

On the Origin of EU-Level Industrial Policy: Nationalism or Destructive Innovation?

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Abstract

February 2019 was a watershed for EU industrial policy thanks to the “Franco-German Manifesto for a European Industrial Policy” and the EU Framework for FDI Screening. This paper reviews the relevant theories, history of EU-level industrial policy and recent comments on the above activities. We argue that “destructive innovation” rather than conventional industrial theory has had great impact on the decisions of EU Member States. That is, a strategy combining new technologies and components improves the price-performance ratio and allows firms in developing economies to catch up and compete with the products of advanced economies. In addition to commenting on nationalism, the EU DG Competition also critiques the Franco-German proposal as violating the policy tradition. However, the new EU-level industrial policy would surpass simple cost-benefit considerations if the WTO reform, EU-US relations, and EU-China bilateral negotiations are unsuccessful in the next few years.

Key Words: EU industrial policy, China’s industrial policy, destructive innovation, competition policy, FDI screening mechanism