

Re-shoring and friend-shoring in the EU: a constitutional political economy perspective¹

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Abstract

The article examines the EU's recent shift toward re-shoring and friend-shoring through the lens of constitutional political economy and public choice theory. These strategies are linked to global disruptions such as COVID-19, the energy crisis, and U.S.–China rivalry. By analysing initiatives like the *European Chips Act*, *Critical Raw Materials Act*, and *Net-Zero Industry Act*, it is argued they signal constitutional change by loosening limits on state intervention. The study highlights risks of rent-seeking, market fragmentation, and new dependencies. It is assumed that without transparent, rule-based frameworks, such policies may erode EU integration and further deepen inequalities.

Keywords: re-shoring, friend-shoring, European Union, industrial policy, constitutional political economy, public choice theory

Re-shoring i friend-shoring w Unii Europejskiej: analiza w świetle konstytucyjnej ekonomii politycznej

Streszczenie

W artykule poddano analizie niedawny zwrot Unii Europejskiej ku strategiom *re-shoringu* i *friend-shoringu* z perspektywy konstytucyjnej ekonomii politycznej oraz teorii wyboru publicznego. Strategie te wiążą się z globalnymi zakłóceniami, takimi jak pandemia COVID-19, kryzys energetyczny czy rywalizacja handlowo-technologiczna między USA a Chinami. Analiza inicjatyw takich

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jak *European Chips Act*, *Critical Raw Materials Act* oraz *Net-Zero Industry Act* wskazuje, że oznaczają one zmianę konstytucyjną poprzez osłabienie ograniczeń dotyczących interwencji państwa. Autor podkreśla ryzyka związane z poszukiwaniem rent, fragmentacją rynku oraz powstawaniem nowych zależności. Przyjmuje się, że bez przejrzystych, opartych na zasadach ram omawiane polityki mogą osłabić integrację UE i pogłębić nierówności.

Słowa kluczowe: *re-shoring*, *friend-shoring*, Unia Europejska, polityka przemysłowa, konstytucyjna ekonomia polityczna, teoria wyboru publicznego

1. Introduction

The aim of this article is to assess the EU's re-shoring and friend-shoring strategies through the lens of constitutional political economy and public choice theory. The central argument is that these policies indicate a constitutional change in European economic governance: away from a rules-based competitive order and toward a more discretionary model, in which political priorities and strategic autonomy increasingly justify intervention. From a public choice perspective, this indicates a departure from the constitutional contract that traditionally constrained state intervention, ensured predictability, and limited politicised market allocation (Buchanan 1975; Vanberg 2018). The EU appears to be moving toward an order where industrial policy is legitimised by claims of resilience or security of supply, even if this weakens the normative foundations of the Single Market (Scharpf 2010; Tooze 2023). Such a shift may have consequences for long-term competitiveness and innovation if discretion privileges short-term or national priorities over open competition.

The "constitutional contract" referenced in this article does not refer to formal constitutions, but to the basic rules that enable cooperation and exchange. These rules form the foundation, on which formal constitutional and treaty arrangements are built. In other words, the constitutional dimension discussed here concerns the "rules of the game" underpinning policy and governance choices.

The article proceeds as follows. Firstly, it outlines the broader context, in which re-shoring and friend-shoring have become central to EU strategy, particularly the disruption of global supply chains caused by the COVID-19 pandemic, the energy crisis, and the intensifying U.S.–China rivalry. It then introduces the conceptual framework of constitutional political economy, drawing on Buchanan's distinction between the protective and productive state and on Scharpf's differentiation between input- and output-oriented legitimacy. The subsequent section contains the analysis of recent EU initiatives – the European Chips Act, Critical Raw Materials Act, and Net-Zero Industry Act – together with evolving state aid frameworks. These developments are interpreted as constitutional choices shifting the balance between competitive discipline and discretionary intervention. The article concludes by assessing their distributional and geopolitical implications and considers whether the pursuit of strategic autonomy can be reconciled with maintaining a rule-based economic order.

2. Methodological approach

This article employs a qualitative analytical method grounded in constitutional political economy and public choice theory. Instead of focusing on econometric evaluation or quantitative modelling, the analysis proceeds through a document-based assessment of recent EU policy initiatives, including the European Chips Act, the Critical Raw Materials Act, and the Net-Zero Industry Act, as well as evolving state aid frameworks and relevant European Commission's communications. These documents are examined as expressions of constitutional-level change rather than isolated policy instruments, following Buchanan's distinction between the *rules of the game* and the *play of the game*. This perspective makes it possible to assess how far these policies change the balance between market neutrality and discretionary state intervention (Olszewski 2024).

