' (12 March 2021), <https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/12/quad-leaders-joint-statement-the-spirit-of-the-quad/>.

56 G. Martin & V. Sinkkonen, 'Transatlantic Relations and European Strategic Autonomy in the Biden Era: Neglect, primacy or reform?', *FIIA Briefing Paper* 301 (2021), <https://www.fia.fi/en/publication/transatlantic-relations-and-european-strategic-autonomy-in-the-biden-era>.

copying technologies developed by others must have absorptive capacity in the form of an advanced technological, industrial and scientific base.⁵⁷

The ways in which technological development changes relationships between economic and military power are in constant flux. Stealth fighters do not have a commercial use, but many forthcoming military technologies are dual-use, with one foot in the commercial sector. This changes the context of the increasingly difficult imitation of advanced technologies. The diffusion of strictly militarily relevant technologies might indeed have become more difficult, but one could argue that the more commercially viable a technology is, the more diffusive it is.⁵⁸ Artificial intelligence (AI), robotics and quantum computing have multiple applications in both the private and the military sector, making it easier for China to benefit from innovations in these areas. The development of new dual-use technologies links the military and the economic dimensions of power ever more strongly.

1.3. THE ECONOMIC DIMENSION OF GREAT-POWER COMPETITION

China is relatively more powerful in the economic than in the military sphere. Its economic power rests on years of rapid-to-moderate growth, and it is notable that the Chinese economy recovered rapidly from the Covid-19 pandemic. Complementing its robust domestic economy, China's economic power is increasingly based on its role in international financial institutions, foreign direct investment (FDI), domestic investment concentrating on technologically advanced sectors and free trade agreements. China has market barriers protecting its nascent industries, but there is increasing pressure from its trade partners to enable better market access.

In the meantime, the US retains advantages in terms of the size of its economy, which still surpasses that of China by roughly USD seven trillion when measured in terms of market exchange rates.⁵⁹ Some argue that the US leads in measures that indicate the particular relevance of economic innovativeness through technological output, including the

57 A. Gilli & M. Gilli, 'Why China Has Not Caught Up Yet: Military-Technological Superiority and the Limits of Imitation, Reverse Engineering, and Cyber Espionage', *International Security* 43/3 (2018/2019), 141-189.

58 M. Horowitz et al., 'Correspondence: Military-Technological Limitation of Rising Powers', *International Security* 44/2 (2019), 185-192.

59 The World Bank, 'World Development Indicators', *World Bank DataBank* (2020), <https://databank.worldbank.org/reports.aspx?source=2&series=NY.GDP.MKTP.CD&country=#>; J. Frankel, 'Is China Overtaking the US as a Financial and Economic Power?', *The Guardian* (29 May 2020), <https://www.theguardian.com/business/2020/may/29/is-china-overtaking-the-us-as-a-financial-and-economic-power>.

amounts of triadic patent families, royalties and licensing fees.⁶⁰ Large US corporations on the Fortune Global 500 list also continue to outpace Chinese ones in terms of generated revenue, although the US lead has dwindled considerably in recent years.⁶¹ However, the gap is larger when it comes to profitability and returns on assets.⁶² The role of the dollar as the global reserve currency also forms an integral part of the US advantage vis-à-vis its competitor.

China has certainly benefitted in recent decades from its inclusion in the liberal international order, allowing it to increase its GDP by around 10 per cent yearly between 2001 and 2011, mainly through foreign trade. According to OECD statistics, between 1990 and 2019 the global import intensity of production, one measure of globalisation, was highest in 2007, declined sharply during the financial crisis and rose again in 2011, since when it has further declined.⁶³ The number of trade barriers have also been on the increase, making it harder to acquire wealth through trading. In the current climate of deteriorating great-power relations, visible efforts are being made to further decrease interdependency through the decoupling of value chains.

China has responded to this pushback against globalisation by taking its infrastructure investments abroad. Despite tensions with the US, China has been able to increase its economic influence by creating new institutions and making trade and investment deals. It has also played a leading role in the establishment of new international financial organisations such as the Asia Development Investment Bank and the New Development Bank. Xi Jinping's signature policy, the Belt and Road Initiative (BRI), provides infrastructure financing for projects around the world, which has caused a lot of speculation about China's strategic interests behind the initiative. For its part, China has presented BRI as an expression of its willingness to provide international public goods and to share international responsibilities.⁶⁴

60 S.G. Brooks & W.C. Wohlforth, *America Abroad: The United States' Global Role in the 21st Century* (Oxford: Oxford University Press, 2016), 26–31, 39–44; see also Quinn & Kitchen, 'Understanding American Power', 8–9.

61 China Power, 'How Dominant are Chinese Companies Globally?', Center for Strategic and International Studies (2020), <https://chinapower.csis.org/chinese-companies-global-500/>.

62 S.Kennedy, 'The Biggest But Not the Strongest: China's Place in the Fortune Global 500', Center for Strategic and International Studies (18 Aug. 2020), <https://www.csis.org/blogs/trustee-china-hand/biggest-not-strongest-chinas-place-fortune-global-500>.

63 OECD, 'COVID-19 and Global Value Chains: Policy Options to Build More Resilient Production Networks', *OECD Policy Responses to Coronavirus (COVID-19)* (2020), <http://www.oecd.org/coronavirus/policy-responses/covid-19-and-global-value-chains-policy-options-to-build-more-resilient-production-networks-04934ef4/>.

64 Belt and Road Forum, 'Building the Belt and Road for win-win development' (17 April 2017), <http://www.beltandroadforum.org/english/n100/2017/0417/c25-195.html>.

It is also notable that China, Japan, South Korea, Australia, New Zealand and 10 Southeast Asian countries formed the world's largest trading block in late 2020 by establishing the Regional Comprehensive Economic Partnership (RCEP), which encompasses almost a third of the global economy. President Trump, meanwhile, withdrew from the Trans-Pacific Partnership (TPP) in January 2017 – a deal designed in part as a regulatory bulwark against China by entrenching rules of economic exchange in the region. In a peculiar twist to the saga, Beijing has recently made public its plans to join TPP's successor, the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP).⁶⁵

China has a persistent trade surplus with the US, which was one of the key reasons – at least during the Trump administration – for the outbreak of the US–China trade war in 2018. Since then, the two countries have been locked in a game of raising tariffs on each other's goods and services and have engaged in several rounds of negotiations. Although they managed to sign a 'Phase One' trade deal in January 2020, two thirds of Chinese exports to the US still faced tariffs in early 2021 and the Biden administration has not rushed to remove them. China has suffered relatively little from the US tariffs. In the case of metal tariffs, for instance, US allies have had to take the hardest hit.⁶⁶ China has imposed reciprocal retaliatory tariffs on imports from the US, the effect of which has been aggravated by China's lowering of tariffs for third states.⁶⁷

China owned USD 1.06 trillion worth of US debt in 2020, according to data from the US Treasury, causing concern in the US that China could use its creditor position in retaliation. Such measures would have huge costs for China, and it has refrained from linking the debt issue with the trade war. Its declining trade relations with the US have led China to increase its trade with the EU. In 2019, the EU was China's largest trading partner and China was the EU's second largest: China's trade in goods with the US simultaneously dropped by 18 per cent.⁶⁸

The US has been dissatisfied with certain characteristics of the Chinese economic system, namely the level of state involvement, including subsidies, intellectual property violations and keeping the Chinese yuan non-convertible. Although 'most of the (Chinese) economy runs

65 H. Adlakha, 'With RCEP Complete, China Eyes CPTPP', *The Diplomat* (1 Dec. 2020), <https://thediplomat.com/2020/12/with-rcep-complete-china-eyes-cptpp/>.

66 M. Schneider-Petsinger, 'Behind the US–China Trade War: The Race for Global Technological Leadership', in M. Schneider-Petsinger et al., eds., *US–China Strategic Competition. The Quest for Global Technological Leadership*. (Chatham House, 2019), 5.

67 H.G. Hilpert, 'Trade, Economy and Finance: Rivalries, Conflicts, Escalation Risks', in B. Lippert & V. Perthes, eds., *Strategic Rivalry between United States and China* (Berlin: SWP, 2020).

68 United States Census Bureau, '2020: U.S. Trade in Goods with China' (2020), <https://www.census.gov/foreign-trade/balance/c5700.html>.

on market principles', and foreign-invested companies play a big role in some sectors,⁶⁹ the GDP share of its state-owned enterprises (SOEs) was estimated to be between 23 and 28 per cent in 2017.⁷⁰ In the context of the broader model of state capitalism, it is also notable that, functionally, SOEs and privately-owned enterprises share many similarities in that both can receive state subsidies, have close connections with the CCP and execute the government's policy objectives.⁷¹

China's intellectual property violations manifest in industrial spying as well as in forced technology transfers in the case of companies operating in China and holding patents, which until 2019 their Chinese competitors could easily violate due to loopholes in Chinese patent legislation. In 2019 China removed sections from its technology import-export regulations that were considered discriminatory against foreign investors, but thus far the court system has been reluctant to support foreign ownership of intellectual property.⁷²

At the time of writing, no further changes are planned regarding currency reforms towards a fully convertible yuan. The value of the Chinese yuan is pegged to a basket of 24 currencies, including the US dollar and the Euro, although since 2005 China has gradually decreased the share of the dollar in the basket. The People's Bank of China used to intervene more but has refrained from direct intervention in recent years.⁷³ Chinese industries benefit from this currency arrangement, and China aims at increasing the use of the yuan in its bilateral trade whenever possible. China and Russia, for example, have reduced the use of the US dollar in their bilateral transactions from 90 per cent in 2015 to 46 per cent in 2020, preferring to use their own national currencies or the Euro.⁷⁴ Avoiding the US dollar in transactions also makes it easier to avoid US sanctions.

China's abundant state subsidies create tensions with its trade partners because they distort competition. The emphasis in its industrial policy is on supporting innovation in strategically important sectors, giving

69 K. Tsai & B. Naughton, 'Introduction', in B. Naughton & K. Tsai, eds., *State Capitalism, Institutional Adaptation, and the Chinese Miracle* (Cambridge: Cambridge University Press, 2015), 18.

70 C. Zhang, 'How Much Do State-Owned Enterprises Contribute to China's GDP and Employment?' *World Bank Working Paper* (2019), 10, <http://documents.worldbank.org/curated/en/390691565249400884/How-Much-Do-State-Owned-Enterprises-Contribute-to-China-s-GDP-and-Employment>.

71 C. Milhaupt & W. Zheng, 'Beyond Ownership: State Capitalism and the Chinese Firm', *UF Law Faculty Publications* (2015), <https://scholarship.law.ufl.edu/cgi/viewcontent.cgi?article=1693&context=facultypub>.

72 A. Capri, 'Strategic US-China Decoupling in the Tech Sector', *Hinrich Foundation* (4 Jun. 2020), <https://www.hinrichfoundation.com/research/wp/tech/us-china-decoupling-tech/>.

73 M. Schneider-Petsinger, 'Behind the US-China Trade War' (2019), 5.

74 D. Simes, 'China and Russia Ditch Dollar in Move towards "Financial Alliance"', *Financial Times* (17 Aug. 2020), <https://www.ft.com/content/8421b6a2-1dc6-4747-b2e9-1bbfb727747>.

certain companies preferential treatment and state subsidies.⁷⁵ Priority for ‘innovation-driven development’ is evident in the Made in China 2025 plan, which highlights ten sectors including robotics, information technology, aircraft, aerospace technology and pharmaceuticals. The aim is to achieve global dominance by 2025 using a strategy that combines import substitution and generous state financing.⁷⁶ Some of these priority sectors produce dual-use technologies. China is behind the United States in most AI sectors, but it is catching up and is aggressively recruiting new talent.⁷⁷ It is ahead of the US in applications of quantum communication. A Chinese research team has made significant advances in developing entanglement-based quantum encryption in satellite communication, acquiring knowledge that is also of relevance in the military sphere.⁷⁸

Various countries impose export controls on dual-use technologies, making it hard for China to buy what it wants. In response, China has used a strategy of targeted acquisition – buying entire companies the products of which it has been unable to access otherwise. The newly signed EU-China Comprehensive Agreement on Investment (CAI) covers this issue (for more information, see Chapter 4 on trade and investment in this report), but legal constraints in the US also have consequences for possible deals between China and companies in third countries.⁷⁹

China’s recent direction towards an increasingly state-driven economic model and withdrawal from reforms has caused a sense of urgency in Europe and the United States.⁸⁰ In addition to imposing tariffs, the US restricts Chinese investments in security-relevant fields. The US Department of Commerce has a list of entities comprising both companies and individuals that are prohibited from buying US products or whole companies in the US. Nor does the US rely on the effect of its own measures, having pushed its allies to shun Chinese components in domains that are critical for national security, particularly in the development of

75 T. Kenderdine, ‘China’s industrial policy, strategic emerging industries and space law’, *Asia and the Pacific Policy Studies* 4/2 (2017), 325–342; J. Wübbeke et al., ‘Made in China 2025: The making of a high-tech superpower and consequences for industrial countries’, *Merics Papers on China* 2 (2016), <https://merics.org/en/report/made-china-2025>.

76 National Manufacturing Strategy Advisory Committee NMSAC. 《中国制造 2025》重点领域技术路线图 (Made in China 2025. Technology roadmap for key areas) (2015). <http://www.cae.cn/cae/html/files/2015-10/29/20151029105822561730637.pdf>.

77 J. Ding, ‘Deciphering China’s AI Dream: The Context, Components, Capabilities, and Consequences of China’s Strategy to Lead the World in AI’, *Future of Humanity Institute, University of Oxford* (2018), https://www.fhi.ox.ac.uk/wp-content/uploads/Deciphering_Chinas_AI-Dream-1.pdf

78 J. Yin et al., ‘Entanglement-Based Secure Quantum Cryptography over 1,120 Kilometres’, *Nature* 582 (2020), 501–505.

79 B. Hooijmaaijers, ‘Blackening Skies for Chinese Investment in the EU?’, *Journal of Chinese Political Science* 24 (2019), 451–470.

80 Business Europe, ‘The EU and China: Addressing the Systemic Challenge: A Comprehensive EU Strategy to Rebalance the Relationship with China’ (Jan. 2020), https://www.buseurope.eu/sites/buseur/files/media/reports_and_studies/the_eu_and_china_full_february_2020_version_for_screen.pdf.

5G networks. According to Kearney's Reshoring Index, in 2019 there was a significant increase in the reshoring of US manufacturing away from China and Asia more broadly.⁸¹

Nevertheless, supply chains in sectors such as semiconductors are so complex, and the companies so specified, that no country can expect to reach 'strategic autonomy' in production.⁸² China is certainly trying hard to decrease its reliance on US semiconductor components by investing more in domestic suppliers and seeking alternative producers. Chinese semiconductor manufacturer Semiconductor Manufacturing International Corps (SMIC) received a subsidy of over USD 100 million in 2018, by courtesy of the Made in China 2025 programme.⁸³ The US is also trying to move production closer to home, and Intel is reportedly considering reshoring its production.⁸⁴ As China and the US work towards weakening mutual interdependence where they can, countries hosting replacement suppliers will face pressure from both parties.

1.4. THE NORMATIVE DIMENSION OF GREAT-POWER COMPETITION

Great-power competition is not restricted to the military and economic dimensions of power, many recent formulations stressing the *normative* dimension. In the case of the US and China, this implies competing visions of global governance and international ordering, visions that are ultimately underpinned domestically by contending systems of government.

This component of great-power competition has recently become increasingly prominent, prompting (somewhat misleading) comparisons with the East-West confrontation of the Cold War era.⁸⁵ Symptomatic of such thinking is the reference of Joe Biden's National Security Advisor Jake Sullivan and the new White House 'Asia Czar' Kurt M. Campbell to an 'emerging contest of models' in which, 'unlike the Cold War, with its sharp ideological divide between two rival blocs, the lines of demarcation

81 Kearney, 'Trade War Spurs Sharp Reversal in 2019 Reshoring Index, Foreshadowing COVID-19 Test of Supply Chain Resilience' (2020), <https://www.kearney.com/operations-performance-transformation/us-reshoring-index/full-report>

82 J.-P. Kleinhans, & N. Baisakova, *The Global Semiconductor Value Chain*, Stiftung Neue Verantwortung (2020).

83 Y. Xie, 'China's Top Chip Maker SMIC Sees Revenue Grow as State Subsidies Surge amid Trade War', *South China Morning Post* (10 Aug. 2018), <https://www.scmp.com/business/companies/article/2159076/chinas-top-chip-maker-smic-sees-revenue-grow-state-subsidies>.

84 K. Johnson & R. Gramer, 'The Great Decoupling', *Foreign Policy* (14 May 2020), <https://foreignpolicy.com/2020/05/14/china-us-pandemic-economy-tensions-trump-coronavirus-covid-new-cold-war-economics-the-great-decoupling/>.

85 M. McFaul, 'Cold War Lessons and Fallacies for US-China Relations Today', *Washington Quarterly* 43/4 (2020), 7-39.

are fuzzier'.⁸⁶ According to this assessment, China might even prove to be a more potent ideological challenger than the Soviet Union, because its 'fusion of authoritarian capitalism and digital surveillance' is ideologically more flexible than Soviet-style Marxism, making it a more attractive model to emulate.⁸⁷

China strongly disputes claims that it is trying to export its domestic political system abroad: on the contrary, it opposes such behaviour and has accused the US of interfering in other countries' internal affairs with its democracy-promotion agenda. Indeed, China posits that states have the right to choose their form of governance and that outsiders should respect such rights. Emphasising how seriously it takes the CCP's leadership role, it has enshrined its political system as a 'core interest' in the 2011 Peaceful Development white paper. Accordingly, it is unlikely that China would adopt international norms that are in conflict with its domestic understandings.⁸⁸

The Xi Jinping era has also been marked by a strong tendency towards power concentration and deepening authoritarianism, which increases tensions with the liberal international order.⁸⁹ Furthermore, as 2021 marks the 100-year anniversary of the party, Chinese domestic discourse will probably concentrate on party achievements, leaving no room for external criticism. The crisis of democracy in the West, and more precisely events such as the January 6 breach of the US Capitol Building, erode the legitimacy of the US agenda of democracy promotion abroad and make it easier for China to defend its system.

More generally, it stands to reason that great powers such as the US and China want to entrench their domestic ideas in the normative architecture of international order. They do so for both intrinsic and instrumental reasons. On the one hand, commitment to norms and values implies a preference for these over other possible organising principles, and this is likely to be so domestically and internationally. On the other hand, global entrenchment of the said norms and values serves the material interests of the states' political and economic elites by skewing the field in their favour – others need to play by their rules, not vice versa.⁹⁰

86 K.M. Campbell & J. Sullivan, 'Competition Without Catastrophe: How America Can Both Challenge and Coexist with China', *Foreign Affairs* 98/5 (2019), 107.

87 Ibid.

88 S. Breslin, 'Global Reordering and China's Rise: Adoption, Adaptation and Reform', *The International Spectator* 53/1 (2018), 65.

89 E. Sinkkonen, 'Dynamic Dictators: Elite Cohesion and Authoritarian Resilience in China', in C. Shei & W. Wei, eds., *Routledge Handbook of Chinese Studies* (Abingdon, 2021), forthcoming.

90 C.A. Kupchan, 'The Normative Foundations of Hegemony and the Coming Challenge to Pax Americana', *Security Studies* 23/2 (2014), 219–57.

Contestation between great powers may arise over seemingly mundane rules, norms and regulations within international organisations, but it could also entail the setting up of competing institutions and regimes to deal with diverse issues of global governance.⁹¹ In the aggregate, these specific contests over norms, values and institutions may culminate in a full-throated challenge to the architecture of international order.⁹² This is captured in American and European formulations referring to China as a ‘revisionist power’ or a ‘systemic rival’.

Revisionism is not a simple either/or category, however, and there are many ways of challenging the existing system. As Donald Trump’s tenure in the White House illustrated, contrary to conventional wisdom revisionism need not be practised by rising powers or so-called ‘spoilers’. Under certain conditions the leading state in the order may no longer be content with the *status quo*, and could turn against the edifice it helped to construct.⁹³ Similarly, ascendant states may take different stances *vis-à-vis* the international order (norms, values and institutions) and the prevalent balance of power (the distribution of military, economic and other capabilities). A rising power might thus be bent on upending the whole order, or renegotiating certain aspects of it, or it could be dissatisfied with the underlying balance of capabilities, not with the order *per se*.⁹⁴ The level of revisionism may likewise vary from one issue or institutional domain to another.

In fact, there is a vibrant debate over how revisionist China really is *vis-à-vis* the liberal international order. The most sanguine take is that the country is, by and large, committed to maintaining the current order because it has served its interests well. Beijing is looking for changes around the edges within ‘a durable post-1945 Westphalian order with economic and financial globalization’.⁹⁵ It has recently become more commonplace to argue that China initially reaped the benefits of the liberal international order, only to turn against it when the regime realised that the order’s liberalising ethos could threaten its survival.⁹⁶ Be that

91 J. Prantl, ‘Taming Hegemony: Informal Institutions and the Challenge to Western Liberal Order’, *Chinese Journal of International Politics* 7/4 (2014), 449–82.

92 A. Cooley & D. Nexon, *Exit from Hegemony: The Unraveling of the American Global Order* (Oxford: Oxford University Press, 2020).

93 S. Chan, W. Hu, & K. He, ‘Discerning States’ Revisionist and Status-Quo Orientations: Comparing China and the US’, *European Journal of International Relations* 25/2 (2019), 613–40; P. Musgrave, ‘International Hegemony Meets Domestic Politics: Why Liberals Can Be Pessimists’, *Security Studies* 28/3 (2019), 451–78.

94 A. Cooley, D. Nexon, & S. Ward, ‘Revising Order or Challenging the Balance of Military Power? An Alternative Typology of Revisionist and Status-Quo States’, *Review of International Studies* 45/4 (2019), 689–708.

95 S. Tang, ‘China and the Future International Order(s)’, *Ethics & International Affairs* 32/1 (2018), 40.

96 T. Wright, ‘The Return to Great-Power Rivalry Was Inevitable’, *The Atlantic* (12 Sep. 2018), <https://www.theatlantic.com/international/archive/2018/09/liberal-international-order-free-world-trump-authoritarianism/569881/>; K. Campbell & E. Ratner, ‘The China Reckoning: How Beijing Defied American Expectations’, *Foreign Affairs* 97/2 (2018), 60–70.

as it may, it is probably safe to assume that China's approach contains strands of revisionism as well as a desire to maintain elements of the current order.⁹⁷ Even the most vocal China critics tend to acknowledge that there are 'select areas of cooperation' for Washington and Beijing⁹⁸, including climate change, pandemic prevention and nuclear proliferation. In fact, it is the inherent tension between competition and cooperation that makes the US-China relationship particularly difficult to navigate. This is an issue with which the Biden administration will need to grapple to avoid further escalation of tensions amidst the fallout of the Covid-19 pandemic, which has driven the two great powers even further apart.

It is recognised in China's domestic discourse that as it continues on its rising path it should provide more global and regional public goods. The ability to shape global norms is also perceived as a sign of power, and there is domestic pressure to shape global governance structures to better accommodate China's interests.⁹⁹ Arguably, China has long been overly reliant on economic means as diplomatic instruments, which implies a shortage of normative power. However, economic means of influence on the behaviour of other states have limits: 'money cannot buy loyalty'.¹⁰⁰

Among the various international institutions of which China is a member, it seems to have a preference for the UN.¹⁰¹ Many people feel that as China's share of expenses related to the UN grows, its greater material contributions should be reflected in the non-material structures of the system. In 2019, China became the second biggest funder of UN after the United States.¹⁰²

In the context of international institutional fora and multilateral agreements, China has certainly benefitted from the policy of withdrawal practised by the US during the Trump years. The US has always had a conflicted relationship with multilateral institutions,¹⁰³ but Trump oversaw disengagement without parallel in the post-World War II era. His presidency

97 A. Wyne, 'Four Principles to Guide U.S. Policy Toward China', *Carnegie Endowment for International Peace* (2020), <https://carnegieendowment.org/2020/10/30/four-principles-to-guide-u.s.-policy-toward-china-pub-83074>; A.I. Johnston, 'The Failures of the "Failure of Engagement" with China', *The Washington Quarterly*, 42/2 (2020), 99-114.

