03|2021

INFORME

THE ECONOMIC GOVERNANCE OF THE EUROPEAN UNION

THE IMPACT OF THE PANDEMIC

CONCLUSIONS AND PROPOSALS

CES
CONSEJO ECONÓMICO Y SOCIAL ESPAÑA

NÚMERO 03|2021

COLECCIÓN INFORMES

Ordinary session of the plenary assembly, 27 October 2021

INFORME 03|2021
THE ECONOMIC GOVERNANCE OF THE EUROPEAN UNION

THE IMPACT OF THE PANDEMIC

CONCLUSIONS AND PROPOSALS

CONSEJO ECONÓMICO Y SOCIAL **ESPAÑA**
PUBLICATIONS DEPARTMENT
NICES: 812-2021

Colección Informes
Número 03/2021

Consejo Económico y Social
Huertas, 73
28014 Madrid. Spain
T 91 429 00 18
publicaciones@ces.es
www.ces.es

CONTENTS OF THE REPORT (Spanish version at www.ces.es)

INTRODUCTION

The context for this Governance Report is completely different from previous situations[1]. The pandemic has amounted to an unprecedented disruption to the economies and lives of European people and, while every effort must undoubtedly be made to lay the foundations for a rapid economic recovery, it has brought to light the existence of structural problems in the economic governance of the European Union, which must be addressed to bring stability, resilience and resistance to the process of European integration.

Apart from the difficulties in the actual decision-making process that the European Union encountered in the early stages of the health crisis, it soon became clear that the lack of common contingency policies, the limitations of the common budget and the lack of instruments for stabilisation did not allow for a sufficiently far-reaching European response. This made it necessary to reach agreements on decisive measures and to define instruments to mobilise financial support for the Member States from the Union, in order to tackle a crisis that affected all the partners but had an asymmetrical impact on their economies and labour markets.

The agreements reached have made it possible, among other things, to articulate a common health response, to support Member States, businesses and workers, to lay down a medium-term recovery plan and to put forward an EU vaccination strategy.

Many of the solutions adopted, if consolidated, could represent a qualitative leap in the budgetary and political integration of the European Union, especially the launch of the Next Generation EU (NGEU) recovery plan. This is a European spending programme, to be financed by the issuance of debt anchored to the EU budget, which will be used to fund Member States' public investment programmes in the coming years.

Although the end of the crisis seems closer thanks to the progress made in the vaccination process, neither its magnitude nor its duration are yet clear. This uncertainty and the prolongation of the crisis could widen the economic and social gaps that already exist between the different partners, which would be a major setback for real intra-EU convergence and for the consolidation of social cohesion, both of which are fundamental

1 ESC Report 3/2012, New economic governance in the European Union and growth; ESC Report 1/2014, Developments in the economic governance of the European Union: update of ESC Report 3/2012; ESC Report 1/2016, Analysis of the economic governance of the European Union; ESC Report 2/2017, Economic governance of the European Union. Annual report; ESC Report 2/2018, Economic governance of the European Union. Annual report; ESC Report 3/2019, Economic governance of the European Union. Annual report.

elements of European integration. The economic strategy proposed by the Commission aims to boost the recovery of economies while promoting equity and social justice, alongside the ecological and digital transition. This will pose a challenge for the economic governance of the European Union, and it must also be borne in mind that the return to a path of sustained growth will be uneven, as will the impact of the crisis itself.

The time is therefore ripe to take stock of the progress made in economic governance and to analyse ongoing issues, such as further integration and balancing of the social and economic dimension, in order to secure the future of the European Union. More than ever, the European Union as a whole, through its institutions and its Member States, should be able to exercise leadership in addressing today's enormous challenges in the health, social, economic and climate fields. At stake is the role of the European Union as an international organisation of a supranational nature, as well as the very future of the European project based on the fundamental principles of solidarity and cooperation.

CONCLUSIONS AND PROPOSALS

The pandemic has brought unprecedented disruption to the economies and lives of Europe's citizens, underlining the importance of a united Europe in the face of adversity. However, it has also brought to light structural problems that need to be addressed to make the European project stable and resilient.