In addition, the article draws on State Aid Scoreboard data and selected secondary literature in institutional economics, political economy, and European integration studies to contextualise the distributional and competitive implications of expanding state aid flexibility. The methodological focus, therefore, lies in conceptual and institutional interpretation, how rule-bound constraints evolve over time and how policy interventions may generate incentive structures conducive to rent-seeking, strategic coalition-building, or changes in legitimacy narratives.

3. Re-shoring and friend-shoring in the contemporary European policy context

The EU's turn toward re-shoring and friend-shoring has grown gradually in response to supply-chain disruptions caused by COVID-19, energy shocks, and geopolitical tensions. Relocating production closer to the EU or to trusted partners is now framed as necessary for resilience, strategic autonomy, and security of supply in sectors such as energy, raw materials, and semiconductors (European Commission 2021a; Regulation (EU) 2023/1781). This marks a shift from earlier priorities centered on market liberalisation and competitive neutrality. Although Articles 107–109 TFEU traditionally restricted state aid, recent measures – including pandemic support schemes and major interventions under the Chips Act and the Net-Zero Industry Act – indicate a movement toward more discretionary governance (European Commission 2023b).

These developments parallel the United States, where the CHIPS and Science Act and Inflation Reduction Act direct substantial support to semiconductor manufacturing and clean technologies (Peters 2023). The EU's European Chips Act (2023) aims to double semiconductor production by 2030, while the Net-Zero Industry Act (2024) seeks to ensure that 40% of clean-tech deployment is met domestically (Regulation (EU) 2023/1781; Regulation (EU) 2024/1735). While both the U.S. and EU aim at resilience and security, the EU relies more heavily on regulatory coordination and flexible state-aid rules than on large-scale subsidies. This convergence indicates a broader strategic reorientation and raises constitutional questions regarding the stability of rule-based governance.

3.1. Public choice, constitutional implications, and critics

From a public choice perspective, re-shoring and friend-shoring create incentives for rent-seeking, as firms and governments compete for subsidies justified by "strategic autonomy," producing concentrated benefits and diffuse costs. The relaxation of EU state-aid and competition rules – previously constraining such discretion – raises the question of whether this marks a temporary adjustment or a deeper constitutional change (Brennan, Buchanan 1985).

Critics argue that privileging industrial policy over competition weakens efficiency safeguards established since the 1980s (Alesina, Giavazzi 2006; Majone 1996), encourages lobbying and protectionism (Buchanan, Tullock 1962; Krueger 1974), and erodes trust in rule-based governance (Blauberger, van Hüllen 2021; Vanberg 2018). Supporters counter that strict market liberalism is insufficient in the face of geopolitical challenges. On the other hand, Rodrik's trilemma highlights the trade-offs among deep integration, democratic legitimacy, and sovereignty (Rodrik 2011). Therefore, strategic autonomy can be seen as updating constitutional principles in response to vulnerabilities exposed by COVID-19 pandemic, the situation in Ukraine, and related geopolitical disruptions (European Commission 2021a, 2023d; Borrell 2020).

Ostrom (1990; 2010; 2012) demonstrates that polycentric governance can adapt without abandoning rule-based order, enabling institutional learning and resilience. This resonates with Buchanan and Tullock's (1962) argument that collective action should minimise net social costs. The constitutional challenge is to embed strategic autonomy within transparent, rule-bound frameworks rather than ad hoc protectionism. As Scharpf (2010) notes, legitimacy depends not on abandoning rules, but on aligning performance and constitutional discipline.

3.2. Constitutional political economy as analytical framework

Constitutional political economy distinguishes between the rules of the game and policies enacted within those rules (Brennan, Buchanan, 1985). The EU's Treaties constitute its economic constitution, designed to secure a competitive order and limit politicised intervention (Majone 1996; Scharpf 1999). Recent initiatives (such as the Chips Act and the relaxation of state-aid rules) are functioning as *de facto* constitutional changes, shifting governance from rule-based market integration toward discretionary intervention. When exceptions become normalised, credibility declines and rent-seeking proliferates (Vanberg 2018; Aidt 2016).