98 H. Brands, 'Democracy vs. Authoritarianism: How Ideology Shapes Great-Power Conflict', *Survival* 60/5 (2018), 99.

99 X. Yan, 'Quanli zhongxin zhuan yi guoji tixi zhuanbian' (The Shift of World Center and the Change of the International System), *Dangdai Yatai* (Contemporary Asia-Pacific Studies) 6 (2012), 4-21.

100 S. Zhao, 'A Revisionist Stakeholder: China and the Post-World War II World Order', *Journal of Contemporary China* 27/113 (2019), 653.

101 R. Foot, "'Doing Some Things" in the Xi Jinping Era: the United Nations as China's Venue of Choice', *International Affairs* 90/5 (2014), 1085-100.

102 'China Rises to 2nd Largest Contributor to UN Budget', *Xinhua* (24 Dec. 2018) http://www.xinhuanet.com/english/2018-12/24/c_137695776.htm.

103 B. Cronin, 'The Paradox of Hegemony: America's Ambiguous Relationship with the United Nations', *European Journal of International Relations* 7/1 (2001), 103-30.

potently illustrated the fracturing of a relatively consistent bipartisan consensus that the US should endeavour to provide global public goods and prop up the web of global rules-based institutions.¹⁰⁴ As president, Trump withdrew or announced a US exit from, most notably, the Paris Climate Agreement, the Joint Comprehensive Plan of Action (JCPOA; the ‘Iran nuclear deal’), UNESCO, the UN Human Rights Council and the World Health Organisation (WHO).

By implication, China’s improved relative position in international institutional fora is not solely attributable to its economic rise: it has gained more institutional power over the past four years because the US has given it more space in which to pursue its agendas. During the process, China has also blamed the US for being selfish and ignoring its responsibilities as well as multilateral rules.¹⁰⁵ The Biden administration’s drive to rapidly re-engage in the multilateral fora shunned by Trump thus reflects a profound shift in logic in Washington D.C. – to refrain from leaving ‘vacuum[s] of U.S. leadership, which countries with authoritarian agendas have used to their advantage’.¹⁰⁶

Intensifying great power competition and fragmenting institutional architecture have not exactly helped the international community to respond to new governance issues that rapid technological change has brought to the fore. The example of internet regulation is indicative in that it also illustrates other difficulties currently associated with global governance, including the mix of state and non-state stakeholders.¹⁰⁷ Ascendant states seek to seize more power at the cost of the United States, as well as to shift regulation in a sovereignty-based direction such that national interests reign. The foremost rift, then, is between liberal and authoritarian approaches to controlling internet content.¹⁰⁸ Reaching agreement on norms that ought to govern cyberspace is complicated given the divergent understanding of key concepts and the underlying ideological differences they manifest. Western countries speak of ‘cyber security’, whereas China and Russia often refer to ‘information security’, which includes censorship.¹⁰⁹

104 J.S. Nye, ‘Will the Liberal Order Survive?’ *Foreign Affairs* 96/1 (2017), 10–16; Brooks & Wohlforth, *America Abroad*.

105 ‘Interview on Current China-US Relations Given by State Councilor and Foreign Minister Wang Yi to Xinhua News Agency’, *Ministry of Foreign Affairs of the People’s Republic of China* (6 Aug. 2020), https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1804328.shtml.

106 A. Blinken, ‘U.S. Decision To Reengage with the UN Human Rights Council’, US Department of State (8 Feb. 2021), <https://www.state.gov/u-s-decision-to-reengage-with-the-un-human-rights-council/>.

107 L. DeNardis, *The Global War for Internet Governance* (New Haven and London: Yale University Press, 2014).

108 J.S. Nye, *The Regime Complex for Managing Global Cyber Activities*, the Centre for International Governance Innovation and the Royal Institute for International Affairs, (2014) https://www.cigionline.org/sites/default/files/gcig_paper_no1.pdf, 9.

109 Nye, ‘The Regime Complex’, 7.

China takes the position that, currently, there are no ‘general international rules in cyberspace that [...] govern the behavior’ of states. Its argument is that states have sovereignty over online space within their jurisdiction, and it promotes the UN as the primary forum for multilateral efforts to formulate the regulation of online activities. With a view to advancing its preference for an approach that highlights the sovereignty principle in internet governance, China has cooperated with Russia and other members of the Shanghai Cooperation Organization (SCO) in drafting an International Code of Conduct for Information Security.¹¹⁰ It is also worth pointing out that much of cyber governance involves actors and institutions that focus mainly on issues other than cyber governance specifically.¹¹¹ The distinctive characteristics of cyberspace, namely that it transcends territorial and legal boundaries and remains partly controlled by private actors, makes states dependent on cooperative models of governance.

1.5. CONCLUSION: THE PROSPECTS FOR EU STRATEGIC AUTONOMY AGAINST THE BACKDROP OF MULTI-DIMENSIONAL GREAT-POWER COMPETITION

Great-power competition shrinks the EU’s operational space. As competition is increasingly linked to technological transformation across all the dimensions of power discussed above, the regulation and support of technological development has a legitimate place at the heart of the debate on strategic autonomy. The European Commission, for instance, argues that the basic requirement for realising EU’s strategic autonomy is to influence international standards that are relevant to technological development as well as to secure the necessary level of investment in winning technologies. The EU aims at securing standards that are compatible with technologies used in the Union, which would strengthen the EU’s competitiveness *vis-à-vis* its competitors.¹¹² China and the US are also active in influencing international standards, hence there is a risk of fragmentation in the international standards regime due to intensifying great-power competition.

Even as the EU tries to support tech companies based in Europe, the Commission also recognises that their value chains will continue to depend on components produced outside the Union. Diversifying trade

110 Ministry of Foreign Affairs of the People’s Republic of China, ‘International Code of Conduct for Information Security’ (12 Sep. 2011), https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t858323.shtml.

111 Nye, ‘The Regime Complex’, 9.

112 Salmimies, ‘Avoim strateginen autonomia’.

partners would strengthen the resilience of value chains, given that wide-scale reshoring in the EU context would be unrealistic. If the technological decoupling of the US and China intensifies, the EU's leeway in the tech sector will diminish, its member states being more dependent in most sectors on external sources of components than companies from the US and China. President Biden, for his part, campaigned on further mitigating supply-chain vulnerabilities affecting critical products, specifically in fields such as semiconductors and telecommunications infrastructure.¹¹³ The chances are that the Biden administration will continue, at least in some form, the Trump administration's Clean Network Initiative, which is aimed at removing everything sourced from China from US telecommunications and network systems. Various allies and partners have already opted to follow the US lead in this regard.¹¹⁴ The European Commission will issue a new strategy on industrial policy in March 2021, which includes the protection of strategic industries.

On a more general level, the age of great-power competition will ultimately force the EU into making an array of choices in different domains, and it appears that in most cases aspiring for equidistance in relation to both the US and China would be a fool's errand.

Despite European aspirations for strategic autonomy, in the military domain the US remains an indispensable guarantor of Europe's security through NATO and various bilateral security and defence relationships. However, set against the backdrop of great-power competition, such European forays could prove to be a boon for Washington D.C. if the US is willing to let go of old reservations.¹¹⁵ Admittedly, although the EU shares US concerns about issues such as the rule of law and freedom of navigation, its ability and willingness to contribute to US-China competition in the Indo-Pacific relies heavily on the capabilities of a select few member states, notably France. At the same time, however, a more capable EU that bears a greater burden for security in its own near abroad could, in the medium-to-long term, free up time and resources that the US could allocate elsewhere, including in the Indo-Pacific theatre.

Despite the immediate thaw in transatlantic relations after Biden's election, there are some well-known sticking points in the economic domain on matters such as data privacy, the regulation of tech giants, the carbon border tax and the taxation of digital services. Nevertheless, the

113 Biden-Harris presidential campaign, "The Biden Plan to Rebuild U.S. Supply Chains and Ensure the U.S. Does Not Face Future Shortages of Critical Equipment" (2020), <https://joebiden.com/supplychains/>.

114 E. Braw, "Trump Cleaned Up 5G", *The Wall Street Journal* (6 Jan. 2021), <https://www.wsj.com/articles/trump-cleaned-up-5g-11609955991>.

115 See G. Martin & V. Sinkkonen, "Transatlantic relations and European strategic autonomy in the Biden era: Neglect, primacy or reform?", *FIIA Briefing Paper 301* (2021), https://www.fia.fi/wp-content/uploads/2021/02/bp301_us-and-european-strategic-autonomy_ville-sinkkonen-and-garret-martin.pdf

recent ‘New EU-US Agenda for Global Change’ proposed by the Union’s leadership illustrates how strategic autonomy could function in a partnership setting through the pre-emptive setting of agendas and seizing the initiative.¹¹⁶ To tackle difficult issues the EU has, for instance, suggested establishing a new EU-US Trade and Technology Council. In a recent meeting between the EU High Representative Josep Borrell and the US Secretary of State Antony Blinken, the two sides decided to re-launch the EU-US dialogue on China, as a forum ‘to discuss the full range of related challenges and opportunities’.¹¹⁷

However, such positive signalling has been marred by the signing of the Comprehensive Agreement on Investment between the EU and China, even though the Biden team asked the EU to wait out the end of Trump’s term. The benign reading is that Europe merely sought to level the playing field with the US after its Phase One deal with Beijing, getting some notable concessions on market access. The less rosy take is that the EU blatantly took advantage of the post-election interregnum in the US. Regardless of which evaluation one espouses, the case is indicative of the inherent difficulty of trying to engage with China on Europe’s own ‘autonomous’ terms without eroding transatlantic trust.

Clearly, the Covid-19 pandemic has illustrated that when great-power competition crowds out cooperation, the world as a whole is worse off. There is thus a pressing need for collaboration between the US and China. Although the first high-level meeting between the Biden administration and its Chinese counterparts in Alaska was tense,¹¹⁸ the US has indicated that it wants to combine competition with ‘practical, results-oriented engagement’ on issues including the pandemic, nuclear proliferation and climate change.¹¹⁹ This means there are spheres in which it may be easier for Europe to navigate US-China competition in the Biden era than during the Trump years, and even to play a proactive agenda-setting role, but such options will remain limited.

The normative dimension of great-power competition presents a particularly pressing challenge for the EU, given that the Union is an actor whose very existence is premised on the notion of international cooperation and whose *sine qua non* is ‘normifying’ the international arena. Here

116 European Commission, ‘Joint Communication to the European Parliament, the European Council and the Council: A New EU-US Agenda for Global Change’ (2 Dec. 2020), https://ec.europa.eu/info/sites/info/files/joint-communication-eu-us-agenda_en.pdf, accessed 22 Feb. 2021.

117 European Union External Action Service, ‘Joint press release’.

118 D. Sevastopulo & T. Mitchell, ‘Alaska Meeting Ends Without Breakthrough in US-China Relations’, *The Financial Times* (20 March 2021), <https://www.ft.com/content/c99c4fd5-059b-40f7-aaae-70e776cb71a4>.

119 The White House, ‘Readout of President Joseph R. Biden, Jr. Call with President Xi Jinping of China’ (10 Feb. 2021), <https://www.whitehouse.gov/briefing-room/statements-releases/2021/02/10/readout-of-president-joseph-r-biden-jr-call-with-president-xi-jinping-of-china/>.

the Trump administration – with its categorical hostility to multilateral solutions – was a harrowing experience. Now the EU again has a partner in the Biden administration that is willing to uphold the liberal international order in the face of authoritarian challenges. Biden’s headline initiative, the ‘Summit for Democracy’, thus presents the Union with an opportunity to work with the US on both internal and external challenges to democracy. The bottom line is that a Europe grappling with forces that sow domestic political division cannot be truly strategically autonomous, and that a fragmented international order defined by great-power spheres of influence would likewise be hostile to any such aspirations.

The problem with hitching the European wagon to Biden’s agenda is clearly twofold. On the one hand, Biden’s priorities are bound to be domestic, and it is unclear how much time and effort his administration can expend on global initiatives, despite high-sounding pledges. On the other hand, the profound polarisation in American politics means that US foreign policy can again shift in four or eight years in a unilateral and transactionalist direction. Europe is therefore forced to take a leap of faith and bank on the fact that it can use the current window of opportunity to buttress both the transatlantic relationship and the international rules-based order against rainy days ahead in a world of intensifying great-power tensions.

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2 THE EU AS AN AUTONOMOUS DEFENCE ACTOR

Nicole Koenig

SUMMARY

- Although EU member states officially subscribed to the objective of strategic autonomy in defence, it remains sensitive and contested. A review of the EU's defence-cooperation initiatives since 2016 shows that the gap between ambition and reality is still wide.
- Diverging strategic cultures and threat perceptions still represent key obstacles to the EU's political autonomy. There have been incremental steps towards more institutional autonomy, but the unanimity rule represents a legal and political ceiling. The material output of the EU's defence-cooperation initiatives is (still) limited.
- Member states could be tempted to deprioritise the controversial defence dimension of the broadening concept of strategic autonomy in light of the new US administration, the economic fallout from the Covid-19 pandemic and the growing number of civilian challenges.

RECOMMENDATIONS

- EU member states should pursue efforts towards greater strategic autonomy. The focus should move from the conceptual to the practical level centred on the question of what strategic autonomy is for and what it should enable Europeans to do collectively.
- To strengthen the political dimension, they should make the most of the Strategic Compass. This will require addressing controversial

questions and outlining where and how the EU should be able to intervene in the future.

- Given the broadening spectrum of threats, enhancing institutional autonomy will require the EU to bolster its profile as a civil–military security actor. It should also explore closer linkages between institutional and more flexible intergovernmental frameworks.
- To make the most of the scarce material resources, there must be close alignment between the EU’s updated strategic vision and its capability–development mechanisms. Member states should explore mechanisms to ensure stronger national compliance with EU priorities and commitments.

2.1. INTRODUCTION

As EU High Representative for Foreign and Security Policy Josep Borrell wrote in his blog in late 2020, the security and defence dimension of strategic autonomy “remains predominant and sensitive”.¹²⁰ Although strategic autonomy in defence has formally been endorsed by all 27 member states, it remains contested and elusive. The degree of contestation became visible in late 2020 when German Defence Minister Annegret Kramp–Karrenbauer called strategic autonomy “an illusion”¹²¹, which French President Emmanuel Macron dismissed as a “historical misinterpretation”.¹²² At around the same time, the European Defence Agency (EDA) pointed to an “uneven understanding” of strategic autonomy among member states and stressed that the ambition did not match spending potential.¹²³ Although EU representatives keep insisting that more progress has been made in defence since 2016 than in the two previous decades, it is probably along this dimension of strategic autonomy that the gap between ambition and reality is the widest.

The ambition to craft a more autonomous European security and defence policy has been under discussion for decades. It has always been controversial in that it raises a triple question: *from whom* should the EU

120 J. Borrell, ‘Why European Strategic Autonomy Matters’, *Blog Post* (2020), https://eeas.europa.eu/headquarters/headquarters-homepage/89865/why-european-strategic-autonomy-matters_en, accessed 2 February 2021.

121 A. Kramp–Karrenbauer, ‘Europe still needs America’, *Politico* (2 November 2020), https://www.politico.eu/article/europe-still-needs-america/?utm_source=POLITICO.EU&utm_campaign=b4594a9d08-EMAIL_CAMPAIGN_2020_11_17_05_59&utm_medium=email&utm_term=0_10959edeb5-b4594a9d08-189747681, accessed 2 April 2021.

122 E. Macron, Interview granted to *Le Grand Continent*, (16 November 2020), <https://www.elysee.fr/en/emmanuel-macron/2020/11/16/interview-granted-to-le-grand-continent-magazine-by-the-french-president-emmanuel-macron>, accessed 2 April 2021.

123 European Defence Agency, ‘2020 CARD Report – Executive Summary’ (Brussels, 2020), <https://eda.europa.eu/docs/default-source/reports/card-2020-executive-summary-report.pdf>, accessed 2 February 2021.

be autonomous, *for what* and *to do what*? How far Europe should be able to defend itself independently of the US and NATO was already a defining factor behind the notion of a European Defence Community, which was tabled and later rejected by the French in the 1950s. France and the United Kingdom (UK) issued the St. Malo Declaration in 1998, marking the birth of the European, later the Common Security and Defence Policy (CSDP). Set out against the backdrop of Europe's failure to respond to the Yugoslav civil wars, it was clearly about autonomy *from* the US and NATO and *for* the stabilisation of the EU's immediate neighbourhood. The St. Malo Declaration also specified that this was about the *autonomy to* respond to international crises (rather than to defend the EU's territory – a task reserved for NATO). These answers shaped the development of the CSDP in political and legal terms.

Strategic autonomy made its way into the EU's official documents on security and defence in the 2010s. It first appeared in a 2013 Commission Communication aimed at strengthening Europe's technological and industrial defence base.¹²⁴ More prominently, the EU Global Strategy (EUGS) of 2016 called for an “appropriate level of ambition and strategic autonomy for Europe's ability to promote peace and security within and beyond its borders”.¹²⁵ However, it did not provide clear guidance on the three questions mentioned above. Five years after its publication it is still unclear what the member states consider to be the appropriate level of strategic autonomy in the field of defence.

This chapter reviews policy developments since 2016, assesses where the EU stands and develops recommendations concerning the next steps. Strategic autonomy is defined as “the political, institutional and material ability of the EU and its member states to manage their interdependence with third parties, with the aim of ensuring the well-being of their citizens and implementing self-determined policy decisions”.¹²⁶ More precisely, political autonomy is understood as having a distinct and united vision of the EU's appropriate degree of strategic autonomy; institutional autonomy refers to having the governance structure and decision-making processes to implement this vision; and material autonomy means having the collective resources (funding, capabilities, personnel) to realise the common vision.

124 European Commission, *Towards a more competitive and efficient defence and security sector*, Brussels (2013), <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:52013DC0542>, accessed 2 April 2021.

125 European External Action Service, *Shared Vision, Common Action: A Stronger Europe – A Global Strategy for the European Union's Foreign and Security Policy* (Brussels, 2016), https://eeas.europa.eu/archives/docs/top_stories/pdf/eugs_review_web.pdf, accessed 2 April 2021.

126 N. Helwig, *EU Strategic Autonomy: A Reality Check for Europe's Global Agenda*, *FIIA Working Paper No. 119* (2020), https://www.fiaa.fi/wp-content/uploads/2020/10/wp119_strategic_autonomy-2.pdf, accessed 2 April 2021.

2.2. POLITICAL AUTONOMY: A BATTLE OF CULTURES

Political autonomy requires a common understanding of three central questions that the notion of strategic autonomy evokes: autonomy from whom, for what and to do what? The answers are shaped by national strategic cultures and threat perceptions. Strategic culture could be defined as “the ideas, norms and patterns of behaviour that are shared across the actors and publics involved in the processes of pursuing European security and defence policies.”¹²⁷ Traditionally, EU member states diverge on two dimensions: attitudes towards the use of force and the mode of international cooperation. This divergence influences answers to the question concerning from whom the EU should be autonomous and to do what. What this autonomy should achieve depends on national threat perceptions, which vary as a function of the member states’ vulnerabilities and geographic positions. Table 1 shows how these cultural and strategic divides are linked to the three questions posed above.

Table 1: Strategic autonomy meets strategic divides

Strategic autonomy...	Key cultural / strategic dimension	Divides among EU member states
...from?	Mode of international cooperation	Europeanism vs. Atlanticism vs. Euro-Atlanticism Allied vs. non-aligned
...for?	Geographic or functional threat perceptions	East vs. South Regional vs. Global Conventional vs. newer threats Military vs. civilian threats
...to?	Attitudes towards the use of force	Activism vs. restraint Interventionism vs. pacifism Military vs. civilian instruments

Source: The author’s compilation based on Howorth (2002) and Meyer (2005).¹²⁸

The divide between Atlanticist and Europeanist member states explains why they repeatedly became stuck in conceptual debates on strategic autonomy, despite having formally subscribed to it. France traditionally leads the Europeanist camp, which includes countries such as Belgium, Luxembourg and Spain. With Macron’s election the camp received an ambitious leader who viewed European sovereignty – used interchangeably

127 C. O. Meyer, ‘Theorising European Strategic Culture: Between Convergence and the Persistence of National Diversity’, *CEPS Working Document NO. 204* (2004), http://aei.pitt.edu/6634/1/1126_204.pdf, accessed 2 April 2021.

128 J. Howorth, ‘The CESDP and the Forging of a European Security Culture’, *L’Harmattan - Politique européenne*, 8 (2002), pp.88–109; C. O. Meyer, ‘Convergence Towards a European Strategic Culture? A Constructivist Framework for Explaining Changing Norms’, *European Journal of International Relations*, 11(4) (2005), pp.523–549.

with autonomy – as a guiding vision for the EU. The Atlanticist camp used to be led by the UK and comprises Central and Eastern member states as well as the Netherlands, Denmark and Portugal, among others. Underlining NATO’s primacy, they tend to view strategic autonomy with scepticism. A third, less well-defined group is the Euro-Atlanticist camp. It includes Germany and Italy where the divide runs between ministries and political parties.

The centre of gravity moved towards the Europeanist camp following the election of Donald Trump and the Brexit referendum in 2016. Trump’s questioning of Alliance solidarity pushed countries such as Germany to reinforce their efforts at deepening EU defence cooperation. The key narrative, promoted *inter alia* by its traditionally Atlanticist defence ministry, was that Germany should “become more European while staying transatlantic”.¹²⁹ The Atlanticist camp was further weakened by the UK’s looming departure. Together with external threats, notably the conflict in Ukraine, these factors were behind the post-2016 launch of a range of defence-related EU initiatives under the heading of strategic autonomy (see the following section).

The election of Joe Biden in 2020 then resulted in the forceful renewal of Atlanticist vows across EU member states. As the centre of gravity shifted back to the Atlanticist side, Europeanist nations such as France feared that European defence efforts would lose steam. This tension explains the debate on strategic autonomy between the French President and the German Defence Minister mentioned above. However, a closer look at their statements shows that there is a common denominator in that they agree on Europe’s need to bolster the defence dimension within a rebalanced transatlantic partnership. Macron also depicted European strategic autonomy as an ingredient for a stronger NATO at the Munich Security Conference in February 2021.¹³⁰ France and Germany thus adopted a more pragmatic approach in early 2021, but this pragmatism is not shared by Atlanticist member states such as Poland.

The question of what strategic autonomy is for and what that implies is equally contested. The EU Global Strategy defines three political priorities: (a) respond to external conflicts and crises, (b) build the capacities of partners and (c) protect the Union and its citizens. However, it does not specify regional or functional priorities nor a clear level of ambition. Depending on their threat perceptions, member states have different regional priorities. National strategic cultures, in turn, shape preferences

129 U. Von der Leyen, Speech at the 54th Munich Security Conference (Munich, 2018), <https://www.bmvg.de/de/aktuelles/europaeischer-werden-transatlantisch-bleiben-22174>, accessed 2 April 2021.

130 E. Macron, Speech at the Special Edition of the Munich Security Conference (Munich, 2021), <https://securityconference.org/mediathek/asset/emmanuel-macron-20210219-1813/>, accessed 2 April 2021.

regarding functional priorities and the level of ambition. Whereas more interventionist nations such as France and Belgium advocate greater EU readiness for high-intensity operations, more pacifist and restrained regimes such as Sweden and Germany point out that the EU's added value lies in civil-military approaches. The Council provided some concretisation of the level of ambition in its Conclusions on the implementation of the EUGS of November 2016.¹³¹ However, it did not really clarify how many concurrent missions/operations at what level of intensity the EU should be ready to shoulder. The objective of protecting EU citizens is particularly ambiguous as it goes beyond the CSDP's traditional tasks and leads to potential overlaps with NATO regarding both conventional (e.g., territorial defence) and newer (e.g., hybrid and cyber) threats. In short, the EUGS does not narrow the above-mentioned strategic divides and thus fails to provide guidance on the appropriate degree of strategic autonomy.

