

EU's "Open Strategic Autonomy" and its Implications for Korea

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I. Introduction

The global trading landscape has changed dramatically in recent years. The weakening of globalization and multilateralism has manifested itself in trade disputes between the US and China. Since the Trump administration, the US has attempted to contain the rise of China, including increasing tariffs and non-tariff barriers and bringing manufacturing back home, which has intensified and continued under the current Biden administration with strategic competition in high-tech industries. The COVID-19 pandemic and Russia's invasion of Ukraine have accelerated the existing trends, and the "rise of protectionism" or "geo-economic fragmentation" has recently become the dominant trend in international political and trade relations. According to the IMF's analysis, a slowdown in globalization began to be observed after the 2008 financial crisis, triggering reshoring, nearshoring, or

friend-shoring and resulting in a reshuffling of the global supply chain (IMF 2023.4).

The EU is also following this trend. The current European Commission, which took power in 2019, has announced a series of industrial and trade policies, including the New Industrial Strategy in 2020 and the New Trade Strategy in 2021, under the banner of 'Open Strategic Autonomy (OSA, hereafter)' to strengthen intra-EU supply chains in the digital and net-zero sectors. Having experienced supply chain bottlenecks in the healthcare industry, such as vaccines and treatments, during the COVID-19 pandemic, Europe has realized that too much external dependence in essential industries can have devastating strategic consequences. The EU's vulnerability was further highlighted after Russia invaded Ukraine in February 2022. Its dependence on Russia in the energy sector, especially natural gas and

oil, was particularly painful. The subsequent announcements of REPowerEU and the Green Deal Industrial Plan can be seen as attempts to build more resilient supply chains, which have been proven vulnerable by the COVID-19 pandemic and the Russo-Ukrainian war.

This brief examines how EU's OSA has been developed and realized in the face of recent changes in the global trade landscape, based on the investigation of Jang et al. (2023). By examining the definition of OSA and the realization of this concept in EU's policy, we can better understand the context in which the EU's industrial and trade policies have been shaped. This will provide a basis for deriving policy implications for Korea.

II. Definition of OSA

The EU's OSA comprises two parts: "Openness" and "Strategic Autonomy". "Strategic autonomy" is the ability to act autonomously in strategically important policy areas without relying on other countries. The concept of strategic autonomy was used primarily as an approach to security and defense issues until the mid-2010s. Since 2017, however, the concept has expanded to encompass the political, diplomatic, and economic spheres, as it is seen as a way to defend European interests in a geopolitical environment hostile to Europe. As discussed in the introduction, changes in the trading environment, such as the weakening of multilateralism observed in the mid-2010s, Brexit, the former US President Trump's America First policy, and China's increasing

assertiveness, have called for a proactive response in European international economic policy. The COVID-19 pandemic of 2020 was one of the triggers for the expansion of the concept of strategic autonomy. The pandemic led to severe shortages of essential medical equipment and vaccines, reinforcing the realization that over-reliance on foreign supply chains can be a strategically risky option. From 2021, the concept of strategic autonomy became a fundamental philosophy of the EU, extending to virtually all EU policy areas. Concepts such as "strategic sovereignty," "capability to act," and "resilience" have since emerged and been used as rationales to defend EU interests.

However, the notion of strategic autonomy to defend EU interests is at odds with the EU's long-standing principles of free trade. Since the formation of the European Coal and Steel Community in 1952 by Germany, France, Italy, and the three Benelux countries, the EU has expanded the scope of its economic integration. The Maastricht Treaty of 1993 established the EU as an economic and monetary union that promotes the free movement of goods, services, capital, and labor within the current 27 member states. As the EU seeks to expand its economic integration outward, it is inevitable that the concept of strategic autonomy, which focuses on strengthening internal capacities, will be challenged.

This is why the "open" component is included in the OSA. The EU's 2016 Action Plan for the EU Global Strategy for Foreign and Security

Policy defines OSA as “the ability to act autonomously when necessary, while at the same time acting and cooperating as much as possible with international and regional partners.” (EEAS 2016). Valdis Dombrovskis, the European Commission's High Representative for Trade and Trade Commissioner, defined OSA at a press conference in January 2021 as follows:

“Open strategic autonomy” means remaining open to trade, commerce, and international cooperation, but protecting our interests, rights and values from unlawful aggression. It means acting multilaterally whenever and wherever possible, but being able to act autonomously when necessary.” (European Commission 2021)

III. Implementation of OSA in EU's Policy

The concept of OSA is being implemented in the EU's industrial and trade policies. In the New Industrial Policy announced in March 2020, the EU emphasized strategic autonomy to reduce external dependency in strategic industries such as technology, food, infrastructure, and security. The ICT, bio, and green industries, which are expected to contribute the most to growth potential and job creation in the near future, are included in the strategic industries as well. In addition, a European Defence Fund has been established to support the development of technologies in the defense and aerospace sectors, build resilient supply chains among Member States and support

SMEs and start-ups. Although the 2020 New Industrial Strategy did not officially include the word 'open' in front of strategic autonomy, it emphasized the integration of the single market in the region and proposed various international cooperation measures to maintain an open economy, which we believe partially reflects the concept of open strategic autonomy.

