



Lessons from the Pandemic: Update of the EU Industrial Strategy

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The update of the EU industrial strategy confirms the intention strongly accented in its original version to strengthen the Community's position in the global economic competition. At the same time, the EU remains an advocate of openness and free trade. However, it wants to modify the rules, favouring equal competition and sustainable development. Participation in existing and planned EU projects can facilitate the technological modernisation of Polish enterprises, necessary for achieving the objectives of the green and digital transformations.

Context. The announcement by the European Commission (EC) of [the new industrial strategy](#) in March 2020 preceded the sharp outbreak of the COVID-19 pandemic in the European Union. Preventive actions introduced by most governments resulted in cuts in consumption, investment, trade, and mobility, as well as a reduction in industrial production. The decrease in economic activity caused a recession of 6.3% of GDP in 2020. The pandemic also disturbed supply chains, starkly underscoring the EU's dependence on foreign suppliers and producers.

In autumn 2020, responding to the calls by the Member States and the European Parliament, the EC decided to update the industrial strategy, finally publishing it in May this year. The new document confirms the direction applied a year earlier and takes into account the impact of the pandemic on the planned activities. The publication of the update coincided with the Member States' plans to use resources from [the recovery instrument](#), which is supposed to partially finance the implementation of the strategy.

A Stronger Union in the Economic Rivalry. An important element of the update is a summary of an audit of the strengths and weaknesses of the EU economy. For 137 of the audited products, the Commission warns that the Union is significantly dependent on other countries (mainly China). These items constitute only 6% of imports by value, but they are raw materials and processed products that are important to the green and digital transitions, for example,

they are used in the production of electric cars or wind turbines, as well as in medicines. The EC announced support for companies that sought to limit this dependence, including by diversifying supplies or more effective use of raw materials. The Commission also cited underdevelopment in technology (e.g., cloud data storage, microelectronics). To counteract this, it supports the creation of industrial alliances—wide platforms for cooperation of public and private entities to act as incubators of innovative solutions. The EC has appointed such alliances as leaders on issues of raw materials, better batteries, and use of hydrogen. Soon, subsequent alliances will be nominated for semiconductors and the use of data in industry.

The pandemic has provided additional arguments to strengthen the protection of European entities against unfair competition. With the update of the strategy, the EC presented a draft legal act to limit access to the EU market for foreign companies using foreign public support. It also announced a greater emphasis on promoting EU standards, especially in the digital sector.

Accelerating the Twin Transition. The Commission stresses that despite the current economic problems, the green and digital transitions remain the EU's key objectives. It wants to send a clear signal to business groups that the direction of reforms, outlined at the beginning of the EC term in autumn 2019, remains unchanged, and encourage them to

invest. A private sector contribution will supplement the recovery fund as an additional source of financing economic modernisation. Boosting capacities to generate energy from renewable sources is crucial to reconcile the often contrasting goals of emission reductions and industrial development.

The Commission prepared an analysis of the challenges related to the transitions in various sectors. It also wants to mobilise stakeholders to become more involved in the debate on this subject. Some modifications of competition policy are being considered as well with a view to facilitate state aid in key areas for the transitions. The EC announced the forthcoming publication of its strategy on sustainable investment, which, through a set of indicators and incentives, will aim to channel private money towards undertakings that are climate and environmentally friendly. Another forthcoming piece is a draft directive that will oblige companies to abide by stricter standards related to environmental and human rights (above all in relations with subcontractors abroad).

Challenges. Achieving the objectives of the updated strategy will largely depend on the Member States' determination. However, given the recession, they might prefer simply to prop up their existing business activities rather than engage in the transformation or modernisation, which demand more effort and resources. While the EC could withhold transfers from the recovery fund if relevant milestones are not reached, it is likely to steer clear of strict disciplinary measures in order to avoid a conflict with the Member States.

The EC was right to highlight a number of aspects of the functioning of the single market that need improvement, such as the still incomplete implementation of the services directive or the lack of harmonisation of mutual recognition of qualifications. However, as there is only a small mention of remedies to these well-known ills, the strategy could turn out to be a document with limited operational value.

Moreover, its clear focus on innovation, investment in breakthrough technologies, and tackling foreign competitors puts pressure on internal social and economic cohesion. EU regions will be disproportionately burdened with the cost of decarbonisation and automation of work. According to the European Investment Bank, the largest negative side effects of the twin transitions for the labour market and standards of living could occur in Central and Eastern Europe.

On the international level, the Commission's proposals could lead to tensions with main trade partners who hold conflicting views on the principles of fair competition. A group of emerging economies (Brazil, China, India, and

South Africa) considers the planned EU [carbon border-adjustment mechanism](#) to be a harmful protectionist measure.

Diverging views on reconciling economic openness with protection of the single market and sustainability are manifest also within the Union. The ratification of two important agreements, one [on trade with Mercosur](#) and another [on investments with China](#), is uncertain. In both cases, critics of the deals (who mainly hail from left-wing parties) argue that the Union's counterparts have not accepted binding commitments regarding environmental, climate, and labour laws.

Conclusions and Prospects. The experience of the pandemic has provided arguments for the advocates of strengthening the EU's self-sufficiency and mechanisms for protecting the single market. However, in order to successfully implement the updated strategy, these objectives will have to be reconciled with maintaining trade relations that are beneficial for the Union and convincing partners to step up their involvement in the fight against climate change. This pursuit of adequate balance is reflected in the concept of "open strategic autonomy", which features prominently in EU documents. Its final form will be the subject of disputes between the Member States, in particular the defenders of free trade and advocates of enhanced protectionist measures.

The update brings added value through new insights into the EU's economic vulnerabilities in the context of international rivalry. It also reflects the Commission's greater readiness to adjust the measures planned in the framework of the twin transitions, taking into consideration the specificity of individual industrial sectors. For the updated strategy to succeed, it will be important that the EC and Member States carry out scrupulous analyses of national strategies for spending the recovery fund money (and later their implementation) so the additional resources contribute to genuine modernisation of the Union's economy.

For Poland, it is important that the EC remains determined to eradicate barriers to economic activity on the single market. Furthermore, for Polish firms and scientific institutions, participation in the alliances formed under the Commission's aegis offers a chance to cooperate with industry leaders and access advanced technologies. For public bodies, these alliances could become new channels to reach investors. It is in Poland's interest that such projects create real opportunities for participation and access to funding for entities from states with more modest technological and industrial potential.