The agreements finally reached have made it possible to articulate a common health response, to support Member States, businesses and workers, to lay down a medium-term recovery plan and to set out a European Union vaccination strategy. Many of the solutions adopted, if consolidated, could represent a qualitative leap in the process of European integration.

However, uncertainty about the final outcome of the crisis and observation of its asymmetrical impact on the different Member States, particularly on countries that had already shown weaknesses in terms of employment and social cohesion, stresses the need for economic policy to integrate the social dimension in order to reduce the risk of increased inequality that, as we know from previous experience, often follows such crises.

In fact, although the end of the crisis now seems closer thanks to the progress made in the vaccination process, the risk of widening economic and social gaps between the different partners must be mitigated to further real intra-EU convergence and the consolidation of social cohesion, both of which are fundamental elements for the construction of Europe.

The recovery strategy proposed by the European Commission aims to promote the ecological and digital transition, but also equity and social justice. This will undoubtedly amount to a challenge for the economic governance of the European Union.

The pandemic crisis

Complex decision-making

In the early stages, the timing of the crisis response and the complexity of decision-making pointed, once again, to the difficult economic governance of the European Union resulting from its incomplete political and economic integration. Some Member States violated the rule of law with their decisions to fight the pandemic or tried to influence the negotiation of the Multiannual Financial Framework 2021-2027 and the Recovery and Resilience Plan.

But in the end, compared to the previous crisis, the EU responded to a totally unexpected health shock in a more coordinated, determined and forceful manner, as demonstrated both by the set of decisions taken and the financial volume of the support provided.

In any case, a move towards further economic integration is still desirable to strengthen the Union's institutional architecture and improve its democratic foundations, transparency and accountability to citizens.

Faced with the need to preserve the health of citizens against this unexpected disruption, exceptional, unilateral, defensive and non-cooperative actions had to be urgently adopted. They included restrictions on the free movement of persons or on exports of medical products and devices, putting at risk the integrity of the internal market, even though this is one of the greatest achievements of European integration.

First exceptional measures by Member States

The experience gained during the pandemic has underlined the need for a coordinated approach to exceptional events, with swift notifications of restrictions imposed by Member States and the design of efficient and secure digital traceability services for such restrictions.

Protecting health as an EU objective

The pandemic has highlighted the potential conflict between free movement of people and the need to establish a national health strategy in certain circumstances. This conflict had not arisen before, and it indicates the need to develop a Europe of health, an area which falls within the competence of the Member States.

Indeed, the pandemic has stressed the need to move in this direction in order to respond more effectively to cross-border health crises. In November 2020, the Commission presented a series of proposals to create the European Health Union, and to strengthen the European Centre for Disease Prevention and Control and the European Medicines Agency, both of which are key to management of the COVID-19 pandemic.

Thus, better coordination is needed between Member States to effectively protect people's health, both in times of crisis and in normal times. And, in general, improvements must be made in protection, prevention and preparedness and in the EU response to potential future risks to human health.

The economic policy response to the pandemic

This new crisis has pointed, once again, to the importance of economically strong and sound public sectors to protect societies against such risks, to counteract the macroeconomic shocks they generate, to minimise the resulting social unrest and to promote economic recovery.

In contrast to the last financial crisis, this time Member States, with the backing of the European Union, made a strong commitment to fiscal activism to stabilise the economy, thereby significantly cushioning the fall in incomes, job losses and business closures, and driving a rapid recovery of their economies as the constraints associated with managing the pandemic were lifted.

To underpin the recovery on a sustainable and inclusive basis, expansionary national fiscal policies should be maintained at least until 2022, as recommended by the Commission, taking advantage of the maintenance of interest rates on debt at levels close to zero and the fiscal space provided, especially for the most indebted states, by the Next Generation EU *transfers.*

The discretionary support measures adopted by Member States, while favouring a counter-cyclical response, have not removed the risk of economic and social divergence because they were of different intensity as not all partners had the same fiscal capacity to act. This, together with their different starting conditions and different impacts on production structure and labour markets, heralds a desynchronised and uneven recovery, which might deepen economic and social divergences among Member States. In fact, the southern European economies, which have suffered most from the consequences of this crisis, were already weaker in terms of employment and social cohesion and therefore face greater social challenges.