The key issue is whether new industrial policies are institutionalised through general, predictable, and non-discriminatory procedures. If support allocation depends primarily on political negotiation, the constitutional commitment to a competitive order is weakened. Therefore, the EU's embrace of re-shoring and friend-shoring represents a potential constitutional moment. Whether it strengthens or erodes the EU's economic constitution depends on whether strategic autonomy is integrated into a rule-bound system or remains discretionary and exceptional in practice.

3.3. Policy initiatives on re-shoring and friend-shoring in the European Union

The relocation of production activities from distant global sites back to the home country or regional economy (re-shoring), as well as the reorganisation of supply chains toward countries considered politically and strategically reliable partners (friend-shoring) have gained prominence in the wake of global disruptions such as the COVID-19 pandemic. This has revealed the fragility of just-in-time supply chains (Javorcik 2020), the weaponisation of energy supplies by Russia, and made the escalating technological rivalry between the United States and China even more visible (Bown 2020). Within the European Union, these strategies are embedded in the broader framework of *open strategic autonomy*, first introduced in the European Commission's *Industrial Strategy* (European Commission 2020) and reiterated in subsequent communications (e.g. European Commission 2021a). The EU's objective is not to take a step back, but to recalibrate the approach to global integration in order to mitigate vulnerabilities in critical sectors such as semiconductors, raw materials, and clean technologies.

From a public choice perspective, these policies signal a potential erosion of rule-based governance. As Buchanan (1975) and Brennan & Buchanan (1985) argue, once governments gain discretion to deviate from general competition rules, opportunities for rent-seeking expand, allowing organised interests to lobby for subsidies. Given that industrial policy tends to generate concentrated benefits and dispersed costs (Aidt 2016), the normalisation of state aid exceptions risks institutionalising political favouritism and weakening the level playing field of the Single Market (Olszewski 2024).

Other scholars disagree regarding the level of severity of such claims and argue that such concerns should not be overstated. Scholars in the tradition of political economy and development studies contend that industrial policy, when transparently governed and oriented toward strategic goals, can mitigate systemic vulnerabilities and foster innovation. Mazzucato (2021) emphasises the entrepreneurial role of the state in guiding mission-oriented investments that private actors underprovide, while Rodrik (2011) and Juhász, Lane, Rodrik (2024) highlight the importance of strategic industrial policies in addressing contemporary economic and geopolitical challenges. From this perspective, re-shoring and friend-shoring are not simply mechanisms of rent distribution, but necessary instruments for securing resilience in an era of geopolitical uncertainty and climate imperatives.

This tension illustrates the analytical duality of the debate. On the one hand, public choice scholars highlight the risks of politicisation, lobbying, and inefficiency; on the other, supporters of these changes underscore the limitations of markets in providing resilience and the potential for state intervention to play a constructive role. In the EU context, attempts are made to reconcile these perspectives by framing re-shoring and friend-shoring not as isolationist measures, but as selective recalibrations of interdependence that aim to balance efficiency, resilience, and legitimacy.

4. Analytical assessment of EU policy initiatives

The European Chips Act (Regulation (EU) 2023/1781) and the Critical Raw Materials Act (COM(2023)160 final) illustrate the EU's growing reliance on discretionary industrial policy instruments that diverge from its traditional rules-based constitutional order. Both initiatives are framed around the imperative of resilience, with explicit reference to geopolitical vulnerabilities in East Asia and in global raw materials supply chains (European Commission 2023b). In constitutional political economy terms, these measures can be interpreted as a recalibration of the *rules of the game* (Brennan, Buchanan 1985), shifting the balance from general market-making rules toward market-shaping interventions directed by political authorities.

The Chips Act institutionalises large-scale subsidies and grants priority status to strategic semiconductor projects, relaxing long-standing state aid constraints central to the Single Market (Articles 107–109 TFEU). From a public choice perspective, this discretionary allocation creates incentives for lobbying by national governments and major firms (Krueger 1974; Blauburger, van Hüllen 2021). Similarly, the Critical Raw Materials Act's binding extraction targets and friend-shoring partnerships, though addressing supply security concerns (OECD 2023), reflect a broader change away from the neutral, competition-based governance that has characterised the EU since the 1980s (Majone 1996).