The need to concretise and update the EUGS in light of a geopolitical context marked by competition among the great powers was the starting point of the Strategic Compass for Security and Defence. Germany tabled the initiative in the run-up to its Council Presidency in 2020, and it should be finalised under the French Council Presidency in 2022. To narrow the divide between threat perceptions, the process started with a joint threat analysis. Finalised in November 2020, it lists a broad range of issues including global challenges (e.g., economic rivalry, climate change, energy dependence), regional insecurity (e.g., conflicts and failed states) and direct threats to the EU (e.g., disruptive technologies, hybrid threats, disinformation).¹³² On this basis, the member states should develop a Strategic Compass that concretises the EU's political level of ambition and sets actionable priorities for the next decade. Such a process should provide clearer answers to the three above-mentioned questions, and thereby contribute to the development of a common European strategic culture. However, there are doubts as to whether the Strategic Compass can truly deliver the desired leap in political autonomy. Strategic cultures do not change in two years, and there is a risk of repeating the mistakes of the EUGS. Avoidance of this will require the addressing of thorny issues, engaging in controversial prioritisation, and the tearing down of EU-internal silos.

131 Council of the European Union, *Conclusions on implementing the EU Global Strategy in the area of Security and Defence* (Brussels, 2016), <https://www.consilium.europa.eu/media/22459/eugs-conclusions-st14149en16.pdf>, accessed 2 April 2021.

132 European External Action Service, 'Questions and answers: Threat Analysis - a background for the Strategic Compass' (Brussels, 2020), https://eeas.europa.eu/sites/eeas/files/2020_11_20_memo_questions_and_answers_-_threat_analysis_-_copy.pdf, accessed 2 April 2021.

2.3. INSTITUTIONAL AUTONOMY: WITHIN AND BEYOND LEGAL CONFINES

In the field of defence, steps towards greater institutional autonomy have been shaped by the tension between intergovernmentalism and supranationalism on the one hand, and Atlanticism and Europeanism on the other. The predominance of intergovernmentalism is reflected in the EU's limited competences: all decisions are taken by unanimity and legal exceptions available in the context of the CFSP explicitly exclude the field of defence. The European Commission suggested extending qualified majority voting to a limited number of areas including civilian crisis management. However, the extensions themselves require a unanimous vote and most member states remain opposed.¹³³ This constitutes a legal ceiling to the EU's institutional autonomy in security and defence matters in that it slows down the decision-making and makes it susceptible to narrow national interests and external influence.

Within these confines, there have been some relevant steps towards more institutional autonomy since 2016. Brexit was an influential factor: the UK had long blocked the establishment of a permanent EU headquarters and was reluctant to activate Permanent Structured Cooperation (PESCO) in the field of defence. Following the referendum, the British government loosened its veto and decided it would no longer stand in the way. France and Germany became the main drivers behind a range of initiatives under the heading of strategic autonomy. This included the activation of PESCO and the establishment of a permanent EU headquarters (the Military Planning and Conduct Capability – MPCC) in 2017. In the Meseberg Declaration of 2018, the French President and the German Chancellor also suggested looking into new formats such as an EU Security Council.¹³⁴

However, these initiatives also exposed the dividing lines. The example of PESCO was telling. Germany viewed it through a largely political lens and emphasised its inclusiveness, whereas France stressed the need to move forward with the most able and willing member states to enhance the EU's operational autonomy and prepare it for the most demanding military missions. Eventually, the German approach prevailed, and 25 member states joined the initiative. Deploring the lack of flexibility of a PESCO Council with 25 members deciding unanimously, France established

133 N. Koenig, 'Qualified Majority Voting in EU Foreign Policy: Mapping Preferences', *Policy Brief* (Jacques Delors Centre, 2020), <https://www.delorscentre.eu/en/publications/detail/publication/qualified-majority-voting-in-eu-foreign-policy-mapping-preferences>, accessed 2 April 2021.

134 Bundesregierung, *Meseberg Declaration: Renewing Europe's promises of security and prosperity* (Meseberg, 2018), <https://archiv.bundesregierung.de/archiv-de/meta/startseite/meseberg-declaration-1140806>, accessed 2 April 2021.

the European Intervention Initiative (EI2) with a handful of European, rather than just EU states, outside EU structures. A similar divide opened up in reaction to the idea of a European Security Council. Whereas Merkel proposed a new structure within the EU's institutional framework without the UK, Macron suggested an intergovernmental institution including the UK. Overall, Germany primarily viewed steps towards institutional autonomy through an integrationist lens whereas France predominantly saw them as vehicles for more operational autonomy.

Central and Eastern European member states, notably Poland, had another perspective. They were sceptical of Germany's integrationist drive, but they also feared being pushed into the second league of a French-led two-speed Defence Union.¹³⁵ In line with their Atlanticist leanings they continuously warned against duplication with NATO. They agreed to the establishment of the MPCC on the condition of keeping it small, limiting its mandate to non-executive military operations and avoiding its denomination as 'EU headquarters'. These conditions gradually faded as Brexit drew closer. In 2018, the Council decided to extend the MPCC's mandate to the planning and conducting of one executive military operation of the size of an EU Battlegroup, and its staff was strengthened accordingly. Central and Eastern Europeans were also sceptical of PESCO but they agreed to its launch, viewing it as a possible driver of more defence spending. After all, the binding commitments call for regular increases "in order to reach agreed objectives", the most prominent being NATO's two-percent spending target. PESCO was thus acceptable if it strengthened the Alliance's so-called European pillar.

Meanwhile, stronger supranational trends have been observed due to the Commission's entrepreneurship in defence industrial matters. The establishment of the European Defence Fund (EDF) and of a Directorate-General for Defence Industry and Space (DG DEFIS) are examples of supranational spill-over from the economic to the security domain.¹³⁶ The creation of the EDF within the EU's multi-annual budget was a small revolution given that the Treaties prohibit the use of the EU budget for operative expenditure with military and defence implications (Art. 41(2) TEU). Circumventing these legal hurdles, the Commission based the EDF on Art. 173 TFEU, referring to the EU's role in fostering industrial competitiveness. It thereby exported the Community method to the EDF and marginalised the role of the more intergovernmental institutions, namely the EDA and the European External Action Service. In 2019, the Commission

135 M. Terlikowski, 'PESCO: The Polish Perspective', *Policy Paper* (IRIS, 2018), <https://www.iris-france.org/wp-content/uploads/2018/10/Ares-32.pdf>, accessed 2 April 2021.

136 P. Haroche, 'Supranationalism strikes back: a neofunctionalist account of the European Defence Fund', *Journal of European Public Policy*, 27:6 (2020), pp.853–872, DOI: 10.1080/13501763.2019.1609570.

decided to establish DG DEFIS to manage the defence-related financial envelopes. A few member states were sceptical, fearing a loss of control over an unleashed Commission DG holding the chequebook. The sceptical camp included Atlanticist nations such as Poland and the Netherlands. Interestingly, it also included France, which feared the prevalence of integrationist over strategic and operational considerations. In other words, it was concerned that projects would be selected on the basis of geographic balance rather than industrial excellence.¹³⁷

Overall, there has been a range of institutional developments since 2016. In terms of impact, the record is mixed. Given the prevalence of unanimity, progress towards institutional autonomy happens within strict confines. In addition, member states have different perspectives. Some such as Germany strive for *EU* institutional autonomy and welcome the stronger role of the Commission. Others such as the French prefer the more flexible notion of *European* autonomy, including capable non-*EU* neighbours such as the *UK*, and focus on the operational implications. Yet others such as Poland grudgingly accept incremental increases in *EU* institutional autonomy if and only if they contribute to a materially more capable European pillar in *NATO*.

2.4. MATERIAL AUTONOMY: OLD GAPS MEET NEW CONSTRAINTS

The 2020 *CARD* report paints a gloomy picture of the *EU*'s material autonomy.¹³⁸ It underlines long-standing capability gaps in areas such as force readiness, critical enablers, air-to-air refuelling and intelligence, surveillance and reconnaissance. It states that the industrial landscape "continues to be fragmented and lacks coherence in several aspects notably as regards defence capabilities and their development".¹³⁹ It points to force-generation problems and deplores the fact that *EU* operations only account for seven per cent of the member states' total deployed troops. External assessments mirror these findings. A 2019 report by the International Institute for Strategic Studies¹⁴⁰ estimates that European *NATO* members would have to invest between \$94 billion and \$110 billion

137 N. Koenig, 'Why we need a Commission DG Defence', *Policy Brief* (Berlin: Jacques Delors Institut, 2019), https://hertieschool-f4e6.kxcdn.com/fileadmin/user_upload/20190819_DGDefence_Koenig.pdf, accessed 2 April 2021.

138 European Defence Agency, 'Fact Sheet - *CARD* report' (2020), <https://eda.europa.eu/docs/default-source/reports/card-2020-executive-summary-report.pdf>, accessed 2 February 2021.

139 European Defence Agency, 'Fact Sheet - *CARD* report' (2020), <https://eda.europa.eu/docs/default-source/reports/card-2020-executive-summary-report.pdf>, accessed 2 February 2021.

140 B. Barry, D. Barrie, 'Defending Europe: scenario-based capability requirements for *NATO*'s European members', *IJSS Research Papers* (2019), <https://www.iiss.org/blogs/research-paper/2019/05/defending-europe>, accessed 2 April 2021.

to fill the gaps generated by a high-end crisis-management scenario for the protection of global sea lines of communication. To defend European territory against a state-level military attack, they would have to invest between \$288 billion and \$357 billion over twenty years (excluding nuclear capabilities).

The EU's capability requirements are broadening in light of the great-power competition and technological progress. Disruptive technologies such as Artificial Intelligence, 5G and applications of quantum physics and synthetic biology, have immediate consequences for the security of EU citizens and the future of warfare. China's assertive military role in the South China Sea and the global race for space also pose new challenges for an EU eager to secure free access to the global commons. In addition to addressing the EU's more traditional capability gaps, the 2020 CARD report urges member states to systematically address "defence requirements in developing space-based capabilities".¹⁴¹ Defence and technological autonomy are thus closely intertwined. However, the EU is lagging far behind China and the US in the global tech race (see Chapter 5 on technology in this report).

Filling old and new capability gaps requires investment and collaboration. The EU's collective defence expenditure has been rising since 2015 after a prolonged austerity phase following the financial crisis of 2008. However, these increases did not translate into more efficient or effective spending. As the Commission noted in 2016, 80 per cent of defence procurement was purely national and the EU member states spent less than €200 million annually on collaborative European R&T projects. The lack of coordination explains why Europeans produced six times more weapons systems than the US (178 compared to 30). The annual cost of fragmentation has been estimated at €25-100 billion.¹⁴² In addition, Brexit significantly reduced the EU's collective military weight: the UK accounted for one fifth of the EU's defence expenditure, around 40 per cent of its R&D spending and a large share of its critical enablers.

PESCO, the EDF and CARD are the EU's responses to these drivers, but their contributions to material autonomy have, so far, been limited. There has been a proliferation of PESCO projects across a wide range of areas, but they are often at the lower end of the spectrum and still fail to address key capability gaps such as in strategic and tactical air transport. In addition, there is too little compliance with PESCO's binding commitments: member states fail to meet the benchmarks for collaborative equipment

141 European Defence Agency, '2020 CARD Report - Executive Summary' (Brussels, 2020), <https://eda.europa.eu/docs/default-source/reports/card-2020-executive-summary-report.pdf>, accessed 2 February 2021.

142 European Commission, 'European Defence Action Plan: Towards a European Defence Fund' (Brussels, 2016), https://ec.europa.eu/commission/presscorner/detail/en/IP_16_4088, accessed 2 April 2021.

procurement and defence research and technology (R&T), for instance.¹⁴³ The CARD report warns that the current spending outlook for R&T puts “EU strategic autonomy at risk”.¹⁴⁴ The promise of CARD itself – namely to bring national defence planning in sync – is still unfulfilled. According to the EDA, national planning until the mid-2020s leaves little room to incorporate the collaborative spending priorities it identified. Moreover, the EU’s new defence-related financial envelopes were substantially downsized during the negotiations on the multi-annual financial framework (2021–7). The EDF was cut by 39 per cent, from €11.4 billion in the initial Commission proposal of May 2018 to €7 billion in the final Council deal (2018 prices).¹⁴⁵ Having a defence chapter in the EU budget for the first time is still a major achievement, but its impact will be more limited than initially planned.

Looking forward, it is still uncertain how the economic impact of the pandemic will affect national defence budgets and the will to collaborate. The short-term implications seem to be limited. Most member states have indicated that they will continue to raise their defence expenditure.¹⁴⁶ However, as the EDA’s Chief Executive warned, “defence budgets remain vulnerable, with the economic impact of Covid-19 yet to be felt”.¹⁴⁷ At the same time, EU officials warn against the “renationalisation of defence”.¹⁴⁸ There was already a worrying drop in collaborative defence spending in 2019. The Franco-German struggle to agree on the division of labour and intellectual property rights for Europe’s biggest defence industrial collaboration project, the Future Combat Air System (FCAS) with an estimated value of €100 billion, illustrates the tension between national and European industrial autonomy. At the same time, the Biden administration will probably pursue a ‘Buy American’ policy and could well enhance the pressure on Europeans to opt for American rather than home-grown products. Countering these trends will be a priority for the Strategic Compass and its capabilities basket. The key question is

143 European Defence Agency, ‘2020 CARD Report – Executive Summary’ (Brussels, 2020), <https://eda.europa.eu/docs/default-source/reports/card-2020-executive-summary-report.pdf>, accessed 2 February 2021.

144 European Defence Agency, ‘2020 CARD Report – Executive Summary’ (Brussels, 2020), <https://eda.europa.eu/docs/default-source/reports/card-2020-executive-summary-report.pdf>, accessed 2 February 2021.

145 N. Koenig, E. Rubio, ‘What the European Council’s MFF/ Recovery deal tells us about the EU’s global ambition’, *Policy Brief* (Jacques Delors Centre, 2020), https://hertieschool-f4e6.kxcdn.com/fileadmin/2_Research/1_About_our_research/2_Research_centres/6_Jacques_Delors_Centre/Publications/20200722_MFF-recovery-fund-global-ambition_Koenig-and-Rubio.pdf, accessed 2 April 2021.

146 C. Mölling, S. Becker, T. Schütz, ‘COVID-19 and European Defence: Voices from the Capitals’, *DGAP Report* (2020), <https://dgap.org/en/research/publications/covid-19-and-european-defence>, accessed 2 April 2021.

147 European Defence Agency, ‘European defence spending hit new high in 2019’ (Brussels, 2021), <https://eda.europa.eu/news-and-events/news/2021/01/28/european-defence-spending-hit-new-high-in-2019>, accessed 2 April 2021.

148 A. Molenaar, ‘Unlocking European Defence. In Search of the Long Overdue Paradigm Shift’, *IAI Papers* (2021), <https://www.iai.it/sites/default/files/iaip2101.pdf>, accessed 2 April 2021.

this: to what extent the member states will align their priorities with the collective good.

2.5. CONCLUSION AND RECOMMENDATIONS

Since 2016 there have been a range of steps aimed at strengthening European strategic autonomy in the field of defence. However, a closer look at the political, institutional and material dimensions shows that the picture is mixed. The political dimension was dominated by the question of autonomy from the US and NATO, which caused theological debates between Europeanists and Atlanticists. Institutional autonomy increased incrementally while facing a legal and political ceiling. Despite the strong focus on the material dimension, the effective output of the EU's defence cooperation initiatives is (still) limited. This has led to a stark gap between ambition and reality.

The year 2020 added three factors, which could weaken the political and material dimensions of strategic autonomy. First, Biden's election led to a renewal of Atlanticism, which could shift the political centre of gravity towards NATO and trigger renewed theological debates. Second, the pandemic has caused uncertainty regarding future defence spending and cooperation while broadening the range of non-military threats. These factors could tempt member states to deprioritise the defence dimension within an ever-broadening concept of strategic autonomy. However, the case for pursuing efforts remains strong. The pandemic amplified great-power rivalry and fuelled instability in the EU's neighbourhood. Even under Biden, EU and US interests will not always align, and the next election is rapidly approaching. Meanwhile, filling the EU's capability gaps will take decades, leaving no time for procrastination.

EU member states should thus continue to strengthen all three dimensions of strategic autonomy. They should use the Strategic Compass to strengthen its political dimension. This will require moving past conceptual debates on 'autonomy from' towards the more concrete questions of what this autonomy is for and what it entails practically. Based on the joint threat analysis, member states should develop illustrative scenarios for EU crisis management and define a set of relevant criteria for collective action. They should use the parallel reflection on NATO's next Strategic Concept to hammer out a clearer division of labour regarding hybrid threats and to secure access to the global commons. This should include a better delineation of NATO's Article 5 and the EU's solidarity clauses. Reflecting the rapidly changing strategic context, the Compass should be

reviewed with every new EU legislature while the threat analysis should be updated on a more regular basis.

Strengthening the EU's institutional autonomy will require upgrading its civil-military approach in response to the growing linkages between industrial, technological and politico-military considerations. The Commission should thus be closely involved in the preparation and implementation of the Compass. In addition, the MPCC should become a fully-fledged civil-military EU Headquarters. As long as unanimity remains the rule, Europeans will have to get better at bringing inclusive EU and flexible European formats together. This should include, among other things, forging closer links between an upgraded MPCC, the PESCO project Crisis Response Operation Core and the French-led European Intervention Initiative.

A joint vision and stronger institutions will make no difference without the necessary material means. The EU will have to make the most of its limited resources while facing broadening capability requirements. It should maximise synergies between the civil, defence and space industries, as underlined by the respective Commission Action Plan of February 2021.¹⁴⁹ The priorities and scenarios identified by the Strategic Compass should be reflected in its capabilities basket, which should provide guidance to PESCO and the EDF. The member states must resist the temptation to turn inward and prioritise national industrial autonomy. They should include joint priorities and collaborative opportunities in their next planning cycles. A more structured and regular exchange of national defence planners could facilitate closer alignment.¹⁵⁰ An intergovernmental peer review mechanism could enhance the pressure to comply with the binding PESCO commitments.¹⁵¹

European strategic autonomy in defence will always remain controversial. However, the pandemic has shown three things: crises can come out of nowhere, Europe is highly interdependent, and it needs to stick together if it is to play a role in increasingly fierce great-power competition. The ascendance of China as a military power is only one indication that this competition will not only be about economics and soft power. Meanwhile, the Trump administration illustrated that the EU cannot always rely on others. If it wants to sit at the global table rather than being on the menu, it should move from conceptual debate towards real strategy and action.

149 European Commission, *Action Plan on Synergies between Civil, Defence and Space Industries* (Brussels, 2021), https://ec.europa.eu/commission/presscorner/detail/en/ip_21_651, accessed 4 April 2021.

150 European Defence Agency, '2020 CARD Report – Executive Summary' (Brussels, 2020), <https://eda.europa.eu/docs/default-source/reports/card-2020-executive-summary-report.pdf>, accessed 2 February 2021.

151 See for example: T. Latici, 'No Pain, No Gain: Taking PESCO to the Gym', Egmont Institute Security Policy Brief (2020), <https://www.egmontinstitute.be/content/uploads/2020/08/spb129-tania-latici-final2.pdf>, accessed 2 February 2021.

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3 STRATEGIC AUTONOMY AND THE EU AS A DIPLOMATIC ACTOR

Niklas Helwig

SUMMARY

- As major powers are increasingly using global interdependence to further their strategic interests, the EU's diplomatic autonomy and credibility rest on seemingly unrelated fields such as its role in global financial markets, and its capacities for technological innovation and, lately, with regard to medical supplies.
- Despite the focus on values in the debate on European foreign policy, EU strategic autonomy does not necessarily imply a liberalist agenda, but is rather more in line with the realist approach of “principled pragmatism”. It is less about the *promotion* of values abroad, and more about the *protection* of values at home through diplomacy (concerning climate neutrality and data privacy, for example).
- EU strategic autonomy is an aspiration rather than a realistic end state. As a leitmotiv for EU diplomacy in contemporary international competition, it may be better suited to guiding the development of EU diplomacy than notions of a “comprehensive” or “normative” foreign policy.

RECOMMENDATIONS

- Although more flexible forms of EU diplomacy and decision-making have produced positive results in recent years, the EU3+3 lead group diplomacy with Iran being one example, EU treaties and institutions should continue to be the backbone and backstage for joint

diplomacy. However, member states could make use of existing treaty options to derogate from unanimous decision-making and engage in flexible diplomatic action when it is in line with joint EU processes, objectives and decisions.

- EU diplomacy should not merely accept great power competition, but should also seek to mitigate its further escalation. The EU should aim to *contain* rivalry by guiding confrontations towards practices of multilateral cooperation, and to *prevent* it by exerting a positive influence on its partners, in particular the US.
- Strategic autonomy in EU diplomacy starts at home. It is here that the EU secures the economic and political leverage for successful diplomacy abroad by strengthening its economic governance and single market, promoting research and innovation, and adhering to rule-of-law principles across the union, for example.

The diplomatic activities of the EU have not been in analytical focus during the current debate on strategic autonomy. This is a shortcoming in that the debate has assumed a global dimension, encompassing not only defence, technological and economic issues,¹⁵² but also the Union's ability to shape the global agenda according to its interests and values.¹⁵³ However, it is not entirely clear what the notion of strategic autonomy implies for and requires from the diplomatic activities of the EU.

EU diplomacy concerns the Union's external representation on a wide scale of policies, including the Common Foreign and Security Policy (CFSP), the economic portfolios of the Commission as well as national foreign policies. Given the complex allocation of competences in EU external relations, policy thinkers and planners have paid considerable attention to improving the internal conditions for what EU scholars call "actorness".¹⁵⁴ Internal shortcomings have been identified regarding a lack of coherence, inadequate capabilities and relationships with member states. These deficiencies are very specific to the EU, given its sui generis nature as a state-like international governance structure. The question of whether it can consolidate differences across member states and consistently represent EU interests abroad have guided the institutional debates of the CFSP up to the 2009 Lisbon treaty reform and beyond.

152 See the chapters by Nicole Koenig, Tobias Gehrke, Marcel Stolz & Andre Ken Jakobsson in this report.

153 G. Grevi, 'Strategic Autonomy for European Choices: The Key to Europe's Shaping Power', *European Policy Centre Discussion Paper* (19 July 2019).

154 M. Rhinard & G. Sjöstedt, 'The EU as a Global Actor: A New Conceptualization Four Decades after "Actorness"', *UI Paper 6/2019* (Swedish Institute of International Affairs); C. Bretherton & J. Vogler, *The European Union as a Global Actor* (London: Routledge, 2006).

For more than ten years, the EU High Representative/Vice-President of the Commission (HR/VP) has been tasked to ensure the coherence of EU diplomacy, supported by the European External Action Service. This institutional leap helped to raise the EU's international profile somewhat, in particular improving European embassy coordination in third countries and joint representation in international organisations.¹⁵⁵ Nevertheless, its diplomacy continues to be a choir of many voices, including those of commissioners in charge of financial, trade, economic and developmental aspects of external representation, as well as national leaders and the President of the European Council on political issues. Criticism of the CFSP in particular persists, as its unanimity requirement renders common action less efficient. In addition, the real power of the EU continues to reside in the largely separate economic portfolios of the Commission. EU diplomacy had its biggest impact when member states issued clear mandates to EU representatives and were kept engaged during their implementation, such as during the HR/VP's Iran nuclear negotiations and the Brexit talks with the UK.¹⁵⁶

Although the EU sorted out its internal shortcomings in its foreign-policy organisation to some extent, new external vulnerabilities surfaced. In the 2010s, Europe had to learn the hard way that other powers had shifted their strategies and used interdependency and global economic networks to further their strategic interests.¹⁵⁷ The realisation came when the US used its dominant position in the global financial system to force EU businesses into extraterritorial sanctions against Iran in order to undermine the Iran nuclear agreement. The EU's timid diplomatic approach to the human-rights situation in China is also commonly linked to its dependence on trade and investment with the re-emerging Asian power. The extent to which the EU can manage its interdependency has become a core question that will define its ability as a diplomatic actor going forward.