In particular, the different scope and magnitude of state aid granted by the various Member States to support the business fabric most affected by the crisis has led to significant differences for the future financial viability of companies and jeopardises the functioning of the single market and of competitive balances within the European Union. It was originally envisaged that the recovery fund would include a specific, direct instrument to compensate for these differences, but in the end this was not included.

Agreement on the specific creation of such a common solvency support instrument would have been desirable. It would have avoided distortions in the competitive framework and would have mitigated situations of corporate over-indebtedness which, during the recovery phase, may be burdensome and increase divergence among the members.

The European Central Bank's support—mainly through its Pandemic Emergency Purchase Programme and new Eurosystem financing and liquidity-providing operations—facilitated Member States' fiscal impulse, easing financing conditions and ensuring the availability of sufficient liquidity to support the flow of credit to the real economy, thus averting the risk of financial fragmentation and contributing to the moderation of risk premiums.

In this context, moreover, in July 2021 the European Central Bank revised its monetary policy strategy, incorporating to its toolkit asset purchases and longer-term financing operations to be used when necessary.

In view of the results obtained, the ESC welcomes the ECB's action and the inclusion of such measures in the set of monetary policy instruments at its disposal, which should make it easier to act in similar situations in the future.

Next Generation EU, a common fiscal impulse for recovery

The severity of the crisis made it necessary to respond more forcefully and this took the form of a recovery plan—*Next Generation EU (NGEU),* approved by the European Council in December 2020 and endowed with €750 billion. Within it, the Recovery and Resilience Facility (RRF) aims to finance strategic investment programmes and structural reforms in Member States to support recovery from the pandemic, while also driving the transformation of the European growth model in line with the European Union's objectives and strategic priorities.

The creation of the NGEU instrument to consolidate recovery in Europe has been a historic milestone in the fiscal and political integration of the European Union because, for the first time, joint public debt has been issued, backed by the own resources system, to finance European spending policies with an important distributional component. The issuance of joint debt converts the European Union into a major financial player and strengthens the role of the euro as a global currency.

Objectives of the Recovery and Resilience Facility

The main strategic objective of the Facility is to finance public investments and reforms in Member States for the green transformation of their economies. To this end, the European Commission has established that at least 37% of the allocation to each Member State's recovery and resilience plans should be used for this purpose, through actions in the areas of energy, transport, decarbonisation, circular economy, water management and biodiversity, as well as ensuring just transitions in terms of employment and social welfare.

The RRF offers a unique opportunity to further the goal of achieving sustainable growth and accelerating the ecological transition. This is the most pressing challenge facing economies today: to achieve sustainable growth in the broad sense, understood as economic, environmental and social sustainability.

The digital transition is also key to strengthening the social and economic resilience of the European Union and the Member States, their economic growth potential and job creation. The European Commission's guidelines in this regard stated that at least 20 per cent of RRF funds should be earmarked for digital transition projects, in particular for SMEs.

While the digital transition in Europe is an objective in itself, it should be urgently speeded up so that it does not fall behind and can push forward the digitalisation process, closing the gap with respect to the most advanced countries and, at the same time, addressing the significant internal gap.

Moreover, the differential impact of the pandemic has highlighted the need to ensure an inclusive recovery which, at European level, requires addressing issues of equity and cohesion such as the preparedness and resilience of national health and social protection systems, equal access to healthcare, long-term care and childcare systems, or demographic change.

The process of recovery and transformation of the growth model must be equitable in order to avoid inequalities among the European population and contribute to the advancement of effective equality between men and women, guaranteeing the support of all sectors of society and contributing to social, economic and territorial cohesion. In this context, the RRF is also an instrument that allows Member States to address, through structural reforms, the challenges that had already been identified in the framework of the European Semester in the various country-specific recommendations adopted by the Council annually on the basis of the Stability Programmes and the National Reform Programmes.

