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MEETING DOCUMENT

From: General Secretariat of the Council
To: Working Party on Competitiveness and Growth (Industry)
Subject: Strategic Autonomy in a Globalizing World - Powerpoint presentation (Compco WP 05.02.2021)
Strategic Autonomy in a Globalizing World

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February 5, 2021
Approaches to economic strategic autonomy

– It is the dependence on foreign firms and countries that define the sovereignty problem: Europe should become independent from others
  – Trade and investment barriers; regulations targeting foreign digital firms or their supply; shifting demand to lower quality-higher price domestic suppliers.

– Sovereignty is based on our autonomous capacity to understand, access and use new technologies and business models, including technologies emerging from the next wave of innovation in ICT. Our sovereignty problem isn’t foreign innovation and competitiveness – it’s lacking autonomous capabilities: human capital and capital.
The risks of an “independence” approach

Economic problem:

- Europe is going to miss out on ”new globalization”
- Substantial supply shortages of digital human capital, esp. computer/AI engineers
- Changing economic power structures – EU 9% of global economy in 2050
- Innovation and ideas will come from other parts of the world
- We have already taken the “low-hanging digital fruits” – now comes the difficult part.
New Globalization
Growth in trade (2009=1)
Globalization, 2005-2015

Total Manufacturing Industries

- Trade-to-Production
- LOWESS
Comparative Advantage / Digital Services

Comparative Advantage if RCA > 1

RCA


EU27
USA
The Cost of New Ideas
Moore’s law – doubling of chip capacity every 2nd year
Cost of new ideas through growing input costs
Accessing new ideas in the economy

- Europe’s share of the global economy is shrinking (estimated to be 9% by 2050)
  - More of the new ideas in the economy will developed outside of Europe
- Europe’s demography – many countries will have shrinking labour forces
  - Costs and shortages of staff will go up
- A global under supply of human capital
  - Everyone competes to get access to talent
- We are moving from a “labour shock” economy to a “labour shortage” economy
Preferred approach to strategic autonomy

— Sovereignty is based on our autonomous capacity to **understand, access and use** new technologies and business models, including technologies emerging from the next wave of innovation in ICT.

— Our sovereignty problem isn’t foreign innovation and competitiveness – it’s lacking autonomous capabilities: human capital and capital – **leading to absorptions gaps**.
  
  — Higher education: especially shortage of computer engineers and AI engineers
  — Too little research spending, no world class universities in the EU
  — Very few EU countries have deep financial markets with ability to fund entrepreneurial projects

— **Relative** problems to exacerbate in the future:
  
  — Human capital shortage amplified by demographic change
  — Slow growth of VC market – valuations to be affected by breaks on corporate growth
Digital **Consumer** Absorption Gap
Digital Business Absorption Gap

OECD frontier

EU frontier

Gap between EU economy and EU frontier

Gap between EU and OECD

Leading EU economy

Businesses purchasing cloud computing services
Businesses with formal policy to manage ICT privacy risks
Businesses with a website allowing for online ordering or reservation
Persons employed using a computer with Internet access
Businesses receiving orders over computer networks
Persons employed regularly using a computer in their work
Businesses with a website or homepage
Businesses using CRM (Customer Relationship Management) software
Businesses with a broadband connection - includes both fixed and mobile
RCA in China (red) and India (yellow)
Thank you!