This chapter analyses the notion of EU strategic autonomy in the context of EU diplomacy. The focus in the next section is on how increasing international competition negatively affects EU diplomacy on the systemic, bilateral and EU-internal level, prompting the need for institutional and

155 D. Spence & J. Bátorá, *The European External Action Service: European Diplomacy Post-Westphalia* (Basingstoke: Palgrave Macmillan, 2015).

156 R. Alcaro & M. Siddi, 'Differentiation in EU Foreign and Security Policy: EU Lead Groups in the Iranian Nuclear Dispute and the Ukraine Crisis', *EU IDEA Policy Papers* 11 (2020), <https://www.fiaa.fi/sv/publikation/differentiation-in-eu-foreign-and-security-policy-eu-lead-groups-in-the-iranian-nuclear-dispute-and-the-ukraine-crisis>; E. Fabry, 'Using the "Barnier Method" to Deal with China', *Jacques Delors Institute* (16 Feb. 2021), <https://institutdelors.eu/en/publications/using-the-barnier-method-to-deal-with-china/>, accessed 9 Mar. 2021.

157 M. Wigell, S. Scholvin and M. Aaltola (eds.), *Geo-Economics and Power Politics in the 21st Century: The Revival of Economic Statecraft*. London: Routledge, 2018; M. Leonard, ed., *Connectivity Wars: Why Migration, Finance and Trade Are the Geo-economic Battlegrounds of the Future* (ECFR, Jan. 2016), https://ecfr.eu/archive/page/-/Connectivity_Wars.pdf, accessed 9 Mar. 2021.

policy reforms. The chapter then continues with a discussion about the key elements and limitations of the EU as a geopolitical force, in particular clarifying the limited normative agenda of EU diplomacy and the CFSP's institutional shortcomings. The discussion in the final section concerns the kind of diplomacy that a strategically autonomous EU requires: it should concentrate on mitigating international (in particular ideological) competition and building economic and political leverage at home to ensure successful diplomacy abroad.

3.1. EU DIPLOMACY IN A COMPETITIVE ENVIRONMENT

The current era of international competition between states negatively affects the EU's ability to conduct its diplomacy. The strengthening ideological and structural competition between the US and China as well as the growing use of economic instruments for geopolitical ends also change the EU's ability to shape the international agenda.¹⁵⁸ EU diplomatic activities are affected on three levels: the systemic, the bilateral and the internal.

The multilateral system in crisis

According to the EU's vision of "effective multilateralism", which dates back to the 2003 European Security Strategy, the multilateral system is a cornerstone for "security and prosperity" and for developing an "international society".¹⁵⁹ These aspirations connected to a "rules based international order"¹⁶⁰ seem off-course in the current international environment. The US and China, for example, are wary of being bound by supranational structures and tend to perceive international rules as a means by which the other side can gain unfair advantage from global cooperation in their growing rivalry.

Contestation of the rules-based order affects the EU's ability to shape international policy outcomes. The Trump administration's resolute use of economic instruments to push Europeans to follow US foreign-policy objectives in particular has damaged European interests. The ability of the US to "weaponize interdependence"¹⁶¹ and to use its dominant position in global finance was especially visible when the Trump administration

158 See Chapter 1 on great-power competition in this report.

159 J. Solana, 'A Secure Europe in a Better World: European Security Strategy', *Council of the European Union* (2003), 11. Solana, Javier (2003): A secure Europe in a better world: European Security Strategy, Council of the European Union, p.11.

160 Ibid.

161 H. Farrell & A.L. Newman, 'Weaponized Interdependence: How Global Economic Networks Shape State Coercion', *International Security*, 44/1 (Summer 2019), 42-79.

withdrew from the JCPOA and reinstated sanctions against Iran as part of a maximum pressure campaign. The EU only just managed to keep the Iran deal alive, and it was helpless in implementing its common position and living up to its commitments in the JCPOA in the face of US extraterritorial sanctions on European businesses. To be fair, EU governments could not anticipate the extent to which its ally would use its economic power to sabotage the agreement. The Biden administration might reverse course and join an updated agreement of the E3+3 with Teheran. However, the incident revealed the EU's vulnerability and inability to circumvent US sanctions, even though it tried with a quickly devised alternative transaction system (INSTEX). If it does not address these vulnerabilities, it might see its legitimacy as a diplomatic actor undermined in the future.¹⁶²

Reforming the multilateral system in the current environment is another challenge. The EU has been ambitious in leading the reform of multilateral organisations such as the WTO. Commission President Ursula von der Leyen recently underlined this mission in her State of the Union speech.¹⁶³ In recent years the EU has had to concentrate on temporary solutions without US support to allow for the settlement of rules-based international trade disputes. Now there are hopes that the Biden administration might be more favourable towards WTO reform. However, even a more open-minded US administration will have to approach any reforms with the interests of US industries and protective safeguards in mind.¹⁶⁴ Similarly, although it is in its interests to sign up for WTO reform to keep the system afloat, China does not wish to see its state-centric and subsidy-based economic model compromised.¹⁶⁵ The prospects for comprehensive multilateral reforms that accommodate the interests of the US and China thus remain bleak.

The crisis of the multilateral system is an existential challenge for the EU. The Union's very identity and role as an international actor are based on the premise of functioning rules-based cooperation across national divides. The 2014 Ukraine crisis and the annexation of Crimea came as a shock with the realisation that other actors do not respect international rules to the same extent. Because of the EU's fundamental cooperative

162 N. Helwig & J. Jokela, 'Future Prospects: Adapting to the Geo-economic Environment', in N. Helwig, J. Jokela & C. Portela, eds., *Sharpening EU Sanctions Policy: Challenges and Responses in a Geopolitical Era* (FIIA Report 63, May 2020), 131–142.

163 'State of the Union Address by President von der Leyen at the European Parliament Plenary', *European Commission* (16 Sep. 2020), https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_1655, accessed 9 Mar. 2021.

164 K.A. Elliott, 'Can Biden Salvage the World Trade Organization?', *World Politics Review* (17 Nov. 2020), <https://www.worldpoliticsreview.com/articles/29223/can-biden-salvage-the-world-trade-organization>, accessed 10 Mar. 2021.

165 V. Zhu, 'China and WTO Reform: Minimal Changes Only, Please', *Institut Montaigne Blog* (15 March 2019), <https://www.institutmontaigne.org/en/blog/china-trends-1-china-and-wto-reform-minimal-changes-only-please>, accessed 10 Mar. 2021.

identity and its limited options to push its interests through power play, strategic autonomy in the form of decoupling from the multilateral system cannot succeed. It is rather a question of whether international cooperation takes the form of “constructional” or “confrontational” interdependence in the future.¹⁶⁶ Regardless of whether the aim of other actors is to realise common goals through cooperation (e.g. climate accords), to seek competitive advantage (e.g. in trade disputes) or even to weaponize interdependence for strategic goals, it is likely that cooperative and confrontational elements of interdependence will co-exist, and that EU diplomacy will have to compartmentalise different dimension of their interaction with other actors.

Bilateral implications

The bilateral diplomatic environment in the EU and its member states has become more challenging in recent years, with direct opposition to EU positions and the questioning of its legitimacy as a diplomatic actor.

The Trump administration’s downgrade of the EU embassy in Washington DC from a member state to an international organisation in late 2018 was the most telling example.¹⁶⁷ Although the practical repercussions of the demotion scarcely extended beyond protocol issues, the move was highly symbolic and representative of the broader EU struggle to be perceived as a legitimate actor abroad. Previous US administrations, including that of President Obama, occasionally lost patience in interacting with a multitude of EU representatives who tended to put procedure above content.¹⁶⁸ President Trump’s open hostility towards the EU and his preference for dealing with individual member states took the aversion to the next level. Nevertheless, the EU was able to stand its ground to some extent when it came to its exclusive trade and regulatory competences. Commission President Jean-Claude Juncker declared, “I am the European Union” to clarify the exclusive competences of his institution in a high-profile White House meeting on trade in July 2018.¹⁶⁹ Margarethe Vestager, EU Commissioner for Competition at the time, repeatedly drew President Trump’s fire, given her anti-trust focus on US digital companies.

166 J. De Wilde, *Saved from Oblivion: Interdependence Theory in the First Half of the Twentieth Century: A Study on the Causality between War and Complex Interdependence* (Aldershot: Dartmouth, 1991), 23 ff.

167 ‘Trump Administration Downgrades EU Mission to US’, *Deutsche Welle* (8 Jan. 2019), <https://www.dw.com/en/trump-administration-downgrades-eu-mission-to-us/a-46990608>, accessed 10 Mar. 2021.

168 V. Pop, ‘EU-US Summits to Take Place “Only When Necessary”’, *EUobserver* (27 Mar. 2010), <https://euobserver.com/foreign/29782>, accessed 10 Mar. 2021.

169 Jean-Claude Juncker in an interview with *Der Spiegel* (1 Nov. 2019), <https://www.spiegel.de/politik/jean-claude-juncker-ich-habe-putin-gekuesst-fuer-europa-war-das-kein-nachteil-a-00000000-0002-0001-0000-000166735203>, accessed 10 Mar. 2021.

This shows that the EU is indeed recognised when it has the power to affect international politics.

The Biden administration has already signalled that it is willing to cooperate with the EU on a number of trade-related, regulatory and security issues. The EU, for its part, has assured the US that it is ready to tackle some of the most pressing issues regarding trade, health and the climate in a close bilateral partnership.¹⁷⁰ The question is not whether there will be EU-US cooperation under a Biden administration, but what form it will take. Even if some in Europe hope for a major reform of the partnership in support of strategic autonomy and increased burden-sharing, the Biden administration might find the temptation to follow the traditional approach of US primacy too strong to resist, particularly given the growing competition with China.¹⁷¹

In terms of relations with China and Russia, discussions concerning the EU's ability and how it is perceived as a diplomatic actor are often linked to its limited success in promoting its values. It is frequently criticised for not living up to the values enshrined in its treaties, and for falling short in terms of sharply criticising and responding to Beijing's and Moscow's human-rights and rule-of-law records. The criticism has re-surfaced recently with regard to the weak human-rights commitments in the EU-China Comprehensive Agreement on Investment (CAI), and the EU's hesitant reaction following Russia's jailing of the opposition leader Alexei Navalny.

Commentators dissatisfied with the EU's careful handling of Russia see its failure to respond with harsher measures as a sign that it is not an autonomous actor.¹⁷² Other analysts refer to the EU's lacking support of liberal and democratic norms in general as a key shortcoming of its external actions.¹⁷³ However, these arguments overlook the fact that strategic autonomy is not necessarily measured by the conversion of others: the EU has to retain the ability to follow more cynical interests at times and to accept the limitations of its normative power. Its inability to promote its values in its bilateral diplomacy with Russia and China is not necessarily a direct challenge to its strategic autonomy, which to some extent has to be based on the acceptance of an environment that is less congenial to liberal norms.

170 European Commission, 'A New EU-US Agenda for Global Change' (2 Dec. 2020), https://ec.europa.eu/info/sites/info/files/joint-communication-eu-us-agenda_en.pdf, accessed 10 Mar. 2021.

171 G. Martin & V. Sinkkonen, 'Transatlantic Relations and European Strategic Autonomy in the Biden Era: Neglect, Primacy or Reform?', *FIIA Briefing Paper* 301 (Feb. 2021), <https://www.fia.fi/en/publication/transatlantic-relations-and-european-strategic-autonomy-in-the-biden-era>, accessed 10 Mar. 2021.

172 J. Dempsey, 'Why the European Union Cannot Do Foreign Policy', *Carnegie Europe* (9 Feb. 2021), <https://carnegieeurope.eu/strategieurope/83841>, accessed 10 Mar. 2021.

173 R. Youngs, 'The EU's Strategic Autonomy Trap', *Carnegie Europe* (8 March 2021), <https://carnegieeurope.eu/2021/03/08/eu-s-strategic-autonomy-trap-pub-83955>, accessed 11 Mar. 2021.

EU internal erosion

A more serious challenge to the EU's diplomatic autonomy could be the fact that international competition further undermines the internal cohesion on which joint diplomacy depends. Structurally, the CFSP remains intergovernmental and largely decentralised, with each member state having its own national diplomatic service and common EU action conditioned by unanimity. Although the Commission has exclusive competences in trade diplomacy, it relies on member states for a mandate and has to anticipate national ratification processes. Politically, the financial and migration crises of the last decade, as well as the current Covid-19 pandemic, have undermined the sense of solidarity between member states. There is a risk that competitors such as Russia and China, or even partners such as the US, will exploit the lacking cohesion in the EU and concentrate on bilateral relations with member states when it serves their interests.

The fallout from the lacking EU cohesion is exacerbated by the individual global interdependence of member states. Economic or security dependence on external actors might change the calculations in national capitals even without direct external interference. An often-cited example is the EU's sluggish response to Chinese human-rights violations caused by some member states anticipating economic repercussions and dragging their feet.¹⁷⁴ With regard to the US the issue is less tangible. However, the hesitance of some Baltic and Central European member states to criticise the Trump administration or to support the notion of a more strategically autonomous EU could at least in part be attributed to their security dependence on the transatlantic alliance.

3.2. TOWARDS A GEOPOLITICAL EU?

Amidst these challenges there has been considerable talk about an EU “geopolitical moment”¹⁷⁵ or “geopolitical awakening”¹⁷⁶. Europe should develop an “appetite for power”¹⁷⁷ and become “a player, not a play-

174 R. Emmott & A. Koutantou, 'Greece Blocks EU Statement on China Human Rights at U.N.', *Reuters* (18 June 2017), <https://www.reuters.com/article/us-eu-un-rights/greece-blocks-eu-statement-on-china-human-rights-at-u-n-idUSKBN1990FP>, accessed 10 Mar. 2021. <https://www.reuters.com/article/us-eu-un-rights/greece-blocks-eu-statement-on-china-human-rights-at-u-n-idUSKBN1990FP>

175 D. Schwarzer, 'Europe's Geopolitical Moment', *Internationale Politik Quarterly*, 1 (Jan. 2021).

176 M. Bergmann, 'Europe's Geopolitical Awakening', *Foreign Affairs* (20 Aug. 2020), <https://www.foreignaffairs.com/articles/europe/2020-08-20/europes-geopolitical-awakening>, accessed 10 Mar. 2021. Bergmann, Max (2020), Europe's Geopolitical Awakening, *Foreign Affairs*, <https://www.foreignaffairs.com/articles/europe/2020-08-20/europes-geopolitical-awakening>

177 HHR/VP Josep Borrell during Munich Security Conference Panel (16 Feb. 2020), <https://www.reuters.com/article/us-germany-security-europe/eu-must-develop-appetite-for-power-borrell-says-idUSKBN20A0BX>.

thing.”¹⁷⁸ Analyses and political rhetoric are full of metaphors that describe or call for a set of measures required for member states to become more efficient, unified and forceful in their international actions. In terms of EU diplomacy, three aspects stand out.

First, international events and crises occurring in the 2010s have already led to a foreign-policy reorientation within the EU, guided by the realistic assessment of what is achievable in the international environment and less idealistic in the pursuit of its fundamental values. The 2016 EU Global Strategy introduces the notion of “principled pragmatism” in the vocabulary of EU foreign policy. In the context of instability in the EU’s southern neighbourhood and the connected migration crisis in particular, the new principle represented at least a discursive change.¹⁷⁹ The strategy signalled a shift in focus from democracy promotion to promoting “resilience” and hence stability, with less concern about the type of regime.¹⁸⁰ Sven Biscop referred to this more pragmatic approach as “Realpolitik with European characteristics”, meaning “a rejection of liberal utopianism, but not of liberal ideals themselves.”¹⁸¹ As a result of this strategic reorientation, European foreign policy should be guided more by what is possible in the strategic environment than by what would be desirable according to its beliefs.

Accordingly, EU strategic autonomy is not primarily concerned with the promotion of European values in the sense that other powers, such as China, should become more European in their understanding of human rights and the rule of law. The EU’s ambition is rather to shape the international rules (climate agreements, technological regulations, data privacy, for example) such that EU citizens have the autonomy to live their lives according to the values they prefer and the decisions they make. The EU is a more defensive player in international competition, less focused on the conversion of others to EU norms. In the setting of global standards for data privacy, for example, it could be argued that the EU is less concerned about the state-controlled model to which Chinese citizens are subjected, or the private-enterprise-centred model for US consumers. Its aim is rather to ensure that European countries can continue pursuing a third model of tightly regulated data privacy.

178 Bildt, Carl & C. Bildt & M. Leonard, ‘From Plaything to Player: How Europe Can Stand Up for Itself in the Next Five Years’, *European Council on Foreign Relations* (17 July 2019), https://ecfr.eu/publication/how_europe_can_stand_up_for_itself_in_the_next_five_years_eu_foreign_policy/, accessed 10 Mar. 2021.

179 N. Bremberg, ‘From “Partnership” to “Principled Pragmatism”’: Tracing the Discursive Practices of the High Representatives in the EU’s Relations with the Southern Mediterranean’, *European Security*, 29/3 (2020), 359–375.

180 A.E. Juncos, ‘Resilience as the New EU Foreign Policy Paradigm: A Pragmatist Turn?’, *European Security*, 26/1 (2017), 1–18.

181 S. Biscop, ‘The EU Global Strategy: Realpolitik with European Characteristics’, *Egmont Institute Security Policy Brief* 75 (June 2016).

Second, the competitive international environment and its effect on EU cohesion revived the debate about appropriate decision-making procedures. The current treaties allow for several possibilities in terms of avoiding gridlock if consensus among the 27 member states cannot be achieved. The options include “constructive abstention” (Art. 31(1) TEU), which allows a member state to abstain without blocking the decision, and the “passerelle clause” (Art. 31(3) TEU) that allows member states to designate specific areas in which a qualified majority should suffice. The “enabling clause” (Art. 31(2) TEU) allows member states to decide by qualified majority in predefined cases, in particular if the decision implements a previous unanimous decision by the Council or the European Council.

Member states make scant use of these provisions. For example, the Council invoked the enabling clause when amending sanctions listings in a few uncontroversial cases. In 2008, Cyprus used the possibility of abstaining without blocking the decision to set up the EULEX Kosovo mission. In the vast majority of cases, decisions are made only when member states reach a consensus.

The issue of qualified majority voting (QMV) in the CFSP has long been under discussion among a rather small circle of integrationist-minded scholars and policy planners. Without major paralysis, the national-sovereignty argument outweighed the possible efficacy gains of a speedier and less compromising decision-making process. After all, the unanimity principle also ensured the broad ownership of decisions taken among member states. This reasoning changed in the last ten years when a culture of disruption started to engulf the Council’s decision-making rooms and slowed-down the consensus-making machinery. More and more CFSP decisions were watered down or delayed by a single or very few member states, sometimes with questionable motives.¹⁸² A high-profile recent case was the month-long slowdown of sanctions against Belarusian officials by Cyprus in late 2020. Cyprus strong-armed the other member states into taking bolder action against Turkey for its unrelated energy-exploration activities in disputed waters in the Mediterranean, and eventually conceded when a strongly worded statement about Turkey was published. The use of the unanimity requirement to persuade other member states to act on unrelated issues was a rare example of the EU’s ability to self-paralyse without outside pressure, and it troubled even seasoned experts of EU foreign policy.¹⁸³

Calls for extending the use of QMV in the CFSP grew louder, coming from the Commission President and the EU High Representative, for

¹⁸² For an overview see N. Koenig, ‘Qualified Majority Voting in EU Foreign Policy: Mapping Preferences’, *Jacques Delors Centre Policy Brief* (2020).

¹⁸³ N. Tocci, ‘Unpacking the Conflict in the Eastern Mediterranean’, *IAI Commentary*, 20/70 (2020).

example, the policy areas under discussion including human rights declarations, civilian operations and sanctions. The move would have a positive effect on EU strategic autonomy, as it would minimise the opportunity of single member states to block decisions due to their (perceived) dependence on third countries. Decision-making in fields that are of increasing significance for the EU's global role, such as digital and environmental policy, already allow for qualified majority decisions, thus raising the question of why foreign-policy issues in the CFSP should be treated differently. However, sceptics remain cautious and argue that the fear of being outvoted might undermine the sense of solidarity among member states, which in any case has suffered during the crises of recent years.¹⁸⁴

The inclination of member states to make limited use of the flexibility provided in the treaties has increased the relevance of informal arrangements and actions outside the formal CFSP framework. From the Western Balkan crisis in the 1990s to Iran's nuclear diplomacy in the last two decades, prominent EU diplomacy has been in the hands of contact or lead groups from a subset of influential member states.¹⁸⁵ Other examples of flexible diplomacy include the coordinated expulsion of Russian diplomats from Germany, Poland and Sweden in early 2021, as well as regular joint statements by the E3 – France, the UK and Germany – sometimes joined by the US and Italy (Quint). Discussions on a European Security Council, which include proposals for an informal framework and limited membership, are another example of more differentiated decision-making in European diplomacy. Although these differentiated formats may well help to reinforce EU foreign policy, they raise questions related to the legitimacy and coherence of more fragmented diplomacy.¹⁸⁶ The CFSP framework and Brussels-based institutions play an important role in preventing fault lines between in- and outsiders. In linking diplomatic activities to the overall EU agenda they reinforce the argument for a strong role of the HR/VP and the Council formats as the backbone and backstage for all EU diplomacy.

Third, the political leadership in Brussels recognises that the EU's competitiveness depends increasingly on its ability to link its economic and regulatory instruments to its geostrategic goals. This represents a fundamental shift in EU thinking, which previously disconnected issues of regulatory, financial and trade policy from political and security concerns. Commission President Ursula von der Leyen famously announced her

184 A member state can still refer to "vital and stated reasons of national policy" to prevent a qualified majority vote from being taken. However, this would mean the active prevention of EU action and might incur high political costs.

185 R. Alcaro & M. Siddi, 'Differentiation in EU Foreign and Security Policy'.

186 Ibid.

leadership of a geopolitical commission to pursue key strategic interests such as climate protection and digital transformation internationally. This has implications for the EU's trade and regulatory policies, which are explored elsewhere in this report.¹⁸⁷

The traditional CFSP and its diplomatic actors are also affected. The EEAS always had an ambiguous standing, wedged between the more sovereign national diplomatic services and the economically potent Commission. With regard to the political process in Brussels, its strength largely derives from preparing and chairing most of the CFSP working groups and feeding into the work of the HR/VP. It also provides helpful support to EU diplomatic initiatives, such as the Iran nuclear talks, as well as coordinating EU delegations and, to some extent, member-state activities in third countries. However, the EEAS and the HR/VP have very little coordinating power over the influential regulatory and trade-related portfolios of the Commission that increasingly shape the EU's external image, despite the fact that HR/VP is the Vice-President of the Commission in charge of "ensuring the consistency of the Union's external action" (Art. 18 (4) TEU). The office of HR/VP Borrell was even further side-lined in von der Leyen's Commission, because the Vice-Presidents for Climate action and digital transformation as well as the Commission President herself acquired more procedural and hierarchical powers in setting the EU's external agenda.¹⁸⁸

While the EU sharpened its profile in terms of global technological and green transformations, the announcement of the geopolitical Commission gave the false impression that it would also be a stronger player on hard security issues. In fact, the EU is notably absent as a diplomatic actor in many crises in and around Europe. Major diplomatic processes such as the Normandie format on Ukraine and the Libyan peace process set the bigger member states in the driving seat, with only a limited role for joint EU diplomacy. Elsewhere, even the influence of the bigger EU member states is negligible. Russia and Turkey became the key actors in the Syria peace talks and with regard to the recent ceasefire agreement in Nagorno-Karabakh. Given the minor military role of the EU and its member states in these conflicts, EU diplomacy has limited leverage.

187 See Chapter 4 on trade and Chapter 5 on technology in this report.

188 N. Helwig, 'The New EU Leadership: The von der Leyen Commission Focuses on Europe's Geo-economic Power', *FIIA Briefing Paper* 274 (Nov. 2019), <https://www.fiaa.fi/en/publication/the-new-eu-leadership>, accessed 10 Mar. 2021.