The challenge of governance of the Recovery and Resilience Facility

The NGEU has an important allocation function as it is primarily intended to finance public investments and national structural reforms, which, if well managed, can help alleviate the worrying public investment deficit of the last decade and help transform economies to make them more resilient to new global uncertainties and challenges. In the coming years, the EU's economic policy coordination framework will focus on governance of the Recovery and Resilience Facility, specifically on the management and monitoring of compliance with the national recovery plans approved by Brussels.

Successful management of the RRF is crucial to strengthen mutual trust among Member States in order to consolidate this reform for the future and to secure the recovery of the European economy.

However, the articulation of a management and control process for the RRF that is parallel to, and differentiated from that of the Structural Funds should not lead to overlapping operations, over-regulation, greater complexity and bureaucratic overload for public administrations, and oversight should focus on the evaluation of results rather than on regulatory and procedural compliance.

In any case, the Commission now has a budgetary tool that reinforces its power to incentivise national reforms in line with its priorities and recommendations, which in the framework of the European Semester had been practically inoperative because there was no system of incentives and sanctions.

Given that the creation of the RRF implies an increase in the Commission's executive and financial power, the democratic legitimacy of its decisions should be strengthened by giving the European Parliament a greater role in the system of governance of this tool.

In the same vein, greater involvement of economic and social actors would have been appropriate, through the European social dialogue, in the design of the Facility and the establishment of priorities. It is therefore desirable, for the management, governance and evaluation of the Mechanism in coming years, to remedy this shortcoming and establish effective channels for participation of all economic and social agents.

Channelling the NGEU instrument through national plans

The funds of the Recovery and Resilience Facility are channelled through the Member States, which submitted their recovery plans as from the end of April. In general, the Commission's guidelines were followed by all Member States, which allocated in their plans the percentages set for the green and digital priorities and above. However, there are many differences between the plans submitted, both in their structure and in the level of detail of the actions included. All of them included actions for the full value of the amount initially allocated as transfers, and some even slightly more. In contrast, only seven Member States requested resources via loans.

However, the plans raise some doubts as they do not take into account the risks and transition costs of the investments and reforms envisaged and, consequently, the need to anticipate and offset them. Moreover, some opportunities have been missed, especially in the definition of specific investments to improve social and territorial cohesion and convergence and to avoid increased inequality.

It would therefore be appropriate to have a more detailed assessment of the undesired impacts and risks of the projected investments and of the possibility of establishing compensatory mechanisms, guaranteeing a just transition to the new model, in line with one of the priorities of the plans, namely, to guarantee social and territorial cohesion.

On the other hand, although the plans also had to address the objective of achieving more resilient economies for the future, this is seen as ambiguous in that this objective should be achieved with the recovery itself and with the investments made and structural reforms adopted.

In this sense, it would be necessary to reflect more deeply on what resilience as an objective consists of and how to help achieve it.

Finally, also in the area of national plans, there should have been guarantees that the economic and social partners could be actively involved in the design of the national plans through the appropriate channels for social dialogue, and other mechanisms for participation of all economic and social actors should also have been envisaged. In addition, instruments should have been provided for adequate coordination of the different economic and social agents involved, among themselves and with the public administrations. For the coming years, during the implementation, monitoring and evaluation of the plans, this shortcoming should be corrected to ensure that the administrations are better adapted to the needs and challenges of each Member State.

Challenges ahead for strengthening the economic governance of the European Union

Towards greater financial integration

Financial integration has been affected in the context of the COVID-19 crisis by some measures that allowed greater discretion in the intervention of Member States outside EU regulations (recapitalisations). Moreover, the risk that this new crisis could lead to new periods of banking and financial instability has been curbed by the ECB's action to ensure the provision of liquidity and guarantee comfortable financing conditions.

In any case, to avoid any future financial instability, efforts should be made to make the Banking Union a reality as soon as possible so that the effects of such crises can be managed within the banking system and the risks of future crises can be anticipated.

The Banking Union project, launched in 2012 as part of the European response to the financial and debt crisis, remains incomplete almost a decade later. The most recent development in this respect, following the political agreement reached at the end of 2020, is the possibility of reforming the ESM so that it can act as a common budgetary protection mechanism for the Single Resolution Fund.