Such discretionary frameworks may risk undermining the EU's credibility as a rule-bound order. As Vanberg (2018) argues, the predictability of institutional rules is essential for investment and innovation; once exceptions become normalised, the protective function of constitutional constraints weakens. Conversely, proponents argue that strict adherence to competition rules in the face of systemic shocks could jeopardise collective resilience. Rodrik's (2011) *trilemma of the global economy* underscores the tension between deep integration, sovereignty, and democratic legitimacy, suggesting that a re-balancing toward strategic autonomy is not only inevitable but necessary in the current geopolitical climate.

4.1. The Net-Zero Industry Act and the expansion of state aid frameworks

The **Net-Zero Industry Act (NZIA)** (COM(2023)161 final) is another cornerstone of the EU's new industrial policy architecture. Introduced as part of the Green Deal Industrial Plan, it sets the target that by 2030 at least 40% of the net-zero technologies deployed within the EU – ranging from solar panels and batteries to carbon capture and storage systems – should be manufactured domestically (European Commission 2023c). To achieve this, the Act provides for accelerated permitting, regulatory sandboxes for experimentation, and priority access to both public and private financing. In constitutional political economy terms, the NZIA may be seen as a deliberate shift towards politicisation of the Single Market. By designating certain technologies as strategically indispensable, it overrides the principle of competitive neutrality and substitutes it with selective industrial prioritisation (Majone 1996; Rodrik 2011).

From a public choice perspective, the clean-tech sector's regulatory sandboxes and priority financing create opportunities for rent allocation, granting state-backed advantages to selected firms. These discretionary mechanisms may encourage lobbying by industries and national governments seeking subsidies and market protection. The NZIA's mission-oriented goals do not eliminate this risk, but may legitimise rent-seeking framed as strategic necessity (Krueger 1974; Blauburger, van Hüllen 2021).

The broader **temporary state aid frameworks** illustrate how emergency measures have progressively eroded the constitutional constraints on discretionary subsidies. Beginning with the COVID-19 Temporary Framework of March 2020, the EU allowed unprecedented national support to firms disrupted by lockdowns. This was followed by the 2022 Temporary Crisis Framework, which authorised wide-ranging subsidies to cushion firms from the energy price shock in 2022. Most recently, the *Temporary Crisis and Transition Framework* (TCTF) adopted in March 2023 (European Commission 2023d) extended this logic further by explicitly permitting subsidies for green technologies.

What began as extraordinary derogations have now become embedded in EU practice. Analysts note that such repeated reliance on temporary frameworks has in effect normalised exceptions to the state aid regime (Nicolaidis 2023). From a constitutional political economy perspective, this undermines the credibility of the EU's economic constitution, in which Articles 107–109 TFEU functioned as rule-based pre-commitment tools designed to prevent protectionist spirals (Vanberg 2018). The discretion afforded to the Member States risks creating asymmetries within the Single Market, because larger economies such as Germany and France have more fiscal capacity to support their industries than smaller Member States (European Commission 2023a).

Some argue that such flexibility is essential to ensure resilience, strategic autonomy, and green leadership in a context of systemic shocks (Mazzucato 2021; Rodrik 2011). However, critics warn that the cumulative effect of a gradual "constitutional mutation." By replacing the impartial, competition-oriented logic of the Single Market with discretionary interventions, the EU risks drifting towards a situation that Scharpf (2010) described as a regime of "output legitimacy", characterised by short-term problem-solving capacity, but potentially corrosive to long-term trust in input-based, rule-governed legitimacy.

4.2. Distributional and geopolitical implications of the EU's industrial turn

The data from the *State Aid Scoreboard 2023* (European Commission 2023a) highlight the unprecedented expansion of subsidies within the EU: €670 billion in 2022 compared to roughly €100 billion annually before the COVID-19 pandemic. What distinguishes this surge is not only its magnitude, but also its concentration. Germany and France together accounted for more than three-quarters of the support approved under the Temporary Crisis Framework, while energy-intensive sectors, transport, and semiconductors emerged as the main beneficiaries.

From a **constitutional political economy perspective**, this pattern illustrates how the loosening of state aid rules amplifies pre-existing fiscal asymmetries among the Member States. Larger economies with deeper fiscal capacity can deploy vast resources to protect their industries, while smaller and less affluent members – particularly in Central and Eastern Europe – remain structurally disadvantaged (European Commission 2023a). Such asymmetry threatens to fragment the level playing field of the Single Market, not through overt protectionism, but through uneven access to subsidy-driven competitiveness. In effect, discretionary frameworks magnify distributional cleavages that EU rules were originally designed to neutralise (Majone 1996; Blauburger, van Hüllen 2021).