3.3. STRATEGIC AUTONOMY AS THE NEW LEITMOTIV

The above analysis of recent challenges and debates concerning the EU as a global actor help to give a clearer picture of what is required from EU diplomacy if it is to live up to the concept of strategic autonomy.

One aspect of strategic autonomy is repeatedly highlighted in the current debate: EU diplomacy should be able to shape the global agenda in line with its interests and values. Despite this rhetoric, it is not a liberalist (or in EU-speak “normative power”¹⁸⁹) project that is measured against the EU’s diplomatic ability to convert authoritarian regimes into liberal democracies. Given its emergence simultaneously with the debate on growing international competition and a focus on independent capacities, strategic autonomy is based on the acceptance rather than the rejection of power politics. It is grounded in the realist notion of “principled pragmatism”, which outlines a value-based foreign policy within the boundaries of the strategic environment. It is less about the ability to *promote* values internationally, and more about the ability to *protect* EU values through European diplomacy.

Thus, there is a clear difference between the US and the European approach to international competition. The Biden administration sees competition with China not only as a structural struggle between a declining hegemon and a rising power, but also as an ideological contest between democracy and authoritarianism. Although concerned about the growing influence of China and the human-rights situation in the country, the EU continues to stress the need for functional cooperation and does not wish to be dragged into a great-power conflict. More concretely, the “Summit for Democracy” pushed by the Biden administration is welcomed as an opportunity to better coordinate like-minded countries and address the – often internal – challenges that democracies are facing, without excluding non-democracies from what is perceived as necessary cooperation on pressing global issues such as climate change.

With little benefit from international competition and lots to lose in terms of security and prosperity, a key measure of success for EU diplomacy will be the extent to which the EU and its member states are able to mitigate the international climate of competition. Towards that end, the EU could try to *contain* rivalry by keeping confrontations within the practices of multilateral cooperation instead of eroding the system: its attempts to reform multilateral organisations is a testament to this approach. Alternatively, it could try to *prevent* other actors from further escalating their competitive strategies. Here it is a question of the extent to which

189 I. Manners, ‘Normative Power Europe: A Contradiction in Terms?’, *Journal of Common Market Studies*, 40/2 (June 2002), 235–258.

Europe could use cooperation with the US administration in the coming years to convince it to take a less confrontational ideological approach and to use multilateral instruments in response to Chinese ambitions.

The perception of the EU as a diplomatic actor increasingly depends on how it can manage its declining internal solidarity and set the course of economic renewal after the Covid-19 crisis.¹⁹⁰ Its success as a diplomatic actor depends on its achievements in other fields, and cannot be separated from its ability to manage external dependency regarding finance, crucial technologies and industries. US extraterritorial sanctions on EU businesses regarding Nord Stream II showed that dependency in other sectors affects EU diplomacy. Developments in health policy and medical innovation have recently assumed importance in EU diplomacy, as Russia and China used the export of their national Covid-19 vaccines to enhance their soft power.¹⁹¹ When the EU does not have its own capacities, or is overly reliant on others actors to implement its policies, its credibility as an autonomous diplomatic actor is open to question.

Last, but not least, given all the shortcomings listed above and the variance of strategic cultures in the EU, strategic autonomy will undoubtedly remain a contested and incomplete project in the future. States with a close transatlantic security link are prone to caution regarding strategic autonomy from the US, also in diplomatic matters. Member states with a lot to lose regarding trade and investment ties with China will be cautious about engaging in forceful criticism of the country's human-rights record. Strategic autonomy should be considered less of an end goal and more as a leitmotiv of EU diplomacy. During its history as a global actor the EU has promoted recurring themes, such as the "comprehensive approach" and "normative power". What is common to them is that they arose from a certain shortcoming and reflected an often-unfulfilled aspiration. Nevertheless, they served a purpose in guiding EU policymakers in a joint direction and giving structure and meaning to an otherwise frequently fragmented foreign-policy strategy. Strategic autonomy is the leitmotiv of the EU in the current era of global competition, and will probably persist until a possible, although in the short term not very likely, easing of global tensions. At best, it could offer a return to more rule-based and cooperative coexistence among states.

190 N. Tocci, 'European Strategic Autonomy: What It Is, Why We Need It, How to Achieve It', IAI - *Istituto Affari Internazionali* (26 February 2021), <https://www.iai.it/en/publicazioni/european-strategic-autonomy-what-it-is-why-we-need-it-how-to-achieve-it>, accessed 11 March 2021.

191 A.-S. Chassany, 'The west should pay attention to Russia and China's vaccine diplomacy', *Financial Times* (10 February 2021), <https://www.ft.com/content/c20b92f0-d670-47ea-a217-add1d6ef2fbd>, accessed 11 March 2021.

/4

4 THREADING THE TRADE NEEDLE ON OPEN STRATEGIC AUTONOMY

Tobias Gehrke

SUMMARY

- A new EU trade strategy promises to advance *open strategic autonomy*, that is to balance the benefits of economic interdependence with growing demands to manage Europe's exposure to the risks it entails.
- Although the EU Commission remains nominally wedded to economic principles of openness, growing geo-economic competition has put pressure on the EU to develop autonomous policies to address (i) economic distortion, (ii) economic coercion, (iii) values and sustainability and (iv) critical infrastructure & supply.
- Open strategic autonomy remains unspecific about how to coordinate and address potentially conflicting objectives and to square autonomy and interdependence. EU economic relations with China and the US are emblematic of the overall ambiguity of pursuing two opposing objectives at the same time. Rather than magically resolving tensions, open strategic autonomy should help Europe to identify multiple interests, adjudicate trade-offs and generate internal support for a clear set of priorities.

RECOMMENDATIONS

- Define what are critical assets and processes and how they could be disrupted: both the Commission and member states must develop

holistic assessments of geo-economic risks to economic and security interests. Come with a scalpel, not a sword.

- More data, more capacity: it is necessary to gather data about supply dependencies and about the application/implications of innovation policies and emerging technologies to ensure that future vulnerabilities at the economics-technology-security nexus can be detected. Allow for new governance models to engage more structurally in these issues.
- A global geo-economic agenda: autonomous defences are necessary, but the EU must develop a global agenda that addresses technological, environmental, security and economic concerns simultaneously. The EU Connectivity Strategy could be a good framework.

4.1. AUTONOMY ANTICS

“[A]ccess to the EU’s large market [...] will no longer be sold off. [...] The European Union wants to be stronger, more autonomous, and firmer, to defend a fairer world.” This was European Council President Charles Michel’s declaration at the United Nations General Assembly in September 2020.¹⁹² According to EU High Representative Josep Borrell, “Today we are in a situation where economic interdependence is becoming politically very conflictual”.¹⁹³

After decades of signalling the virtuous role of the EU at the helm of an open and free global economy, some observers were concerned about the more ambivalent words European leaders were now extoling. “Here comes European protectionism”, *Politico Europe* chided.¹⁹⁴ “The Siren song of strategic autonomy,” warned economist Daniel Gros, “could easily take an economic-nationalist turn.”¹⁹⁵ Michel nevertheless asserted

¹⁹² European Council, *A stronger and more autonomous European Union powering a fairer world – Speech by President Charles Michel at the UN General Assembly*, 25 September 2020, <https://www.consilium.europa.eu/en/press/press-releases/2020/09/25/a-stronger-and-more-autonomous-european-union-powering-a-fairer-world-speech-by-president-charles-michel-at-the-un-general-assembly/>, accessed 8 March 2021.

¹⁹³ European External Action Service, *Why European strategic autonomy matters*, HR/VP Blog (3 December 2020), https://eeas.europa.eu/headquarters/headquarters-homepage/89865/node/89865_en, accessed 8 March 2021.

¹⁹⁴ von der Burchard, H., Barigazzi, Jacopo., & Orschakoff, Kalina., ‘Here comes European protectionism’, *Politico Europe* (17 December 2019), <https://www.politico.eu/article/european-protectionism-trade-technology-defense-environment/>, accessed 8 March 2021.

¹⁹⁵ Gros, D., ‘The Siren Song of Strategic Autonomy’, *Project Syndicate* (7 October 2019), <https://www.project-syndicate.org/commentary/risk-of-european-economic-nationalism-by-daniel-gros-2019-11?barrier=accesspaylog>, accessed 8 March 2021.

that “autonomy is not protectionism; it is the opposite”¹⁹⁶ – a statement that is symptomatic of the cryptic confusion in which *strategic autonomy* is cloaked. “Autonomy doesn’t mean autarchy. We don’t want to be protectionists, but we have to protect ourselves”: Borrell added to the confusion.¹⁹⁷

The notion of autonomy was met with suspicion across the Rue de la Loi, in the Commission’s Directorate General for Trade (DG Trade). Aspiring for autonomy in a highly globalised economy, the service warned, was neither viable nor desirable for an export-driven economy such as the EU’s. Rescinding the term outright was no longer possible, however, after it featured prominently in speeches under the new von der Leyen presidency, so the Commission’s liberal agents began to entertain a slightly different notion: *open strategic autonomy*.

Open strategic autonomy, DG Trade professed, is about the best of both worlds: “reaping the benefits of openness for our businesses, workers and consumers, while protecting them from unfair practices and building up our resilience to be better equipped for future challenges.”¹⁹⁸ Few seemed enthusiastic about this new creature. The term was over-ambitious in offering something for everyone and was ridiculed by Alan Beattie of the Financial Times: “‘open’ for the free-traders... ‘strategic’ for those who think it would be cool to be a superpower..., ‘autonomy’ for some of the more protectionist member states.”¹⁹⁹

Nevertheless, in February DG Trade presented a new trade strategy²⁰⁰ aimed, once again, at finding a golden balance between opportunity and risk of economic interdependence. This chapter briefly considers the geo-economic drivers that, to some extent, feed worries about autonomy in economic affairs – and about whether the EU is able to thread the trade needle between openness and autonomy.

196 European Council, *Recovery Plan: powering Europe’s strategic autonomy – Speech by President Charles Michel at the Brussels Economic Forum*, 8 September 2020, <https://www.consilium.europa.eu/en/press/press-releases/2020/09/08/recovery-plan-powering-europe-s-strategic-autonomy-speech-by-president-charles-michel-at-the-brussels-economic-forum/>, accessed 8 March 2021.

197 European Council on Foreign Relations, *Sovereign Europe, hostile world: In conversation with HRVP Josep Borrell*, 21 December 2020

198 European Commission, *A renewed trade policy for a stronger Europe Consultation Note*, 16 June 2020, https://trade.ec.europa.eu/doclib/docs/2020/june/tradoc_158779.pdf, accessed 8 March 2021.

199 Beattie, A., ‘Will the US block a new WTO director-general?’ *Financial Times Trade Secrets*, 1 June 2020, <https://www.ft.com/content/0a177197-68e2-4b25-80c6-3901d63516a9>, accessed on 8 March 2021.

200 European Commission, *Trade Policy Review – An Open, Sustainable and Assertive Trade Policy*, Brussels, 18 February 2021 COM(2021) 66 final, https://trade.ec.europa.eu/doclib/docs/2021/february/tradoc_159438.pdf, accessed 8 March 2021.

4.2. A GEO-ECONOMIC PLAYBOOK

The seemingly idyllic world of international trade is beleaguered. Previously, a liberal credo allowed international trade and investment to structure ‘*itself*’ following, by-and-large, a logic of market-based efficiency driven by the decisions of private actors. Nowadays, as strategic competition branches out, Beijing, Washington and others look for ways to control, shape, or manipulate the economic links that bind us all to the architecture of globalisation for national benefit. This national benefit, which broadly refers to national security and economic success, is becoming a dominant lens through which policymakers assess economic policy.²⁰¹

The geo-economic playbook for acting on these inclinations is diverse. Economic largesse or concessions to third countries is one such statecraft. Writing rules and standards in support of one’s economic assets or values – the game within which other states have to operate – is another. However, the most conspicuous expression takes the form of *economic coercion*. The US Dollar’s status as the global reserve currency, for instance, makes use of the currency by foreigners vulnerable to broad financial sanctions by US authorities – and Washington has become more trigger-happy. US coercive targeting of technology-supply networks feeding China’s commercial and military manufacturers has been even more severe. Global trade networks for semiconductors, telecoms equipment and other critical technologies have already been severely disrupted by far-reaching US sanctions.

The *secondary* effect of US sanctions poses serious threats to Europe in terms of cutting off anyone, even non-American firms, from US financial markets if they do business with the sanction target or use American parts. EU firms active in Iran, Cuba and the controversial Nord Stream II pipeline project, as well as technology firms in Huawei’s supply chain, are targets of US secondary sanctions. Although one might hope that the cruder trade tariffs of the Trump era are a thing of the past, questions concerning digital taxes or environmental laws, government subsidies and the trade and regulation of emerging technologies remain burning issues with more coercive potential.

Beijing’s economic coercion has also increased significantly. The Australian Strategic Policy Institute documented 152 coercive measures

201 Roberts, A., Choer Moraes, H. & Ferguson, V., ‘Toward a Geoeconomic Order’, *Journal of International Economic Law*, 22,4 (2020)

against foreign governments and companies between 2010 and 2020.²⁰² The name of the Dutch representative office in Taipei, Germany's and Sweden's national security decision on 5G and the Taiwan travel itinerary of the Chairman of the Czech Senate all drew Beijing's economic ire. In response to the US coercive campaign, China has further increased its own legal means to restrict technology, data and resource flows should it consider its "national security" at stake.

Geo-economics is not only about coercion, however. For example, China's industrial and technological ambitions, engraved in documents such as the (by now infamous) Made in China 2025 plan and the 14th Five-Year Plan, purport to break China's dependence on critical imports for strategic technology sectors of the future with massive state subsidies and unfair economic practices, which have seen frontier technologies change hands (sometimes also illegally through theft or espionage).²⁰³ This brand of *techno-nationalism* prohibits any semblance of fair competition in sectors of critical importance as far as future economic, political and social fortunes are concerned.

4.3. GENEVA UNDER SIEGE

Competition for national economic and political advantage is not abnormal. The worst excesses have been tamed in the past, largely owing to the multilateral and rules-based economic order built to do exactly that (and underwritten by the hegemon). Common trade rules in Geneva, the home of the World Trade Organisation (WTO), promised the gradual convergence of global economies, and a dispute-settlement function allowed trade quarrels to be settled without poisoning the diplomacy.

These foundations look shaky nowadays. For one thing, economic power is far more widely distributed than it was when much of the WTO rulebook was agreed in 1995. China's striding state capitalist economic system has withstood the pull of convergence towards a liberal market economy that many deemed irresistible. With its current, out-dated design, the WTO suffers from several serious shortcomings.

WTO rules on government subsidies, for example, are inadequate in terms of capturing the many, often opaque, ways in which China supports its industry. Rules have also proved inadequate for curbing Chinese

²⁰² Hanson, F., Currey, E. & Beattie, T., 'The Chinese Communist Party's coercive diplomacy', *Australian Strategic Policy Institute*, 1 September 2020, <https://www.aspi.org.au/report/chinese-communist-partys-coercive-diplomacy>, accessed 8 March 2021.

²⁰³ European Chamber of Commerce in China, 'European Business In China: Business Confidence Survey 2020', (2020), p. 43, <http://www.eurochamber.com.cn/en/publications-business-confidence-survey>, accessed 8 March 2021.

practices of forcing foreign companies to transfer their most precious technologies and know-how. A multilateral compromise on how to govern global trade in data, services and investments also appears to be a forlorn hope. There is also the question of who can declare itself to be a “developing country” (and thereby enjoy laxer rules), and the insufficient monitoring of adherence to the rules. Finally, seething disagreement over the supposed remit of the WTO Appellate Body finally came to the surface in 2019, when the US blocked the appointment of new members to the panel and effectively paralysed the dispute-settlement function.

The EU managed to find an interim solution to the paralysed appeal process by co-sponsoring the so-called Multi-party interim appeal arbitration arrangement (MPIA).²⁰⁴ With a view to modernising the WTO rulebook, Brussels, Washington and Tokyo convened a Trilateral Meeting to build a compromise on the necessary reforms as a first step. The parties achieved some success, but China, the elephant in the room, is not even part of the discussion yet and is unlikely to accept a list of demands.

Optimists put their trust in Biden to repudiate his predecessor’s trade policy, but even they must concede that quick victory at the WTO is unlikely. Even if the above-mentioned shortcomings were to be remedied quickly, the institution is ill equipped to restrain the entire scope of unfolding geo-economic competition. Reform can thus only be one part of a bigger strategy.

4.4. DEFENSIVE BASKETS

How should the EU react to these geo-economic shifts? Let us not throw the baby out with the bath water, the new trade strategy seems to caution. “Openness and engagement are a strategic choice” and the EU’s broad network of trade agreements helps it to “fulfil its geopolitical ambitions globally”. In the words of Director-General of DG Trade Sabine Weyand, “Open strategic autonomy is a mindset which means we act together with others, multilaterally, or bilaterally, wherever we *can*. And we act autonomously wherever we *must*.”²⁰⁵ This sounds good – but the strategy does not specify where “*can*” ends and where “*must*” begins.

²⁰⁴ European Council, *Council approves a multi-party interim appeal arbitration arrangement to solve trade disputes*, Press Release, 15 April 2020, <https://www.consilium.europa.eu/en/press/press-releases/2020/04/15/council-approves-a-multi-party-interim-appeal-arbitration-arrangement-to-solve-trade-disputes/>, accessed 8 March 2021.

²⁰⁵ Trade Talks Podcast, *The EU’s new trade policy, with Sabine Weyand of DG Trade*, Episode 148, 17 January 2021, <https://www.tradetalkspodcast.com/podcast/148-the-eus-new-trade-policy-with-sabine-weyand-of-dg-trade/>, accessed 8 March 2021.

Despite this unresolved ambiguity, the EU has been in the business of building up its autonomous and defensive toolbox for some time. To better understand the scope of these measures, which directly or indirectly intersect with EU trade and investment policy, I have grouped them in four policy baskets: (1) *tackle economic distortions*; (2) *defend against economic coercion*; (3) *link values and sustainability*; (4) *critical infrastructure & supply resilience*.

Tackle economic distortions	Defend against economic coercion	Link values and sustainability	Critical infrastructure & supply resilience
Trade Defence Instruments	Blocking Statute	CBAM	Investment Screening
Foreign Subsidy Instrument	INSTEX	Due Diligence	5G Toolbox
International Procurement Instrument	Anti-coercion Mechanism	Human Rights Sanctions	Export Controls
Enforcement Regulation	Financial Resilience		Supply Security
Chief Trade Enforcement Offer			Industrial Tools

The first basket: tackle economic distortions

This concerns the damage suffered by the EU economy and its companies because of asymmetries in market openings (reciprocity), or from unfair and unbalanced trade practices (level playing field).

Brussels reformed its trade defence instruments (TDIs) in 2017 to protect the EU from subsidised Chinese products “dumped” on the single market. Beijing’s argument that its WTO accession terms granted it automatic emancipation from a *non-market* to a *market economy* in 2016, despite far from representing one, complicated EU defences. The TDI reform, which the WTO found to be lawful,²⁰⁶ retained the EU’s ability to defend its market against these practices. However, the instruments were unable to tackle distortions in the single market caused by companies subsidised by foreign governments. To fill this defensive gap, the Commission is asking for powers to scrutinise the single market and to intervene if necessary, such as by blocking subsidised firms from acquiring others or excluding them from public procurement.²⁰⁷

²⁰⁶ World Trade Organisation, ‘DS471: United States – Certain Methodologies and their Application to Anti-Dumping Proceedings Involving China’, 13 February 2014, https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds471_e.htm, accessed 8 March 2021.

²⁰⁷ European Commission, ‘White Paper on levelling the playing field as regards foreign subsidies’, *Brussels, 17 June 2020 COM(2020) 253 final*, https://ec.europa.eu/competition/international/overview/foreign_subsidies_white_paper.pdf, accessed 8 March 2021.

With a view to defending EU trade rights against another country even if the dispute settlement at the WTO (or an FTA) were blocked and the country refused to join the alternative MPIA mechanism, the EU also equipped itself with a tool to enforce its claims unilaterally. The reformed Enforcement Regulation, active since February 2021, allows for defensive measures such as levying tariffs or restricting the application of intellectual property rights.²⁰⁸ Meanwhile the Chief Trade Enforcement Officer, a new position created in 2020, is tasked to make sure that trade partners meet their FTA obligations, including market opening and sustainability commitments, and enforce them if necessary.²⁰⁹

In areas in which market opening remains highly unbalanced and international commitments have produced few results, such as government procurement and the WTO's Government Procurement Agreement, more voices are demanding increasing EU leverage by way of adopting the International Procurement Instrument (IPI).²¹⁰ If it is adopted (almost a decade after it was first proposed), it could push third countries to grant EU firms reciprocal procurement market access, otherwise their single market access could be limited. However, IPI progress has slowed under the German Presidency, with some observers claiming that Berlin's blockade was motivated by "doing China a favour."²¹¹

The second basket: defend against economic coercion

In response to US secondary sanctions on Cuba and Iran, the EU dusted off its 1996 Blocking Statute, a law that prohibits Europeans from complying with foreign sanctions and allows the recovery of financial damage. However, its practical effect was almost zero. EU firms whose businesses are, in reality, tied to a US-dominated financial world tend pre-emptively to comply with American sanctions.

In another attempt to bypass US sanctions, France, Germany and the UK created the Instrument in Support of Trade Exchanges (INSTEX) in 2019, since when six more countries have joined. The aim was to ensure the continuation of trade between Europe and Iran and thus meet the

208 European Union, 'Regulation 2021/167 amending Regulation (EU) No 654/2014 concerning the exercise of the Union's rights for the application and enforcement of international trade rules', Brussels (12 February 2021)

209 European Commission, 'Chief Trade Enforcement Officer', 13 February 2021, <https://ec.europa.eu/trade/trade-policy-and-you/contacts/chief-trade-enforcement-officer/>, accessed 8 March 2021.

210 European Commission, 'Proposal for a Regulation of the European Parliament and the Council on the access of third-country goods and services to the Union's internal market in public procurement and procedures supporting negotiations on access of Union goods and services to the public procurement markets of third countries', Brussels (21 March 2012) *COM(2012) 124 final*

211 Remarks by MEP Reinhard Bütikofer at CEPS webinar 'Understanding the new EU-China investment agreement', 27 January 2021

European side of the bargain regarding the Joint Comprehensive Plan of Action. However, its usefulness remains questionable: its first – and only – transaction to date was the export of medical goods, a category that is exempt from US sanctions in any case. INSTEX suffers from a lack of political support, not least because the US signalled it might impose sanctions itself should non-humanitarian trade be facilitated.

The far-and-wide reach of US sanctions, coupled with a growing concern over China’s coercive potential, led to a joint declaration by EU institutions in February to “deter and counteract coercive actions by third countries”²¹² by developing a novel anti-coercion instrument. The Commission intends to equip itself with the powers to take “prompt, coordinated trade, investment or other policy measures” to deter and retaliate, if necessary.²¹³ Additionally, it vowed to increase financial resilience by strengthening the role of the Euro in international trade and wean itself off “excessive dependence on the dollar,” as High Representative Borrell declared,²¹⁴ and to ensure more “rapid, robust and effective implementation and enforcement of EU sanctions.”²¹⁵

The third basket: link values and sustainability

A stronger promotional link between EU values and sustainability has been front and centre in the new trade strategy (“sustainability” ranks among the most widely used terms in the document). Although these issues have been incrementally included in EU trade agreements in recent years, the Commission has now vowed to advance them autonomously.

A carbon border adjustment mechanism (CBAM), a proposed component of the EU Green Deal, could place a carbon price (or tariff) on imports of certain goods from outside the EU,²¹⁶ although legal, economic and political ambiguities remain unresolved. The potentially significant trade disruptions inherent in some CBAM proposals and retaliation by other states have aroused strong opposition. The Commission also stated that

²¹² Official Journal of the European Union, ‘Joint Declaration of the Commission, the Council and the European Parliament on an instrument to deter and counteract coercive actions by third countries’, 2021/C 49/01

²¹³ European Commission, ‘Inception impact assessment: Instrument to deter and counteract coercive actions by third countries’, 17 February 2021, <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12803-Instrument-to-deter-and-counteract-coercive-actions-by-third-countries->, accessed 8 March 2021.