In the framework of this envisaged reform, it should be proposed that this mechanism could also serve subsequent to resolution, when the ability to access liquidity may be limited. This would require additional support mechanisms.

In any case, a firm commitment to the Banking Union is urgently required to improve the functioning of the existing supervision and resolution mechanisms, but above all to reach a political agreement on the creation of the European Deposit Guarantee Scheme, defining a precise and feasible timetable and an ambitious scheme for full mutualisation.

Furthermore, it is necessary to continue with the promotion of a unified regulatory framework that guarantees homogeneous application, by means of common regulations that en-

sure uniform transposition in the different Member States, facilitating decision-making and common mechanisms for action.

It is also necessary to make progress on the Capital Markets Union, which will allow for greater development of long-term sources of funding and guarantee the integration and deepening of capital markets in the European Union. Such objectives are particularly necessary in the context of the COVID-19 crisis and in view of the green and digital transitions which require greater financing from outside the banking sector.

The Capital Markets Union can accelerate recovery from the pandemic as market financing is the backbone for such recovery, embodied in the NGEU. Extensive, liquid capital markets will be needed and private investment will have to be mobilised to complement public support. The Capital Markets Union can also provide the necessary funding to deliver on the European Union's strategic priorities, the European Green Deal, adapting Europe to the digital age and addressing its societal challenges.

Strengthening the European Union's own resources system

As already stated, the creation of the NGEU instrument involves the issuance of joint public debt backed by the own resources system.

New figures need to be incorporated into the European Union's own resources system over coming years, in order to pay back the debt linked to the concessional component of the NGEU when it falls due, without having to increase the contributions of the Member States or cut back on other European spending policies.

Moreover, the incorporation of new resources would increase the independence of the EU budget, which would rely more on its own revenue and less on transfers from Member States. This could bring more transparency, simplicity, predictability and fairness to the revenue side of the budget, and would make it possible to move beyond the current nationalist logic of budget negotiations centred on the relative position of each state in relation to the budget.

The profits of multinationals, digital or otherwise, are the tax base that have by far the greatest revenue-raising potential, given the dimension they are acquiring, for achieving developed welfare states and sound public finances. But with the current legal frameworks, designed in the 1960s for other types of business based on physical presence, it is legal for them to not pay tax in the countries where they carry out their activity and locate their profits in low-tax territories.

In response to this problem, the Commission is working to establish a common framework for corporate taxation in line with global agreements that are currently under discussion, in order to establish a minimum effective rate on the global profits of the largest multinationals, to decide on a formula for distributing taxation rights among the states where they actually operate, and to create a new EU own resource based on this tax.

Building a new, more integrated and balanced fiscal framework

In a macroeconomic environment characterised by low potential growth, persistently low interest rates and high uncertainty, it is imperative to make progress in building a more integrated and balanced European fiscal framework, which will enhance sustainable and inclusive growth and stabilise the economy without affecting the sustainability of public debt.

The NGEU is an important step forward for European integration because it lays the ground for creating European macroeconomic stabilisation tools.

There is still a need to create permanent supranational fiscal tools, including some form of EU unemployment reinsurance, to deal with large exogenous shocks that have asymmetric effects, to influence the fiscal position of the Eurozone as a whole and to support monetary policy in order to safeguard its macroeconomic stability.

Moreover, the existing framework of fiscal rules prevents the articulation of effective national, discretionary fiscal policies in this type of situation. In the absence of a common fiscal capacity, it has been necessary to temporarily suspend their application in order to deal with the crisis through national public sectors, reinforcing the idea that a thorough reform of the framework is needed.

Before the pandemic crisis, there was already a consensus on the need to reform the European supervisory framework for national public finances in view of evidence that its reinforced application after the financial and sovereign debt crises led to the deployment of markedly pro-cyclical fiscal policies. These generally focused on reducing public investment, which delayed recovery and held back economic growth, reducing the effectiveness of monetary policy and turning out to be counterproductive for debt dynamics in some countries. There was also a shared view that successive reforms over the years to introduce some flexibility and to strengthen supervision in times of crisis had resulted in a highly complex and non-transparent regulatory framework that had undermined political support from governments.