Furthermore, OSA has emerged as a key concept in the EU's new trade strategy, “Trade Policy Review - An Open, Sustainable and Assertive Trade Policy” which was published in February 2021. In addition to the concept of strategic autonomy for industrial sectors emphasized in the previous New Industrial Strategy, the new trade strategy further highlighted 'openness'. It includes policy goals and measures to pursue openness, such as strengthening the supply chain resilience of small- and medium-sized enterprises and forming international partnerships in high-tech strategic industries. The three core objectives of the strategy are to support economic restructuring for green and digital transformation, to establish common norms for sustainable and fair globalization, and to enhance the EU's capacity to defend its interests and promote its rights.

The outbreak of the Russia-Ukraine war in early 2022 raised awareness of the EU's need for greater strategic autonomy in industrial and trade policies. The energy crisis in the aftermath of the war caused natural gas and crude oil prices to soar in European countries

that are highly dependent on Russian energy, putting pressure on price levels, production costs, transportation costs and supply chains. As the risks of high dependence on a single country were realized by the geopolitical crisis, the EU published its 2022 Strategic Foresight Report in June 2022, noting the need to take geopolitical factors into account to achieve the goal of strengthening regional supply chains for digital and green industries. This means that the selection of trading partners should not be based solely on price competitiveness and economic efficiency, but also on the likelihood of geopolitical risks.

Efforts to identify risks in the supply chains of key strategic industries continued after the war. A March 2023 publication by the European Commission's Joint Research Center selected key industries for the future, including lithium batteries, wind turbines, robotics, fuel cells, solar panels, and data storage, and measured supply chain risks at the raw material, component, and final product stages. Only wind turbines are competitive in the EU at the manufacturing stage, while other sectors are highly dependent on the US, China, and South Korea. There are also many areas of supply chain vulnerability at the raw material or component level.

Against this backdrop, the EU has proposed a series of supply-chain-related laws reflecting the concept of OSA. These include the European Chips Act, the Critical Raw Materials Act, the Net-Zero Industry Act, and the Di-

rective on Corporate Sustainability Due Diligence. Through these legislation efforts, the EU has set targets for the share of internal production and provided a range of supportive policies, including subsidies, tax incentives, R&D support, and workforce training, to achieve these targets. The legislative proposals also emphasize bilateral and multilateral strategic partnerships, reflecting the open strategic autonomy of the EU to pursue cooperation with like-minded countries that share its values.

IV. Policy Implications

The EU's policy of setting targets and expanding support to strengthen the competitiveness of local industries is likely to pose a challenge to Korean exporters and investors. For example, Korea has remained competitive in the semiconductor manufacturing sector, but it is to face challenges from the EU due to the supportive measures included in the European Chips Act. In the case of secondary batteries, Korean companies are currently positioned as major producers in Poland and Hungary, but competition is likely to intensify as the share of local companies increases with the support of the EU.

However, the EU's emphasis on expanding openness is something that Korean companies are actively trying to take advantage of. The European Chips Act, Critical Raw Materials Act, and Net-Zero Industry Act all have components of expanding bilateral and multilateral cooperation with like-minded partners. In particular, the EU's recent supply chain legislation

is characterized by weak geographic discrimination, so it is expected that Korean companies with a local presence will be able to enjoy similar benefits as EU companies. Taking advantage of the EU's favorable foreign trade policies will not only benefit Korean companies, but also provide an opportunity for the EU and Korea to jointly contribute to addressing global challenges that require international cooperation, such as the reshaping of the international order, supply chain pressures, climate change response, and labor supply shortages.

Finally, the challenges of the changing global trading environment faced by the EU are the same challenges faced by Korea, so it is necessary to learn from the EU's responses and use them as a benchmark to develop strategies tailored to our own circumstances. While it is beyond the scope of this report to formulate a specific foreign economic and economic security strategy for Korea, the EU case analyzed in this report should serve as an important reference point.^{KIEP}

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