²¹⁴ European External Action Service, ‘HR/VP blog: Taking action to protect our economic sovereignty’, 25 January 2021, https://eeas.europa.eu/headquarters/headquarters-homepage/91988/taking-action-protect-our-economic-sovereignty_en, accessed 8 March 2021.

²¹⁵ European Commission, ‘The European economic and financial system: fostering openness, strength and resilience’, 19 January 2021, *COM(2021) 32 final*

²¹⁶ European Parliament, ‘Towards a WTO-compatible EU carbon border adjustment mechanism’, *Legislative Observatory 2020/2043(INI)*

it would table mandatory due-diligence requirements on firms' supply chains. Such legislation could make EU companies liable under EU trade law to human-rights and environmental violations in their global supply networks and enable the Commission to take action by blocking such imports, for example.²¹⁷ Depending on how broad such an instrument would be, it could have significant implications regarding the EU's ability to enforce sustainability interests.

Meanwhile, a new human-rights sanctions regime,²¹⁸ adopted in late 2020, promises to make EU sanctions against individual abusers more flexible and targeted, irrespective of the target's country of origin. However, sanctions continue to require unanimity (and thus entail horse-trading) in the Council, with no specific criteria concerning when they should be employed, or how they relate to other sustainability issues such as climate cooperation (recall China).

The fourth basket: critical infrastructure and supply resilience

The most significant instrument in this basket is the adoption of an EU investment-screening regulation (in force since October 2020), which followed on the heels of China's state-directed investment campaign targeting European advanced technology firms. The regulation promises to better monitor and, if necessary, intervene in harmful foreign investments. It is true that the Commission can only raise concerns with capitals, which have adopted screening mechanisms of varying scope and design (some countries have yet to introduce one)²¹⁹, but the regulation is responsible for kickstarting a much-needed debate on the security implications of economic exchanges more broadly. The Commission has since called on member states to be "vigilant and use all tools available at Union and national level to avoid that the current crisis leads to a loss of critical assets and technology."²²⁰ Similarly, the EU compromise to tackle the vulnerabilities of the 5G network infrastructure – the 5G toolbox – has

217 Zamfir, I., 'Towards a mandatory EU system of due diligence for supply chains', *European Parliamentary Research Service* (October 2020)

218 European Council, 'EU adopts a global human rights sanctions regime', *Press Release* (7 December 2020), <https://www.consilium.europa.eu/en/press/press-releases/2020/12/07/eu-adopts-a-global-human-rights-sanctions-regime/>, accessed 8 March 2021.

219 European Commission, 'List of screening mechanisms notified by Member States', *Last update: 16 February 2021*, https://trade.ec.europa.eu/doclib/docs/2019/june/tradoc_157946.pdf, accessed 8 March 2021.

220 European Commission, 'Coordinated economic response to the COVID-19 Outbreak', *Brussels (13 March 2020) COM(2020) 112 final*

not prompted a uniform EU response, but it has still contributed to risk awareness and mitigation action in member states.²²¹

The EU also achieved a breakthrough in reforming the EU dual-use export-control regime. Its main focus – cyber-surveillance technology exports and their potential human-rights implications – is a significant but overall narrow framing of the inherent risks. No list of emerging technologies akin to those developing in the US was agreed, nor was the Commission granted autonomous control beyond cybersurveillance technology.²²² Nonetheless, a coordination and monitoring mechanism for national technology controls, including emerging technologies, will be established, and coordination with international partners is being given prominence.

Finally, supply-chain resilience, which runs through all the baskets, has moved into the public spotlight during Covid-19 pandemic, not least in response to powers coercively leveraging their position. Some EU officials have stressed the need for *autonomous* action, such as strengthening EU industrial and technological capacity to decrease foreign dependence. Commissioner Thierry Breton, German economy Minister Peter Altmeier and French President Emmanuel Macron, among others, have introduced plans to give EU governments and the Commission more active roles in supporting the development of strategic value chains in Europe. Hydrogen energy, batteries, cloud computing and semiconductor industries have all been cast in a “critical” light to advance Europe’s green and digital ambitions, and have been fashioned with industrial plans under the Important Projects of Common European Interest (IPCEI) framework, for example.²²³

4.5. A GEO-ECONOMIC REVOLUTION?

With all these defensive and autonomous powers up its sleeve or in the pipeline, the EU looks to be tipping the scale in its trade policy. Has *open strategic autonomy* turned a corner on its trade agenda of openness, liberalisation and international cooperation? Does the autonomous side of the equation outweigh the openness side?

221 NIS Cooperation Group, ‘Report on Member States’ Progress in Implementing the EU Toolbox on 5G Cybersecurity’, (24 July 2020), <https://ec.europa.eu/digital-single-market/en/news/report-member-states-progress-implementing-eu-toolbox-5g-cybersecurity>, accessed 8 March 2021.

222 European Commission, ‘Export Control Forum 2020’, (11 December 2020), <https://webcast.ec.europa.eu/export-control-forum-2020>, accessed 8 March 2021.

223 These include, inter alia: (i) Clean, connected and autonomous vehicles; (ii) Smart Health; (iii) Low CO₂ emissions; (iv) Hydrogen technologies and systems; (v) Industrial Internet of Things; (vi) Cybersecurity

The answer is, “not really”. DG Trade at large remains staunchly wedded to its liberal rationale. “We need to look at how to build resilient supply chains, based on diversification,” according to former Trade Commissioner Phil Hogan.²²⁴ Diversification means, first and foremost, more market liberalisation and opening, not less. The trade strategy echoes this view repeatedly: resilience is best served by a “stable, rules-based trading framework, opening up new markets to diversify sources of supply, and developing cooperative frameworks for fair and equitable access to critical supplies.”

This hardly diverges from the Commission’s long-cherished beliefs. As the strategy makes clear, multilateral reform of the WTO, not unilateral action, is the best way to achieve EU trade goals. Climate and trade policy, digital taxation and anti-subsidy action should all be coordinated and regulated multilaterally. It also reiterates in familiar terms that it is the trade agreements, not defensive barriers, that provide the EU with “platforms for enhanced cooperation pursuing our values and interests”. Dialogue and exchange with the US, China and other countries are “in support of the EU’s geopolitical interests.” What these “geopolitical interests” and values are, exactly, and how they rank in importance should they conflict, is nevertheless unclear. It is the most difficult aspect of any strategy, admittedly – but it is also the most important.

Consider, for instance, the consensus on the EU-China Comprehensive Agreement on Investment (CAI) achieved, in principle, in the twilight of 2020. The deal has generated significant scorn from observers and, notably, from EU parliamentarians. Grievances include the weak, non-conditional link to promoting human and labour rights in China, the minor economic concessions (on market access and the level playing field) granted, the forceful push from Berlin and Paris amid changing European public opinion on China, and the strategic blunder of concluding the deal days before an eager, pro-European Biden administration took charge. Would transatlantic coordination and joint pressure against Chinese practices not ultimately achieve more concessions – and thus effectively *more* autonomy?

The Commission meanwhile cast the deal as a fundamental expression of open strategic autonomy: engagement in economic and non-economic concerns, although no panacea, remains fundamental if the EU is to have influence, and for levelling the playing field. Should European interests and values be left unsatisfied by the deal, the autonomous policies under development could and would flank any EU strategy with China.

Naturally, there are trade-offs. Rather than magically resolving these multiple tensions, open strategic autonomy should guide Europe in terms

²²⁴ European Commission, ‘Introductory statement by Commissioner Phil Hogan at Informal meeting of EU Trade Ministers’, Brussels (16 April 2020), https://ec.europa.eu/commission/commissioners/2019-2024/hogan/announcements/introductory-statement-commissioner-phil-hogan-informal-meeting-eu-trade-ministers_en, accessed 8 March 2021.

of identifying multiple interests, negotiating trade-offs and generating internal support for a clear set of priorities. Tensions must be expected and tolerated, and certain costs must be accepted whereas others may be rejected. Rather than trying to reconcile competing interests along the *openness-autonomy* spectrum, the EU should attempt to balance them. Engagement and cooperation with Beijing remain critical – but neither can be an end in itself. Where are Europe’s red lines? When does it signal its readiness to walk away?

The instruments, both the binding CAI and the autonomous defences, are the right ones. How they should be used is another question. Where does cooperation end, where does competition start and how do they reinforce each other? These are the kind of strategic questions that matter if open strategic autonomy is to become a useful framework for the EU’s geo-economic strategy.

4.6. MOVING FORWARD

First, the EU must define what is critical and how it could be disrupted. So far, a potpourri of adjectives (*critical, strategic, key*) and nouns (*assets, infrastructure, technology, input*) are connected almost at random across policy documents. The 2020 New Industrial Strategy, for example, defines strategic autonomy as “reducing dependence on others for things we need the most” such as “critical materials and technologies, food, infrastructure, security and other strategic areas.”²²⁵ Such broad strokes do not suffice and risk becoming a gateway for protection-seeking lobbyists.

What are the technologies, infrastructures and processes that are critical to European security, including its future innovation and competitiveness? To what vulnerabilities are they susceptible? The Commission is currently investigating Europe’s “strategic dependencies.” Single-source dependence is clearly one risk, but a more holistic assessment is necessary to capture the whole spectrum of geo-economic risks (e.g., the industrial policies of third countries, technology transfers, espionage, ownership, technical standards and technology controls). Member states also need to conduct such assessments. They could build on a Commission proposal published in December,²²⁶ in which capitals are asked to (re-)define their national “critical entities,” from which entities with “European

²²⁵ European Commission, ‘A New Industrial Strategy for Europe’, *Brussels (10 March 2020) COM(2020) 102 final*

²²⁶ European Commission, ‘Proposal for a Directive of the European Parliament and the Council on the resilience of critical entities’, *Brussels (16 December 2020) COM(2020) 829 final*

significance” can then be deducted. Most importantly, defining what is critical will require a scalpel, not a sword.

Second, Europe must gather data and build governance capacity to address vulnerabilities. In addressing these challenges, it is of critical importance to acquire independent data about the scale and intensity of supply dependency, for example, and also about the security application/implications of innovation policies and emerging technologies. Think tanks and academics have begun developing such data sets.²²⁷ The Commission’s 2020 study and action plan on critical mineral resources²²⁸ also offers objective data on supply vulnerabilities, and goes on to recommend a mix of *open* (e.g., diversifying supplies) and *autonomous* (e.g., expanding EU industrial capacity) measures. This two-pronged approach should offer a promising template for other trade and investment issues, especially with regard to emerging technologies.

Geo-economic challenges stretch far beyond the Commission’s prerogative on trade policy into emerging technologies and national security, and unfortunately the foundations of EU governance are far too outdated to address this convergence. There are no quick wins here, because treaty change is not on the cards. Nonetheless, some institutional steps have to be taken to allow for relevant expertise to develop on the economics-technology-security level. One welcome step would be to set up an Economic Security Council, or a dedicated Council Working Group in which Member States and the Commission would be able to engage in geo-economic issues on a more structural level. The recent announcement of an EU Observatory of Critical Technologies is a promising start, although it should be enabled to coordinate and cooperate with international partners on the joint development of standards, for example.

Third, the EU must develop a truly global geo-economic agenda. The trade strategy rightly underlines international cooperation as fundamental to open strategic autonomy, but it lacks inspiration in terms of how such cooperation could strengthen resilience to geo-economic shocks and push sustainable economy beyond the evergreen referral to “diversification.” Supply chain security, green deals and the regulation of critical technology are among the major concerns in many global capitals. EU trade policy will have to aspire to more than market opening FTAs, reviving the WTO and adding some unilateral restrictions. Technology,

227 See for example: Fiott, D. & Theodosopoulos, V., ‘Sovereignty over Supply? The EU’s ability to manage critical dependences while engaging with the world’, *EU Institute for Security Studies* (21 December 2020); Zenglein, M.J., ‘Mapping and recalibrating Europe’s economic interdependence with China’, *Merics Report* (17 November 2020); Kratz, A., Mingey, M. & Rosen, D.H., ‘Exploring a “Green List” for EU-China Economic Relations’, Report prepared by the Rhodium Group for the Bertelsmann Stiftung (29 September 2020)

228 European Commission, ‘Critical Raw Materials Resilience: Charting a Path towards greater Security and Sustainability’, *Brussels* (3 September 2020) COM(2020) 474 final

environmental, security and economic matters must be considered as a whole – in domestic as much as in foreign policy.

The Commission's recent proposal to Washington to set up a Transatlantic Trade and Technology Council is commendable, but the EU must develop a global agenda that addresses such concerns. The EU's 2018 Connectivity Strategy could provide such a framework for a global geo-economic agenda. Going beyond trade integration it could, for example, develop secure supply partnerships and resiliency standards as well as rules to eradicate subsidies harmful to the climate; it could lay the groundwork for digital and technology governance norms including export controls and investment screening but also value-guided rules; it could introduce principles for R&D cooperation; and it could streamline financial instruments for green and digital investments. It could also align closely with the geostrategic ambitions of European *Indo-Pacific* or *Western Balkan* strategies. However, lacking political support from the Commission and from member states, the document is doomed to obscurity, deprived of a strategic sensor. It is time to change that.

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5 PRINCIPLED BIG TECH: EUROPEAN PURSUIT OF TECHNOLOGICAL AUTONOMY

André Ken Jakobsson & Marcel Stolz

SUMMARY

- The European Union is pursuing technological autonomy from a position of relative weakness given the scarcity of European Big Tech companies, while American and Chinese giants occupy critical network nodes. Companies are able to leverage these nodes politically through ‘weaponised interdependence’.
- This chapter argues that the answer to this situation is sought through the concept of ‘Principled Big Tech’. The EU attempts to advance its own knowledge and industrial base while actively developing and using disruptive technologies in line with liberal political values.
- Implementing Chinese 5G technology poses a challenge for critical national infrastructure functions. The securitisation and ongoing decoupling of global supply chains in sensitive technologies is adding to the pressure for European cooperation on strategic assets.
- Leading EU member states, including France and Germany, have not yet found a coordinated agreement on action for advanced technologies such as Artificial Intelligence in order to ensure collaborative efforts.

RECOMMENDATIONS

- The EU should enhance its strategic technological capacities and safeguard past and future technological advancements by

streamlining national guidelines on critical assets (technologies, knowledge and data).

- The EU should intensify investment screening and export controls in order to minimise vulnerabilities to weaponised interdependence.
- The EU should maintain and expand its technical knowledge capacity by increasing research funding; collaboration among leading research institutions and industry leaders in and beyond Europe under the ethical framework of Principled Big Tech should be a key focus of EU and national research funding.
- Developing safe, secure and open standards and working towards economic diversification through modular and open designs, such as openRAN for telecommunications, should be identified as key elements of European strategic autonomy by the European Commission.
- The EU and its member states should allocate funds to multilateral standardisation bodies in order to reduce economic pressures related to vendor lock-in and dependence on foreign suppliers.

INTRODUCTION

Strategic dependencies in the field of advanced technology have forced European states to rethink the balance between national security and a globalised economy. This situation reflects European concerns over American abandonment, Russian aggression and Chinese assertiveness, and has ultimately led to the pursuit of strategic autonomy through technological autonomy. While the debate on strategic autonomy has a long pedigree in the military domain²²⁹, it has expanded into a multi-domain deliberation in parallel with globalised trade,²³⁰ facilitating an emerging multi-order world with inherent and growing tensions. Innovation, production, protection, and security of supply of advanced technology have become a highly competitive and contested pursuit as great-power competition is intensifying.

Global external dependencies have never been more entrenched than in the current tech sector.²³¹ The inevitable progression towards digitised

229 See N. Koenig, 'The EU as an autonomous defence actor', in N. Helwig, ed., *The EU's ambition for Strategic Autonomy: early lessons and the way forward*, (Helsinki: Finnish Institute of International Affairs)

230 See T. Gehrke, 'EU Strategic Autonomy in Trade and Investment policy', in N. Helwig, ed., *The EU's ambition for Strategic Autonomy: early lessons and the way forward*, (Helsinki: Finnish Institute of International Affairs)

231 J. Rogers, A. Foxall, M. Henderson, S. Armstrong, *Breaking the China supply chain: how the 'five eyes' can decouple from strategic dependency*, (London: The Henry Jackson Society, May 2020), <https://henryjacksonsociety.org/wp-content/uploads/2020/05/Breaking-the-China-Chain.pdf>, accessed 26 Feb. 2021

lives has inserted companies and the advanced technologies of foreign states directly into the everyday operations of critical sectors all over Europe. In response, the EU has come to view external influence and dependencies as a national security threat and is seeking to reclaim control over key critical technologies and infrastructures.²³² This is notably pursued in a principled way true to European values, attempting to place the EU as a global norm entrepreneur in disruptive and emerging tech – motivated in particular by China’s rise and the risks posed by the implementation of China’s *Made in China 2025* plan.

This chapter captures these EU aspirations within the concept of Principled Big Tech. It identifies the main drivers for the pursuit of European technological autonomy, situates vulnerabilities and threats within the dynamics of weaponised interdependence, analyses the critical case of implementation of next-generation wireless 5G technology and explores possibilities and pitfalls for European tech cooperation through the Franco-German debate on Artificial Intelligence. The chapter concludes by presenting policy perspectives and recommendations for *European Principled Big Tech*.

EUROPEAN VULNERABILITIES IN THE ADVANCED TECH SECTOR

The new security environment of great power competition²³³ via advanced technology has come to dominate developments in security policies, business decisions and global knowledge flows. With technology colonising every aspect of the civilian sphere, it is impossible to contain this tech race within the realm of strategic competition and diplomatic affairs. One prominent example is the US ‘Huawei ban’ from 2019, which forced Google to withdraw its cooperation with Huawei thus leaving all next-generation Huawei devices without the Google suite of apps including YouTube, Gmail, Google Maps, Google Drive and the Google Play Store.²³⁴ It is now quite a different experience for the private consumer buying a Huawei phone compared with before the ban. Everyday life is thus being shaped by the fast-moving ripples of international politics when market forces bend to the needs of national security and alliance politics.

232 E. S. Nicolás, ‘EU five-year security plan to focus on critical infrastructure’, EU Observer, 24 Jul. <https://euobserver.com/justice/149030> accessed 15 Mar. 2021.

233 See V. Sinkkonen, E. Sikkonen, ‘Setting the scene: A multi-dimensional view on US–China great-power competition’, in N. Helwig, ed., *The EU’s ambition for Strategic Autonomy: early lessons and the way forward*, (Helsinki: Finnish Institute of International Affairs)

234 C. Scott Brown, ‘The Huawei ban explained: A complete timeline and everything you need to know’, Android Authority, (7 Feb. 2021), <https://www.androidauthority.com/huawei-google-android-ban-988382>, accessed 26. Feb. 2021.

The driving actors, America and China, are quickly spiralling into a tech race and decoupling in highly sensitive areas of emerging and disruptive technologies. The dynamic involves other actors suffering collateral damage, as illustrated by US President Trump's 2018 blocking of the largest tech deal in history. When Singapore-based semiconductor and communications technology firm Broadcom attempted a takeover of the US-based mobile chip and wireless 5G giant Qualcomm, the Committee on Foreign Investment in the United States (CFIUS) saw a substantial national security threat relating to Qualcomm potentially losing out to Huawei in the 5G patent and standard-setting race.²³⁵ Thus, a deal worth \$117 billion collapsed. Conditioned by this rapid increase in what has been coined weaponised interdependence²³⁶, European states must manoeuvre in a new world of securitised technologies in which battles are waged through economic coercion, infrastructure financing, foreign direct investments and espionage, to only name a few. The future of Europe's global role is at stake, and needs defining.

In response, President of the European Commission, Ursula von der Leyen, has announced the ambition to make the 2020s Europe's Digital Decade by focusing on principled approaches to research and development in data, technology and infrastructure. The political framework for achieving European technological autonomy is based on retaking and retaining control. According to von der Leyen, Europe's Digital Decade requires that "*we must have mastery and ownership of key technologies in Europe. These include quantum computing, artificial intelligence, blockchain, and critical chip technologies.*"²³⁷ It is an ambitious vision that translates into Principled Big Tech and situates the EU as an actor in its own right – not just an actor to be acted upon by outside forces. The follow-through is, however, paved with conflicting interests among member states as will be exemplified by the issues involved in Franco-German cooperation on Artificial Intelligence.

Pursuing "*mastery and ownership*" confronts the changing landscape of weaponised interdependencies in networked relationships. Occupying critical global network nodes (e.g., routers, servers, online cloud services and also powerful roles in for example financial and political networks etc.) powered by advanced technology and knowledge is a

235 Department of the Treasury, 'CFIUS CASE 18-036: Broadcom Limited (Singapore)/Qualcomm Incorporated', The Committee on Foreign Investments in the United States, (5 Mar. 2018), <http://online.wsj.com/public/resources/documents/cfiusletter.pdf>, accessed 26 Feb. 2021.

236 H. Farrell, A. L. Newman, 'Weaponized Interdependence: How Global Economic Networks Shape State Coercion', *International Security*, 44:1 (2019), 42-79, https://doi.org/10.1162/isec_a_00351

237 U. v.d. 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', (27 Nov. 2019), https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_19_6408, accessed 23. Feb. 2021.

primary objective in the global great power competition: node positions and network ties provide power and leverage.²³⁸ Notably, this dynamic relates to and intertwines with the physical and the political world simultaneously. Controlling network chokepoints can mean gaining access to turning off physical telecommunications infrastructure as well as political access to deny specific actors' participation in, for example, a financial network such as the Society for Worldwide Interbank Financial Telecommunication (SWIFT), as happened to Iran in 2012.²³⁹

Weaponising interdependence in the technology sector is at the abstract level particularly about controlling information infrastructure networks. This has forced many actors to recalibrate their perspectives on the consequences of technological dependencies, supply-chain links and international research partnerships.²⁴⁰ It has also sparked a discussion on whether new technologies and their proliferation are infused with normative values. A critical challenge for the EU and its member states is to move from visions of Principled Big Tech to real political decisions. The potential of new technologies to compete with European values becomes evident in Chinese Artificial Intelligence and 5G technology, specifically given the dominance of companies such as Huawei that potentially undergird the global export of digital authoritarianism and the surveillance state.²⁴¹ A case in point is Huawei's 'Uighur alarm', which combines facial recognition with racial profiling to identify oppressed Uighur minorities and alert the Chinese police.²⁴² Europe's lacklustre performance in fostering Big Tech companies only accentuates this development, leaving both the EU bloc and individual European states vulnerable to external pressures and influence. These dynamics and challenges have spurred European introspection about the pursuit of technological autonomy and how it could affect the very nature of the European Union.

The quest for technological autonomy points back to the basic roots of the European Union providing and balancing freedom and security: the four fundamental freedoms of the common market allowing the free movement of goods, people, services and capital, and the security

238 Farrell et al., 'Weaponized Interdependence', 47

239 Farrell et al., 'Weaponized Interdependence', 67

240 R. Davies, 'Oxford places ban on donations and research grants from Huawei, The Guardian', (17 Jan. 2019), <https://www.theguardian.com/technology/2019/jan/17/oxford-places-ban-on-donations-and-research-grants-from-huawei-chinese-national-security>, accessed 27 Feb. 2021

241 P. Mozur, J. M. Kessel, M. Chan, 'Made in China, Exported to the World: The Surveillance State', New York Times, (24 Apr. 2019), <https://www.nytimes.com/2019/04/24/technology/ecuador-surveillance-cameras-police-government.html>, accessed 27 Feb. 2021

242 D. Harwell, E. Dou, 'Huawei tested AI software that could recognize Uighur minorities and alert police, report says', Washington Post, (8 Dec. 2020), <https://www.washingtonpost.com/technology/2020/12/08/huawei-tested-ai-software-that-could-recognize-uighur-minorities-alert-police-report-says/>, accessed 27 Feb. 2021

dimension expressed in the Common Foreign and Security Policy. The vision of a whole and free Europe as a model for the rest of the world²⁴³ has increasingly been compromised due to a perceived lack of effectiveness of European common security. This clash between the free market ideology and security concerns has become evident through China's use of coercive diplomacy²⁴⁴ in the 5G debate. For example, the Chinese ambassador to Germany publicly floated the idea of labelling German cars as unsafe, thereby cutting off valuable market access to China, if Germany were to exclude Huawei on security grounds.²⁴⁵ In a recent response to critical voices, European Council President Charles Michel took issue with business concerns, in particular about trade-offs inherent in the European pursuit of strategic autonomy. He declared that “*autonomy is not protectionism. Quite the opposite!*”²⁴⁶ This is, however, a difficult position to hold, in that autonomy in a world of weaponised interdependence requires, at a minimum, compartmentalised protectionism. This is also evidenced in the EU's tighter export controls and investment-screening measures, which are discussed more thoroughly later in the chapter.