The abrupt change in the economic landscape and European public finances brought about by the pandemic has made the shortcomings of the current system of fiscal rules even more evident, as well as the need to undertake a more ambitious and profound reform of the system than was initially envisaged, before deactivating the escape clause of the Stability and Growth Pact. Specifically, for this purpose:

1. *New, simpler, more transparent and realistic fiscal rules should be drawn up, favouring gradual debt reduction but allowing for counter-cyclical deficit fluctuations.*
2. *Fiscal surveillance should focus on medium-term fiscal objectives and directly observable indicators based on debt sustainability analyses that take into account the macroeconomic scenario at the time*

3. *Transitional measures should be devised to unify the initial fiscal position of states, which is now enormously disparate, by means of fiscal adjustment paths with a longer time frame for the most indebted countries, or by creating redemption funds to absorb the debt of states when it exceeds a certain threshold.*
4. *The introduction of mechanisms to protect sustainable and inclusive growth-enhancing public spending in periods of fiscal consolidation should be considered.*

In any case, it is necessary to redouble efforts to extend fiscal integration in the European Union, given the growing risk of major economic shocks in the future associated with the accentuation of global structural dynamics such as climate change and the energy transition, economic and financial globalisation, digitalisation, the concentration of market power, increased inequality at all levels including between women and men, and demographic imbalance between the most developed economic areas and the rest.

Integrating the social dimension in economic governance

Progress in the social and employment spheres, although uneven and insufficient in some cases, was abruptly cut short with the arrival of the pandemic. And the economic and employment shock produced by COVID-19 has not been uniform. It has been more intense in the services sector, as well as for groups of workers whose position in the labour market was already especially vulnerable.

In this respect, the situation of young people is particularly worrying due to higher unemployment rates and more frequent transition to inactivity, as well as that of women, given the strong impact of the pandemic on the most feminised jobs and sectors. In addition, the strategies adopted to meet care needs during the pandemic, mostly covered by women during the lockdown and closure of educational centres, have led to worse working conditions and, in some cases, lower income. These situations could have important implications for women's employability in the post-pandemic period, especially for women who have been forced to withdraw from the labour market to meet care needs.

All of this requires ensuring an inclusive recovery. Compared to the previous crisis, this time the European Union has a comparative advantage: 1) it has an unprecedented economic aid programme which, together with the SURE instrument, has been reinforced in the social sphere by the approval of the European Social Fund plus (ESF+); and 2) it has more robust economic governance that is more permeable to the social dimension thanks to a reinforced social pillar, and in which social dialogue has also taken on a greater role. The European Union has shown the experience gained from its governance of previous crises.

This does not preclude further reflection on how to improve governance in order to achieve a balance between the social and economic dimensions, not only to emerge stronger from this pandemic, but also to lay the foundations for the long-term future of the European

Union. However, it is important to not lose sight of certain aspects of governance that might compromise stable inclusive growth (upward convergence).

Also, taking experience of the SURE instrument as a reference, further progress is needed to ensure more ambitious and permanent automatic stabilisation mechanisms to deal with future crises. New mechanisms should be consolidated so that they can be automatically applied in future crises without having to go through the uncertainty of political agreements that could jeopardise or delay their implementation.

It would also be interesting to place greater weight on the European Pillar in the European Semester, establishing clear, well-defined objectives which, according to the principle of subsidiarity, can guarantee minimum levels of wellbeing across Europe.

In this regard, it would be appropriate to include social indicators (such as social inequality, gender equality, poverty including child poverty and, in a cross-cutting manner, the environmental and digital perspective) in monitoring mechanisms, such as the Macroeconomic Imbalance Procedure (MIP), given their influence on public finances and, therefore, on the macroeconomic stability of Member States. As the Commission itself points out, greater interconnection is needed between the MIP and the SGP, allowing macroeconomic risk to be addressed alongside obstacles to growth and financial sustainability. Thus, an integrated scoreboard of indicators could be established corresponding to key social and economic objectives.

Although participation by the social partners in the process of governance has gradually increased in the framework of the European Semester, it is still necessary to move towards full participation, at both EU and national levels.

The European Union in the new post-crisis geopolitical framework

The pandemic has highlighted the enormous dysfunctions in world geopolitics for dealing with global challenges, this time in the form of an unprecedented global health crisis, straining already difficult international economic and political relations. The crisis has exposed the weaknesses of international cooperation, questioned the economic principles that govern globalisation, and unfolded in an environment of evident geopolitical tensions between major economies. Situations such as the UK's exit and the management of migratory flows are also examples of this. The main certainty that emerges in the wake of the pandemic is the high degree of global interdependence and the need to find cooperative solutions based on solidarity.

The European Union's vaccination strategy

In the EU vaccination strategy, a cooperative position has finally prevailed over national vaccination strategies in which some Member States might have had less bargaining power. However, the vaccination strategy has called into question the EU's negotiating capacity in the global context, as an autonomous and relevant geopolitical actor that defends European interests and values.

It is therefore necessary to promote a European strategic autonomy that allows the EU to position itself at global level in the post-pandemic economic recovery scenario, in which health and the protection of citizens have become a geopolitical issue.

Strengthening the European Union's strategic sovereignty

Tensions in global value chains both at the beginning of the pandemic and in the recovery phase have exposed the fragility of European economies and reinforced the idea that the European Union's strategic autonomy needs to be boosted.

But this requires political will and that Member States share the same vision of the strategic risks and challenges they face, in order to prevent divergent opinions from opening new gaps that could hinder geostrategic decision-making given its increasingly intergovernmental nature.

Realisation of this open strategic autonomy needs to be based on an appropriate assessment and analysis of the vulnerabilities of supply chains, in order to achieve the triple objective of establishing a diversification strategy, building strategic reserves and simplifying or bringing certain value chains closer geographically.

In this framework, the strengthening of EU industry is of particular importance. Alongside the promotion of innovation and active participation in the dual digital and ecological transition, EU industry must regain competitive ground at global level, building on the advantages of the single market, while improving its strategic autonomy.

For this strategy to succeed, there must be a high degree of commitment and cooperation between the EU itself, Member States, social partners, industrial sectors and other parties involved in industrial ecosystems.

In any case, the EU must seek to strike the right balance between strategic autonomy and trade openness, that is, without jeopardising the efficiency gains that come from specialisation and comparative advantages in international trade.

It should also be recalled that trade agreements with third countries can be an effective instrument for international promotion of EU sustainability standards, responsible business conduct and greater transparency and traceability in supply chains; this is the only way to make supply chains more sustainable and to guarantee that trade is conducted on a level playing field.

Also important is the continuing challenge of achieving "European digital sovereignty" in which the EU defines its own rules, makes autonomous technological decisions and develops and deploys strategic digital capabilities and infrastructures, all based on the European economic and social model and its regulatory framework, which should be a model for other countries to follow, with a view to developing digital standards and promoting them internationally.

This development must go hand-in-hand with a process of reflection on the effects of digitalisation on fundamental rights, competition and, more generally, on European societies and economies. Thus, for example, the construction of a competitive European data economy must protect European values and ensure a high level of security, data protection and privacy.

Finally, also with a view to reinforcing strategic sovereignty, it is worth reflecting on the advisability of promoting the international role of the euro, for which it is necessary to address structural limitations, perhaps the most obvious of which is the incomplete construction of the Economic and Monetary Union. The issuance of European bonds to finance the NGEU recovery plan is a step in the right direction, although greater integration of banking and private capital markets is also needed.

In short, the pandemic has highlighted both the strengths and weaknesses of the European Union for providing a common and coordinated response to internal and global challenges. More than ever, the European Union as a whole, through its institutions and its Member States, should be able to exercise leadership in tackling today's enormous challenges in the health, social, economic and climate fields.

CES

CONSEJO
ECONÓMICO
Y SOCIAL
ESPAÑA