The comparatively weak position of European high-tech can be inferred from the dominance of American, Chinese and Japanese companies in the technology sector of the Fortune Global 500 rankings.²⁴⁷ Although German SAP (business software solutions), Irish Accenture (consulting) and Finnish Nokia (telecom) are represented, they are dwarfed by the extensive ecosystems and network node positions of non-European corporations. Gatekeepers that wield economic, social and political power and thus represent serious potential security risks are therefore targeted as platform providers. The aim is to regulate these gatekeepers in line with the Principled Big Tech approach of data protection, privacy and

243 G. Bush, 'A Europe Whole and Free', (31 May 1989), <https://usa.usembassy.de/etexts/ga6-890531.htm>, accessed 23. Feb. 2021.

244 F. Hanson, E. Currey, T. Beattie, 'The Chinese Communist Party's coercive diplomacy', Australian Strategic Policy Institute, (Policy Brief Report No. 36/2020), https://s3-ap-southeast-2.amazonaws.com/ad-aspi/2020-08/The%20CCPS%20coercive%20diplomacy_0.pdf?4M_JTUAd05Bjek_hvHt1nKkdCLts4kbY, accessed 27 Feb. 2021; See also N. Helwig, 'Strategic Autonomy and the EU as a diplomatic actor: a new leitmotiv in the era of international competition?', in N. Helwig, ed., *The EU's ambition for Strategic Autonomy: early lessons and the way forward*, (Helsinki: Finnish Institute of International Affairs)

245 K. Bennhold, J. Ewing, 'In Huawei Battle, China Threatens Germany 'Where It Hurts': Automakers', New York Times, (16 Jan. 2020), <https://www.nytimes.com/2020/01/16/world/europe/huawei-germany-china-5g-automakers.html>, accessed 27 Feb. 2021; J. Petzinger, 'China threatens 'consequences' if Germany bans Huawei, Yahoo! News, (16 Dec. 2019), <https://news.yahoo.com/china-huawei-ambassador-threat-germany-135600540.html>, accessed 27 Feb. 2021

246 C. Michel, 'Strategic autonomy for Europe – the aim of our generation' – speech by President Charles Michel to the Bruegel think tank, (28 Sep. 2020), <https://www.consilium.europa.eu/de/press/press-releases/2020/09/28/1-autonomie-strategique-europeenne-est-1-objectif-de-notre-generation-discours-du-president-charles-michel-au-groupe-de-reflexion-bruegel>, accessed 23 Feb. 2021.

247 Fortune, 'Global 500', <https://fortune.com/global500/2020/search/?sector=Technology>, accessed 23 Feb. 2021.

transparency, as well as to safeguard an efficient and open market.²⁴⁸ It is noteworthy that the EU is under pressure from each side of the US–China great power competition. While the American Big Five tech companies Alphabet (Google), Amazon, Facebook, Apple and Microsoft leverage pressures and occupy market space from the West, the Chinese counterparts Baidu, Alibaba, Tencent and Xiaomi expand from the East. In addition, the global position on the 5G market of Chinese telecom behemoth Huawei, ByteDance’s TikTok app and the Chinese state’s GPS alternative BeiDou leave little room for European companies in the global Information and Communications Technology market.²⁴⁹

Technological ecosystems are ideal for weaponising interdependence in that they serve as underlying networks for the information space in all sectors ranging from business, health, finance and research to national resilience. It should nevertheless be kept in mind that European dependencies on US and Chinese network nodes do not carry similar types or levels of risk. This difference between being allies and non-allies is fundamentally formalised in NATO’s collective security commitments with the US and Europe. Within this security relationship, network node positions are of prime importance as was evidenced by the Trump administration when it publicly contemplated scaling back intelligence sharing with partners choosing Huawei’s 5G kits.²⁵⁰

Initial European steps towards reconciling freedom and security in this space lie, as mentioned, in the EU’s attempts at Principled Big Tech. The main tools include regulating behaviour by taxing digital services²⁵¹, bringing antitrust cases against Google²⁵² and Amazon²⁵³, and applying the General Data Protection Regulation (GDPR) for the protection of

248 Gatekeepers, according to the European Commission’s proposed Digital Markets Act, are those providers of core platform services who: ‘(i) have a significant impact on the internal market, (ii) operate one or more important gateways to customers and (iii) enjoy or are expected to enjoy an entrenched and durable position in their operations.’ The European Commission’s embrace of the gatekeeping concept falls in line with the network nodes, ties and chokepoints approach of weaponised interdependence. See European Commission, Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on contestable and fair markets in the digital sector (Digital Markets Act), European Commission, (15 Dec. 2020), <https://eur-lex.europa.eu/legal-content/en/TXT/?qid=1608116887159&uri=COM%3A2020%3A842%3AFIN>, accessed 27 Feb. 2021

249 C. Yap, ‘State Support Helped Fuel Huawei’s Global Rise’, Wall Street Journal (25 Dec. 2019), <https://www.wsj.com/articles/state-support-helped-fuel-huaweis-global-rise-11577280736>, accessed 23 Feb. 2021

250 B. Pancevski, S. Germano, ‘Drop Huawei or See Intelligence Sharing Pared Back, U.S. Tells Germany’, (11 Mar. 2019), The Wall Street Journal, <https://www.wsj.com/articles/drop-huawei-or-see-intelligence-sharing-pared-back-u-s-tells-germany-11552314827>, accessed 1 Mar. 2021

251 J. Vincent, ‘Apple, Google, and Amazon respond to European tech taxes by passing on costs’, The Verge (2 Sep. 2020), <https://www.theverge.com/2020/9/2/21418114/european-uk-digital-tax-services-apple-google-amazon-raise-prices>, accessed 23 Feb. 2021

252 J. Whalen, ‘Europe fined Google nearly \$10 billion for antitrust violations, but little has changed’, Washington Post (10 Nov. 2020), <https://www.washingtonpost.com/technology/2020/11/10/eu-antitrust-probe-google/>, accessed 23 Feb. 2021

253 N. Lomas, ‘Europe lays out antitrust case against Amazon’s use of big data’, TechCrunch (10. Nov. 2020), <https://techcrunch.com/2020/11/10/europe-lays-out-antitrust-case-against-amazons-use-of-big-data/>, accessed 23 Feb. 2021

personal data and the use and transfer thereof. Europe's Digital Decade has thus far been spearheaded by efforts at digital governance. Regulation, however, is neither mastery nor ownership of key technologies. All of these major cross-pressures on Europe's vulnerabilities in the field of advanced technologies have culminated in one critical case: Huawei in European 5G networks.

5G AS A CRITICAL CASE OF STRATEGIC TECHNOLOGICAL AUTONOMY

The emergence of the fifth generation of mobile technology, 5G, has brought to attention the importance of strategic technological autonomy. In this, it serves as a principal case of testing versus trusting. The 5G debate illustrates the continuously moving demarcation line between being confident in the ability of intelligence services to test and risk-assess advanced tech on the one hand and being forced by the opaqueness of complex tech to trust the supplier on the other. The current dominance of Huawei on the supplier market for 5G components has driven speculation about related risks, testing and trusting, and the influence of the Chinese government on strategic national assets.

The discussion on strategic risks related to Huawei was initiated by the Australian government²⁵⁴ in 2018. The US government followed, banning Huawei as a supplier for its 5G networks and putting pressure on allied countries to do the same.²⁵⁵ US intelligence services raised concerns about open backdoors for spying and sabotage on critical infrastructure²⁵⁶, however, no technological or other evidence has been provided to the public.

Understanding the complexity of 5G supports a fact-based assessment of the risks involved concerning the technology and the reliance on vendors and their supply chains. Figure 1 illustrates the basic architecture of 5G components, based on the 3GPP technical specifications²⁵⁷ and

254 Bryan-Low, C. et al. (2019) *Hobbling Huawei: Inside the U.S. war on China's tech giant*, Reuters. London. Available at: <https://www.reuters.com/investigates/special-report/huawei-usa-campaign/>, accessed 4 March 2021.

255 S. Woo, K. O'Keeffe (2018), 'Washington Asks Allies to Drop Huawei', *The Wall Street Journal*, 23 Nov., <https://www.wsj.com/articles/washington-asks-allies-to-drop-huawei-1542965105?>, accessed 15 Mar. 2021.

256 Pancevski, B. (2020) 'U.S. Officials Say Huawei Can Covertly Access Telecom Networks - WSJ', *The Wall Street Journal*, 12 February. Available at: <https://www.wsj.com/articles/u-s-officials-say-huawei-can-covertly-access-telecom-networks-11581452256>, accessed 4 Mar. 2021.

257 3rd Generation Partnership Project, 3GPP Specification Set: 5G (no date), <https://www.3gpp.org/dynareport/SpecList.htm?release=Rel-15&tech=4>, accessed 2 March 2021.

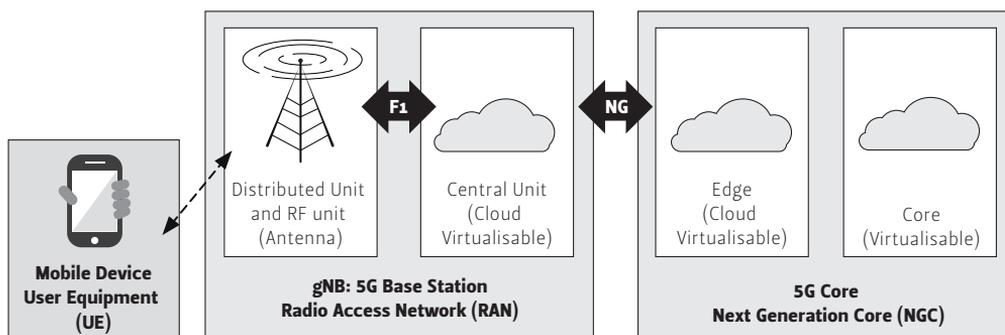


Figure 1: 5G Architecture components.

elaborations by Holma et al.²⁵⁸ Typically, a mobile communication device is connected by radio signals to an antenna. Previously to 5G, the antenna had to be connected to and collocated with hardware components concerned with controlling the radio connection. The combination of these components and the antenna is known as the *Radio Access Network*, or RAN. The 5G specifications allow the virtualisation of former RAN hardware components. Virtualisation refers to the implementation of (former) hardware functionalities by means of software. Components that had to be bought as dedicated hardware can now be implemented and dynamically updated as software running on generic hardware, such as cloud server infrastructure. As Figure 1 shows, the RAN is connected to the Internet and other communication networks through the 5G Core network. Some Core network components have also become virtualisable since the introduction of 5G. This set-up enables the centralisation of RAN components for multiple antennas in a cloud infrastructure located in proximity, while decentralising 5G core components and moving them closer to the “edge” (the antennas).

5G specifies an open design of the interfaces connecting RAN and Core components (*F1* and *NG* in Figure 1). These features of 5G reduce the risk of vendor lock-in for RAN and the core network components, in other words it reduces reliance on one single vendor for a high number of components for reasons of compatibility. It has been claimed that this approach allows deployment of hardware components with a lower security risk, but this view is disputed.²⁵⁹ The non-virtualisable RAN hardware components do not offer access to sensitive meta-data, since

258 H. Holma, A. Toskala and T. Nakamura, *5G technology: 3GPP new radio*, John Wiley & Sons Ltd. Edited by H. Holma, A. Toskala, and T. Nakamura. John Wiley & Sons Ltd. (2020).

259 Y. Yang, What are the main security risks of using Huawei for 5G?, *Financial Times* (London: 2019), <https://www.ft.com/content/8b48f460-50af-11e9-9c76-bf4a0ce37d49>, accessed: 4 March 2021.

they are purely concerned with ensuring a stable radio connection. It is possible that these components might also become virtualisable through technological improvements.

Although the confidentiality risks in 5G RAN hardware components are low, malicious access to these components can potentially negatively affect the functioning of the whole 5G network by means of reducing or blocking radio-access capabilities. Backdoors or design errors of 5G RAN hardware components are not generally considered to enable straight-forward attack vectors for spying or access to the core network. On the other hand, core components with built-in backdoors could facilitate malicious breaches of confidentiality.

Some governments have attempted to distinguish between vendor restrictions for higher-risk and low-risk components. However, experts (e.g., the UK's NCSC-led Huawei Oversight Board²⁶⁰) have accused Huawei of general malpractice in the secure design of its hardware components²⁶¹, which is not necessarily connected to any malicious intent and could be attributable to low-quality engineering.

As mentioned above, the discussion on risks in Huawei components was initiated by the Australian government and US intelligence services. A technical distinction between RAN and Core components, as outlined above, was not made. Claims were made that 5G networks depend on “*software updates pushed out by equipment suppliers - and that access to the 5G network [...] could be used to deploy malicious code*”²⁶², which seems plausible with regard to virtualised components running on cloud infrastructure. Hardware components of the 5G RAN architecture, however, do not fall into this category, although they might pose other risks, as outlined earlier. Moreover, Chinese national security laws force businesses such as Huawei to hand over data and information in cases of conflict.²⁶³ This has been claimed to pose potential for malicious activities.

In terms of managing vendor risk, the UK government first released a differentiated assessment after its National Cyber Security Centre (NCSC) had assessed the risk to be *manageable*²⁶⁴ in 2019. The NCSC

260 D. Bond, ‘UK cyber security chief says Huawei risk can be managed’, Financial Times (20 Feb. 2019), <https://www.ft.com/content/4c2b6fa0-350d-11e9-bd3a-8b2a211d90d5>, accessed 4 March 2021.

261 N. Lomas, ‘UK Report Blasts Huawei for Network Security Incompetence’, Tech Crunch (28 Mar. 2019), <https://techcrunch.com/2019/03/28/uk-report-blasts-huawei-for-network-security-incompetence> accessed 4 March 2021.

262 C. Bryan-Low, et al., ‘Hobbling Huawei: Inside the U.S. war on China’s tech giant’, Reuters (London, 2019), <https://www.reuters.com/investigates/special-report/huawei-usa-campaign/> accessed 4 March 2021.

263 A. Kharpal, ‘Huawei would have to give data to China government if asked: experts’, CNBC (Cliffs, New Jersey, 2019), <https://www.cnbc.com/2019/03/05/huawei-would-have-to-give-data-to-china-government-if-asked-experts.html> accessed 4 March 2021.

264 D. Bond, ‘UK cyber security chief says Huawei risk can be managed’, Financial Times (20 Feb. 2019), <https://www.ft.com/content/4c2b6fa0-350d-11e9-bd3a-8b2a211d90d5> accessed 4 March 2021.

recommendation also analysed Huawei's software, i.e., software that runs on cloud components and virtualises RAN components. While backdoors in software are possible, they can be controlled and analysed more effectively, as done by the NCSC Huawei Oversight Board. It would be essential, however, that the hardware of the cloud infrastructure is not provided by the same vendor. If it were it, this would allow built-in hardware backdoors, which are more challenging to discover: cloud hardware components could then be used to access software backdoors from the same vendor.

The NCSC's recommendation on Huawei changed in 2020, and a plan has been published that eventually bans the use of any Huawei equipment on the UK's telecommunication networks by 2027.²⁶⁵ This decision was based on concerns about supply-chain and further risks related to Huawei components under US sanctions against Huawei.²⁶⁶ Although some supply-chain risks might be connected to US sanctions, there is an important case to be made about the risk connected with the location of production facilities in China and south-east Asia.

The UK's initial differentiated approach provides interesting policy considerations. The technical analysis of security-relevant parts of the network architecture, as well as the analysis conducted by the security oversight board analysing proprietary source-code and design documents in a confidential environment, provided an independent decision base. Strategic supply-chain considerations and collaboration with the UK's strategic partners, most prominently the US, seem to have had a significant impact on the reconsideration of the NCSC's recommendation.

The main competitors of Huawei for 5G components are Nokia and Ericsson. Both are headquartered in Europe, and their technological expertise on the architecture and design of mobile communication networks and components is an important European strategic asset in the 5G debate. Nevertheless, their hardware relies on components manufactured and assembled in Asia. This reliance on components from foreign vendors and the location of production facilities represent an important risk relevant for the assessment of strategic risks. Further risks arise from the practicalities of shipping: some of the Snowden revelations uncovered how simple it is for intelligence services to intercept and tamper with components delivered through standard channels, such as Cisco routers.²⁶⁷ Even

265 H. Gold, 'UK bans Huawei from its 5G network in rapid about-face', Reuters (London, 2020), <https://www.reuters.com/article/us-britain-huawei-reaction-instantview-idUSKCN24F1JL>, accessed 4 March 2021.

266 NCSC UK, 'Summary of the NCSC analysis of May 2020 US sanction' (2020), <https://www.ncsc.gov.uk/report/summary-of-ncsc-analysis-of-us-may-2020-sanction>, accessed 4 March 2021.

267 B. Snyder, 'Snowden: The NSA planted backdoors in Cisco products', Infoworld, (15 May 2014), <https://www.infoworld.com/article/2608141/snowden--the-nsa-planted-backdoors-in-cisco-products.html>, accessed 4 March 2021.

more sophisticated supply-chain risks were brought to public attention in 2018 and 2021²⁶⁸: Components developed by Super Micro Computer, a US vendor, were allegedly altered in their Chinese manufacturing facilities before being shipped to customers. The hardware alterations enabled the attacker to connect to the components.

The Cisco and Super Micro examples underline the relevance of supply-chain risks for hardware components and that hardware components from high-risk suppliers only should be deployed if the risk of altered or added components has no or little influence on the overall risk assessment. This might be the case for Huawei 5G RAN hardware components when considering confidentiality risks. As mentioned, risks to network availability cannot be fully mitigated. It is up to national risk assessment procedures to consider the impact of this strategic risk and to balance it with economic factors. The EU has identified some of the risks outlined above in its *Cybersecurity of 5G networks EU Toolbox*.²⁶⁹

Furthermore, it has been claimed that relying on the Nokia-Ericsson duopoly would be economically unhealthy and strategically unwise in the long term²⁷⁰, and that the modularisation of components in 5G and the standardisation of their interoperability enables a diversification towards smaller suppliers as a reasonable option. The aim behind the openRAN²⁷¹ initiative is to further develop interoperability of mobile network components from different vendors and thereby reduce the risk of “vendor lock-in”. A diversification of vendors is further supported by technological security considerations. The ‘Swiss Cheese Model of Accident Causation’, a framework illustrating how a series of failures contribute to the breakdown of complex systems,²⁷² is commonly used for the mitigation of cybersecurity risks. It outlines how system failures, in this case strategic security incidents, arise from consecutive failures of defences in multiple layers. Each of these layers is illustrated as a slice of Swiss cheese, where security incidents are possible if the security holes in each layer align. Applied to the complexity of 5G, this means that systematic failures could be reduced if each network component (i.e., Swiss cheese layer) was provided by independent vendors, it being less likely that the

268 B. Snyder, ‘Snowden: The NSA planted backdoors in Cisco products’, Infoworld (15 May 2014), <https://www.infoworld.com/article/2608141/snowden--the-nsa-planted-backdoors-in-cisco-products.html>, accessed 4 March 2021.

269 NIS Cooperation Group, ‘Report on Member States Progress in Implementing the EU Toolbox on 5G Cybersecurity July 2020’ (2020), <https://ec.europa.eu/digital-single-market/en/news/report-member-states-progress-implementing-eu-toolbox-5g-cybersecurity>, accessed 4 March 2021.

270 S. Häberli, ‘Open RAN: Eine Alternative zu Nokia, Ericsson und Huawei’, NZZ Pro Global (7 December 2020), <https://www.nzz.ch/technologie/open-ran-eine-alternative-zu-nokia-ericsson-und-huawei-ld.1567348>, accessed 4 March 2021.

271 O-RAN Alliance, O-RAN ALLIANCE (no date), <https://www.o-ran.org/>, accessed 4 March 2021.

272 J. Reason, ‘The Contribution of Latent Human Failures to the Breakdown of Complex Systems’. *Philosophical Transactions of the Royal Society of London. Series B, Biological Sciences*, 327(1241), (1990), 475–484.

security holes of differently sourced components would align. This is a strong argument in favour of vendor diversification and interoperability standards, as supported by the openRAN initiative.

The useful measures and steps suggested in the EU 5G Toolbox should be complemented by the recommendations in this chapter. A study launched by the European Commission in June 2020 currently analyses the potential of openRAN and global 5G supply-chain market trends.²⁷³ These steps are in line with the idea of Principled Big Tech: they encourage economic diversification, reducing reliance on potentially high-risk oligopolist companies such as Huawei, while supporting the involvement of smaller companies producing 5G components in Europe and beyond. A diversification of vendors for strategic technologies, reduces the risk of single-points-of-failure and cluster risks and supports the economic development of smaller vendors, enabling dynamic risk management in response to changes in the risk landscape.

TECH AS A NATIONAL SECURITY THREAT PUSHING EUROPEAN AMBITIONS

Securitisation of emerging and disruptive technologies are likely to follow the precedent set by the 5G debate, intensifying arguments about trust and testing. Unless the EU manages to deliver on Europe's Digital Decade, European vulnerabilities will be exacerbated through an accelerating pace of development and deployment of these technologies by non-EU actors. In response, political ambitions have been bolstered to such a degree that the EU's new Cybersecurity Strategy proposal calls for technological sovereignty—not just autonomy—and leadership through an '*unprecedented level of investment in the EU's digital transition*'.²⁷⁴ The EU is budgeting for a proposed funding of €7.5 billion for the *Digital Europe Programme* in 2021-2027, also targeting research and development in AI (€2.1 billion).²⁷⁵ To put these numbers into perspective, the US National Security Commission on Artificial Intelligence recently recommended increased federal funding for AI research to reach €26.5 billion per year

273 The Directorate General for Communications Networks Content and Technology. European Commission launches study on 5G supply markets and Open RAN. European Commission (24 July 2020), <https://ec.europa.eu/digital-single-market/en/news/european-commission-launches-study-5g-supply-markets-and-open-ran>

274 European Commission, 'The Cybersecurity Strategy', European Commission (16 Dec. 2020), <https://ec.europa.eu/digital-single-market/en/cybersecurity-strategy>, accessed 23 Feb. 2021.

275 European Commission, 'Europe investing in digital: the Digital Europe Programme', European Commission, (n.d.), <https://ec.europa.eu/digital-single-market/en/europe-investing-digital-digital-europe-programme>, accessed 28 Feb. 2021

by 2026.²⁷⁶ Looking at China, it is difficult²⁷⁷ to estimate Chinese state funding of AI research and development, but it is general practice to rank the US first and China second in the global AI race with Europe coming in third place.²⁷⁸

The European intention to develop technological or digital sovereignty through regulation and an increase in local innovation and knowledge capacity must be distinguished from alternative and competing visions of sovereignty. This is where EU technological sovereignty through Principled Big Tech differs from the example of China's vision of attempting to re-establish territoriality and information control on the Internet through the restriction of information flow and services.²⁷⁹ This vision is fundamentally opposed to the technological structure of the current Internet, as well as to the politically liberal idea of a free and open Internet that has shaped the Western approach to Internet regulation.²⁸⁰ Russia²⁸¹ and other countries, such as Iran²⁸², follow a similar approach of establishing information control on the Internet, ultimately leading to a 'splinternet' in that the global character of cyberspace would be destroyed.²⁸³ European Principled Big Tech would be the technological antidote to this: it does not aim to censor political content and puts a stronger emphasis on freedom, while acknowledging and further developing the global nature of cyberspace services and the Internet. These developments are taking place within a geopolitical dynamic similar to the long-standing debates

276 National Security Commission on Artificial Intelligence, 'Draft Final Report', National Security Commission on Artificial Intelligence, (Jan. 2021), 90, <https://www.nscai.gov/wp-content/uploads/2021/01/NSCAI-Draft-Final-Report-1.19.21.pdf>, accessed 28 Feb. 2021.

277 T. J. Colvin, I. Liu, T. F. Babou, G. J. Wong, 'A Brief Examination of Chinese Government Expenditures on Artificial Intelligence R&D', (Feb. 2020), (Washington: IDA SCIENCE & TECHNOLOGY POLICY INSTITUTE), iv, <https://www.ida.org/-/media/feature/publications/a/ab/a-brief-examination-of-chinese-government-expenditures-on-artificial-intelligence-r-and-d/d-12068.ashx>, accessed 1 Mar. 2021

278 D. Castro, M. McLaughlin, 'Who is winning the AI race: China, the EU, or the United States? 2021 update', (Jan. 2021), Center for Data Innovation, <https://www2.datainnovation.org/2021-china-eu-us-ai.pdf>, accessed 28 Feb. 2021; European Commission, 'USA-China-EU plans for AI: where do we stand?', (Jan. 2018), Digital Transformation Monitor, https://ec.europa.eu/growth/tools-databases/dem/monitor/sites/default/files/DTM_AI%20USA-China-EU%20plans%20for%20AI%20V5.pdf, accessed 1 Mar. 2021.

279 A. Segal, 'China's Vision for Cyber Sovereignty and the Global Governance of Cyberspace', in N. Rolland, ed., *An Emerging China-centric Order. China's Vision for a New World Order in Practice*, NBR Special Report no. 87, (25 Aug. 2020), (Washington: The National Bureau of Asian Research), https://www.nbr.org/wp-content/uploads/pdfs/publications/sr87_aug2020.pdf, accessed 1 Mar. 2021.

280 J. P. Barlow, 'A Declaration of the Independence of Cyberspace', (8 Feb. 1996), Electronic Frontier Foundation, <https://www.eff.org/cyberspace-independence>, accessed 1 Mar. 2021.

281 N. Tsydenova, 'Russia plans 'sovereign internet' tests to combat external threats', (19 Dec. 2019), Reuters, <https://www.reuters.com/article/us-russia-putin-internet/russia-plans-sovereign-internet-tests-to-combat-external-threats-idUSKBN1YN23Z>, accessed 1 Mar. 2021.

282 M. Burgess, 'Iran's total internet shutdown is a blueprint for breaking the web', (7 Oct. 2020), Wired, <https://www.wired.co.uk/article/iran-news-internet-shutdown>, accessed 1 Mar. 2021.

283 M. Murgia, A. Gross, 'Inside China's controversial mission to reinvent the internet', (27 Mar. 2020), Financial Times Magazine, <https://www.ft.com/content/ba94c2bc-6e27-11ea-9bca-bf503995cd6f>, accessed 1 Mar. 2021.

on strategic autonomy in the military domain, which are expanding into the digital technology sector.

In recent years, the French ambitions to develop an autonomous European military capability without depending on American capacities have received renewed political backing in the light of Russian aggression, American retrenchment and the exit of the United Kingdom from the EU. German chancellor Angela Merkel reacted to these fundamental changes in the threat and alliance landscape in 2017, declaring that ‘[t]he era in which we could fully rely on others is over to some extent’, concluding ‘[w]e Europeans truly have to take our fate into our own hands’.²⁸⁴ In the pursuit of technological autonomy, this sentiment can by now be considered as widely adopted amongst EU leaders, but with one critical sectorial addition: the primary driver for Europe is China’s technological rise. Simultaneously, the American Trump administration’s forceful 5G-Huawei campaign also brought European technological concerns to the attention of the EU and its member states.

China’s native and global tech ambitions have been outlined and pursued since at least 2006 when the 15-year ‘Medium- to Long-term Plan for the Development of Science and Technology’ was launched.²⁸⁵ In continuation hereof, China’s current push to lead and pursue self-sufficiency in 10 core industries has been formalised since the 2015 launch of the *Made in China 2025* plan. The plan’s focus is on leading global innovation and production in 10 highly specialised sectors such as New materials, Next-generation IT as well as High-end computerised machines and robots.²⁸⁶ Early on, the European Union Chamber of Commerce in China criticised the plan for being ‘a large-scale import substitution plan aimed at nationalizing key industries’²⁸⁷ and the German MERICS think-tank has pointed out the primary aim of large-scale technology transfer to China.²⁸⁸ This approach lines up with capacity building to be able to simultaneously avoid and exert weaponised interdependence by conquering central network nodes and ties. Although this challenge from China is not new, the global ambitions, intensity of impact and

284 G. Paravicini, ‘Angela Merkel: Europe must take ‘our fate’ into own hands’, *Politico* (28 May 2017), <https://www.politico.eu/article/angela-merkel-europe-cdu-must-take-its-fate-into-its-own-hands-elections-2017>, accessed 23 Feb. 2021

285 C. Cao, R. P. Suttmeir, D. F. Simon, ‘China’s 15-year science and technology plan’, *Physics Today* (Dec. 2006), 38, <https://china-us.uoregon.edu/pdf/final%20print%20version.pdf>, accessed 23 Feb. 2021.

286 M. J. Zenglein, A. Holzmann, *Evolving Made in China 2025 - China’s industrial policy in the quest for global tech leadership*, (Berlin: MERICS, Jul 2019), 20, https://merics.org/sites/default/files/2020-04/MPOC_8_MadeinChina_2025_final_3.pdf

287 J. McDonald, ‘Business group: China tech plan threat to foreign firms’, *Associated Press* (7 Mar. 2017), <https://apnews.com/article/8451ec21c5e543bda2e41cc81fae31fo>, accessed 23 Feb. 2021

288 J. Wübbecke, M. Meissner, M. J. Zenglein, J. Ives, B. Conrad, *Made in China 2025 - The making of a high-tech superpower and consequences for industrial countries*, (Berlin: Rhodium Group/MERICS, Dec. 2016), 8, <https://merics.org/sites/default/files/2020-04/Made%20in%20China%202025.pdf>

US–Sino confrontation add novel attributes and ask of Europe to give greater weight to security implications of global tech interdependencies.

An acceleration of potential and actual weaponised interdependence in the tech sector has taken place since the 2007–08 global financial crisis. The crisis emboldened Chinese elites to abandon their ‘*strategic patience*’, waiting for China to finally assume its quietly developed great power status. As confidence in the US–led economic order faltered, it simultaneously reinforced Chinese elite views of US decline and the potency of a Chinese alternative.²⁸⁹ In the wake of the financial crisis, Chinese foreign direct investments in the EU skyrocketed from 700 million dollars in 2008 to its peak at 37.3 billion dollars in 2016,²⁹⁰ with many acquisitions of advanced technology in support of China’s technology transfer strategy. These enormous shifts are taking place in the context of China’s overarching Military–Civil–Fusion strategy that, according to the US–China Economic and Security Review Commission, aims at ‘*leveraging the fruits of civilian innovation for China’s defense sector.*’²⁹¹ This is an immense national security challenge in that civilian rather than traditionally dual-use advanced technology from Europe risks being exploited, frequently by state–owned companies or private companies under the control of the Chinese military, in a high–tech military arms race.²⁹²

These concerns have built political momentum, converging in a changed European perception of China that made its debut in the EU’s strategic outlook, famously labelling China ‘*an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance.*’²⁹³ French president Emmanuel Macron has assumed an albeit ambivalent²⁹⁴ but leading role in this policy process to guard the EU through his ‘protective’ Europe agenda.²⁹⁵ Con-

289 J. Blanchette, ‘The Case of Xi Jinping’, The Asan Forum (20 Jan. 2020), <http://www.theasanforum.org/the-case-of-xi-jinping/#a6>, accessed 23 Feb. 2021

290 A. Kratz, M. Huotari, T. Hanemann, R. Arcesati, Chinese FDI in Europe: 2019 Update – Special Topic: Research Collaborations, (Berlin: MERICS, Apr. 2020), 9, accessed 23 Feb. 2021, <https://merics.org/sites/default/files/2020-05/MERICSRhodium%20GroupCOFDIUpdate2020.pdf>, accessed 23 Feb. 2021.

291 U.S.–China Economic and Security Review Commission, 2019 Report to Congress of the U.S.–China Economic and Security Review Commission, (2019), 205, <https://www.uscc.gov/sites/default/files/2019-11/Chapter%203%20Section%202%20-%20Emerging%20Technologies%20and%20Military-Civil%20Fusion%20-%20Artificial%20Intelligence,%20New%20Materials,%20and%20New%20Energy.pdf>, accessed 23 Feb. 2021

292 G. Levesque, ‘Military–Civil Fusion: Beijing’s “Guns AND Butter” Strategy to Become a Technological Superpower’, China Brief, Volume: 19 Issue: 18, (Oct. 2019), <https://jamestown.org/program/military-civil-fusion-beijings-guns-and-butter-strategy-to-become-a-technological-superpower>, accessed 23 Feb. 2021

293 European Commission, ‘EU–China – A strategic outlook’, European Commission, (12 Mar. 2019), 1, <https://ec.europa.eu/info/sites/info/files/communication-eu-china-a-strategic-outlook.pdf>, accessed 28 Feb. 2021.

294 F. Nicolas, ‘France’s incoherent China policy confuses partners’, East Asia Forum, (22 Oct. 2020), <https://www.eastasiaforum.org/2020/10/22/frances-incoherent-china-policy-confuses-partners>, accessed 28 Feb. 2021

295 R. Emmott, M. Rose, ‘At EU summit, Macron pleads for limits to foreign takeovers’, Reuters, (22 Jun. 2017), <https://www.reuters.com/article/us-eu-summit-macron-idUKKBN19D2HY?edition=redirect=uk>, accessed 28 Feb. 2021

sequentially, president Macron, with the support of Chancellor Merkel, introduced the EU-wide investment-screening mechanism already in 2017. Its aim was to vet and potentially block foreign take-overs of key European industries and it initially encountered resistance from a host of pro-trade EU member states.²⁹⁶ However, as a testament to the fast pace of change, this screening framework was in place in March 2019.²⁹⁷ However, the effectiveness of the mechanism depends fully on national intelligence agencies and governments activating it, even when faced with a potential backlash. In light of the coronavirus pandemic's negative economic effects at the beginning of 2020, the European Commission activated the framework and issued guidelines to protect critical European assets and technology from being sold off. It is thus clear that the bolstering of European tech ambitions requires strategic risk-aware regulation of market access to foreign entities. This is an overly complex matter involving a host of vested interests and actors for whom national security is not necessarily on top of their agenda.²⁹⁸

EUROPEAN CONSTRAINTS ON TECHNOLOGICAL AUTONOMY

European momentum usually requires Franco-German leadership. This logic also applies to the pursuit of technological autonomy. One such prominent venture and bellwether for future pathways is the GAIA-X project that aims to achieve European cloud computing independence from US and Chinese data ecosystems, while under the protection of EU data laws. It will therefore facilitate synergies across industries and services.²⁹⁹ These ambitious aims underscore the massive impact of successful Franco-German tech cooperation. Nevertheless, even as Macron and Merkel have reached political agreement on boosting the European industrial base to develop 5G, Artificial Intelligence and cloud infrastructure,³⁰⁰

296 A. Beesley, A. Chassany, J. Brunson, D. Robinson, 'EU free-traders water down Macron's plan to vet foreign takeovers', *Financial Times*, (23 Jun. 2017), <https://www.ft.com/content/e72b6342-582e-11e7-9fed-c19e2700005f>, accessed 28 Feb. 2021

297 European Union, 'REGULATION (EU) 2019/452 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 19 March 2019 establishing a framework for the screening of foreign direct investments into the Union', European Union, (19 Mar. 2019), <https://eur-lex.europa.eu/legal-content/ENG/TEXT/HTML/?uri=CELEX%3A32019R0452>, accessed 28 Feb. 2021.

298 M. Karnitschnig, 'How Germany opened the door to China – and threw away the key', (10 Sep. 2020), Politico, <https://www.politico.eu/article/germany-china-economy-business-technology-industry-trade-security>, accessed 1 Mar. 2021

299 O. Hughes, 'What is Gaia-X? A guide to Europe's cloud computing fight-back plan', (10 Jun. 2020), Tech Republic, <https://www.techrepublic.com/article/what-is-gaia-x-a-guide-to-europes-cloud-computing-fight-back-plan>, accessed 28 Feb. 2021.

300 Élysée, 'Dialogue franco-allemand sur la Technologie.', (13 Oct. 2020), Élysée, <https://www.elysee.fr/emmanuel-macron/2020/10/13/dialogue-franco-allemand-sur-la-technologie>, accessed 28 Feb. 2021.

challenges still await in intra-European debates on use cases, economic commitments and profitability.

The lack of consensus on how technological autonomy should be defined and achieved puts serious limits to cooperative projects at the EU level and furthers uncertainties about member states' national policies and external relations.³⁰¹ This is particularly evident in efforts to develop Artificial Intelligence as a strategic necessity for the data-driven future. As one of the most disruptive emerging technologies, AI will be decisive in terms of which actors provide and occupy critical network nodes and ties.³⁰² French³⁰³ and German³⁰⁴ national AI strategies exemplify some of the main constraints holding back overall European progress. The French strategy stresses Europe's dire situation as a cyber colony in many aspects,³⁰⁵ and in addition, France has expanded on the use case of AI by publishing a military AI strategy.³⁰⁶ The German AI strategy, on the other hand, defers foreign policy and defence-related AI matters to the Ministry of Defence and focuses narrowly on AI as a largely economic concern.³⁰⁷ The general German AI sentiment is one of moral scepticism towards the Big Data gathering and analysis that drives AI development.³⁰⁸

EU-level cooperation on technological autonomy also faces constraints through smaller states' fears of Franco-German industrial dominance given that global tech titans will likely rise from the largest EU members and therefore drive out competition.³⁰⁹ Yet another constraint regards the contentious nexus of technological autonomy and trade policies as highlighted by the EU investment-screening mechanism. Here, too, the

301 P. Tamma, 'Europe wants 'strategic autonomy' – it just has to decide what that means', Politico, (15 Oct. 2020), <https://www.politico.eu/article/europe-trade-wants-strategic-autonomy-decide-what-means>, accessed 28 Feb. 2021.

302 J. Vincent, 'Putin says the nation that leads in AI 'will be the ruler of the world'', (4 Sep. 2017), The Verge, <https://www.theverge.com/2017/9/4/16251226/russia-ai-putin-rule-the-world>, accessed 28 Feb. 2021.

303 C. Villani, 'For a meaningful Artificial Intelligence - Towards a French and European Strategy', AI for humanity, (Mar. 2018), https://www.aiforhumanity.fr/pdfs/MissionVillani_Report_ENG-VF.pdf, accessed 28 Feb. 2021.

304 Bundesregierung, 'Strategie Künstliche Intelligenz der Bundesregierung', (Nov. 2018), Bundesregierung, https://www.bmbf.de/files/Nationale_KI-Strategie.pdf, accessed 28 Feb. 2021.

305 C. Villani, 'For a meaningful Artificial Intelligence - Towards a French and European Strategy', 6.

306 Ministère des Armées, 'Report of the AI Task Force September 2019', (Sep. 2019), Ministère des Armées, https://www.defense.gouv.fr/english/content/download/573877/9834690/Strat%C3%A9gie%20de%20l%27IA-UK_9%201%202020.pdf, accessed 28 Feb. 2021.

307 U. Franke, 'Not smart enough: The poverty of European military thinking on artificial intelligence', European Council on Foreign Relations, (18 Dec. 2019), https://ecfr.eu/publication/not_smart_enough_poverty_european_military_thinking_artificial_intelligence, accessed 28 Feb. 2021.

308 S. Kinkartz, 'Skeptical Germany lags behind on artificial intelligence', Deutsche Welle (29 Dec. 2019), <https://www.dw.com/en/skeptical-germany-lags-behind-on-artificial-intelligence/a-51828604>, accessed 28 Feb. 2021.

309 P. Tamma, 'Europe wants 'strategic autonomy' – it just has to decide what that means', Politico (15 Oct. 2020), <https://www.politico.eu/article/europe-trade-wants-strategic-autonomy-decide-what-means/> accessed 28 Feb. 2021.

EU suffers from strategic ambivalence in that the proposed EU-China Comprehensive Agreement on Investment³¹⁰ will increase external dependencies by opening up the Chinese market to more European activity while simultaneously driving a wedge between the European and American strategies.³¹¹ The Franco-German locomotive therefore still needs to get all its parts assembled to gain European momentum.

CONCLUSION: THE PATH TO EUROPEAN PRINCIPLED BIG TECH

The pursuit of European technological autonomy through a principled path of political values and judicial regulations puts the EU in the position of a potential universal norm entrepreneur. Attempting to shape global tech standards by turning the coming years into Europe's Digital Decade is, however, an enormous task. Two major and interlinked questions remain to be answered. Will the EU have to accelerate its development of advanced technology to succeed as a global norm entrepreneur? And will the EU be able to catch up in the Big Tech race following its own principled path?

The EU has already shown itself successful in promoting the GDPR rule set as a global data-protection standard. It has done this through leveraging its own economic network nodes and ties by linking free-trade agreements to the adoption of privacy standards similar to the GDPR.³¹² The process takes place through adequacy decisions allowing personal data flows from the EU to approved countries. In spite of 12 such approvals so far, there is still a momentous distance from the Faroe Islands and Switzerland to Iran or China. Moreover, the EU's networked leverage in this matter (single market access) is not specifically technological in nature, which would likely be required in order to shape standards adopted by illiberal or authoritarian states. It is thus assessed to be an improbable outcome for the EU to succeed as a norm entrepreneur on advanced tech without having globally competitive companies, ecosystems and industrial bases. Lessons learned from the 5G debate attest to the need for the EU to overcome its internal constraints to strategically pursue technological autonomy in a direct race with leading global actors. Pursuing it along

310 European Commission, 'Key elements of the EU-China Comprehensive Agreement on Investment', (30 Dec. 2020), European Commission, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2542, accessed 28 Feb. 2021.

311 T. Colson, 'China is playing divide-and-rule between the United States and Europe and it's working', Business Insider (9 Jan. 2021), <https://www.businessinsider.com/china-divide-and-rule-tactics-divide-bidens-us-and-europe-2021-1?r=US&IR=T>, accessed 28 Feb. 2021.

312 M. Scott, L. Cerulus, 'Europe's new data protection rules export privacy standards worldwide', Politico (31 Jan. 2018), <https://www.politico.eu/article/europe-data-protection-privacy-standards-gdpr-general-protection-data-regulation>, accessed 28 Feb. 2021.

the path of Principled Big Tech may, however, turn out to be difficult. A number of recommendations can support this ambition.

Two mutually reinforcing approaches place the following recommendations within already established and developing political frameworks. With regard to the protection of strategic assets the aim is to safeguard past and future technological advancements by intensifying investment screening and export controls. In terms of investment in strategic assets, the aim is to boost the EU's credibility and leverage as a norm entrepreneur through innovation and transparency.

Protection of strategic assets should focus on streamlining national guidelines on critical infrastructure to also include critical technologies, knowledge and data to advance the principled use of the EU investment-screening mechanism. Likewise, EU export-control regulations on dual-use technologies should take the concept of weaponised interdependence seriously and consider broadening its scope, especially in light of the Chinese Military-Civil-Fusion strategy. The recently added 'human security' dimension related to cyber-surveillance in particular is a step in the right direction,³¹³ calling for the adoption of general technical and ethical standards by suppliers in sensitive tech sectors. This change should be implemented through transatlantic agreement to leverage the full potential of US-EU network nodes and ties. Finally, funding of independent security-assessment centres should be prioritised in collaboration with technology companies to ensure the confidential assessment and review of proprietary technologies, software and hardware designs.

Investment in strategic assets requires the building and expansion of technical knowledge capacity at the EU level. This should be executed by means of increased funding for research in critical technologies, and exchange and collaboration between research institutions and industrial leaders in and beyond Europe while respecting EU standards for ethical scientific conduct. This further requires strategic EU-level funding for trans-disciplinary research and education to bridge the exponentially important knowledge gap between political and technological dynamics. Fundamental to this initiative is synergizing insights from cyber-security research, industry innovations and intelligence on vulnerabilities and future threat environments.³¹⁴ Most critically, EU knowledge capacity should be applied in order to ensure the development of safe, secure and open standards. The resulting economic diversification combined

313 European Commission, Commission welcomes agreement on the modernisation of EU export controls, European Commission (9 Nov. 2020), https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2045, accessed 1 Mar. 2021.

314 Such an effort could find inspiration from the UK initiative CyberInvest; National Cyber Security Center, 'CyberInvest', National Cyber Security Center, <https://www.ncsc.gov.uk/information/cyber-invest>, accessed 1 Mar. 2021.

with funding for standardisation bodies will enable the EU to reduce the foreign-supplier risk and to act as a global influencer on key digital technologies.

CONTRIBUTORS

Tobias Gehrke is a Research Fellow at the Egmont Royal Institute for International Relations in the Europe in the World programme. His work focuses on geoeconomics, economic statecraft and strategic economic relations between the EU, the US and China. He is close to completing a PhD at Ghent University.

Niklas Helwig is a Leading Researcher at the Finnish Institute of International Affairs. His research focuses on EU and German foreign and defence policy, as well as on transatlantic relations. He holds a PhD in Politics and International Relations from the Universities of Cologne and Edinburgh (cotutelle).

André Ken Jakobsson is a Postdoctoral Researcher at the Center for War Studies at the University of Southern Denmark. His research focuses on grey zone conflict and hybrid warfare. He holds a PhD in International Relations from the University of Copenhagen.

Nicole Koenig is Deputy Director of the Jacques Delors Centre at the Hertie School in Berlin. Her research focuses on European foreign, security and defence policy. She holds a PhD in Politics and International Relations from the Universities of Cologne and Edinburgh (cotutelle).

Elina Sinkkonen is Senior Research Fellow at the Finnish Institute of International Affairs. Her research interests include Chinese nationalism, public opinion issues in China, authoritarian regimes, regional security in East Asia and the domestic-foreign policy nexus in IR theory. She received her doctorate from the University of Oxford, Department of Politics and International Relations in 2014, and is currently leading a multiyear project on authoritarian resilience, funded by the Kone Foundation.

Ville Sinkkonen is a Postdoctoral Fellow at the Finnish Institute of International Affairs, Center on US Politics and Power. His research focuses on the foreign policy of the United States, hegemony, normative power and the politics of trust in international relations. He holds a PhD from the University of Turku.

Marcel Stolz is a Doctoral Researcher in cybersecurity at Oxford University, working with the Global Cybersecurity Capacity Centre (GCSCC), the Cybersecurity Analytics Group and the Centre for Technology and Global Affairs. He is interested in the governance of global technology and the digital implications for western democratic systems and societies, with a particular focus on neutrality in cyberspace. He holds academic degrees in computer science and has worked with networked systems and 4G radio access technology.

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STRATEGIC AUTONOMY AND THE TRANSFORMATION OF THE EU

NEW AGENDAS FOR SECURITY, DIPLOMACY, TRADE AND TECHNOLOGY

The EU is caught up in a debate over whether to increase its autonomy with regard to the wider world. International developments and crises of recent years have raised the question of whether Europeans should be more capable of managing the risks stemming from their exposure to global trade and possible over-reliance on allies for their security. This report analyses how the pursuit of strategic autonomy transforms EU policies in the field of security, diplomacy, trade, and technology.

The report makes recommendations on how the EU can advance strategic autonomy, while striking a balance between protectionist tendencies and the need to stay open to international engagement and cooperation. Instead of focusing on the divisive question of strategic autonomy from others, member states should pay attention to more constructive approaches and concrete actions to strengthen strategic autonomy. In each of the policy fields, the right mix of *protection* of European assets, *provision* of the economic and political basis, and the *projection* of European interests and values abroad will be vital. /