The political implications are equally significant. By reinforcing national disparities, subsidy allocation risks undermining the cohesion of the Union. As Scharpf (1999) argued, the EU's legitimacy rests on balancing efficiency with fairness across its Member States. When fiscal asymmetry translates into industrial advantage, the perception of fairness erodes, fostering discontent among smaller economies that lack the means to engage in subsidy competition. This dynamic not only creates risks of economic divergence, but also opens the door to political grievances that may weaken the commitment to collective rules.

Another important aspect concerns **procedural integrity**. Large-scale aid schemes were often approved through expedited procedures with limited scrutiny. While justified by crisis conditions, such practices reduce transparency and predictability, thereby weakening the constitutional function of state aid control as a check on arbitrary redistribution (Vanberg 2018). The normalisation of emergency procedures suggests a shift from a pre-commitment model – where rules constrain political discretion – to a discretionary regime where speed and flexibility take precedence. From a public choice viewpoint, such discretion can be seen as fertile ground for lobbying by well-connected sectors, with decisions shaped less by general principles than by concentrated political pressure (Aidt 2016).

4.3. Distributional asymmetries in state aid allocation

The EU's embrace of friend-shoring through initiatives such as the EU–U.S. Trade and Technology Council (TTC), the EU–Canada Strategic Partnership on Raw Materials, and agreements with Australia, Norway, and Latin American states reflects a decisive externalisation of its industrial policy. These arrangements aim to secure access to critical inputs – semiconductors, rare earth elements, and green minerals, while embedding supply chains in networks of “trusted partners” (European Commission 2021b; The American Presidency Project 2023). Unlike earlier phases of integration, which prioritised efficiency gains from open markets, these partnerships are explicitly framed in terms of resilience, sustainability, and geopolitical alignment.

From a constitutional political economy perspective, such agreements mark a departure from the EU's traditional role as a promoter of multilateral liberalisation. By privileging bilateral and plurilateral deals with politically like-minded partners, the Union effectively introduces a new set of rules for supply chain governance – rules that blur the line between industrial strategy and foreign policy (Meunier, Nicolaïdis 2019). This represents

not just a recalibration of trade instruments, but a constitutional change in the external economic order, privileging discretion and political choice over non-discrimination and neutrality.

At the same time, the friend-shoring agenda generates new asymmetries and strategic dependencies. While agreements with resource-rich partners such as Canada, Australia, and Chile diversify away from China, they also create fresh dependencies on a narrower circle of suppliers. As OECD's report (2023) argues, diversification that is politically filtered can paradoxically reduce resilience by constraining the scope of global sourcing. Moreover, by embedding industrial policy objectives into trade agreements, the EU risks politicising its external relations in ways that could complicate WTO disciplines and weaken its long-standing legitimacy as a champion of open, rules-based trade (Hoekman, Nelson 2020).

The public choice dimension of friend-shoring lies in the incentives created for domestic industries and partner governments. For European firms, inclusion in friend-shoring frameworks translates into privileged market access and subsidised investment opportunities abroad. For partner governments, agreements often entail EU support for local infrastructure and sustainability initiatives, which can reinforce strategic alliances, but also invite rent-seeking by well-organised domestic interests (Aidt 2016). Such dynamics highlight the distributive and political character of friend-shoring, extending rent allocation beyond the EU's borders and into the sphere of international bargaining.

Ultimately, friend-shoring underscores the geopolitical turn of EU economic governance. Industrial policy is no longer confined to internal market design, but operates as a hybrid instrument of foreign policy. This trend raises constitutional questions about the scope of EU authority in external economic relations, particularly as industrial resilience becomes a justification for selective liberalisation. The long-term challenge is whether these partnerships can be institutionalised within transparent, rule-governed frameworks – or whether they will further normalise discretion and politicisation in both domestic and external dimensions of EU economic policy.

4.4. Emerging tensions and contradictions in EU industrial governance

While the EU's re-shoring and friend-shoring strategies project an image of resilience and strategic autonomy, they simultaneously generate structural tensions that test the coherence of the Union's constitutional and economic order. Firstly, the **conflict with Single Market principles** is becoming increasingly evident. The extensive reliance on state aid challenges the foundational norm of competitive neutrality embedded in Articles 107–109 TFEU. As scholars argue (e.g. Nicolaidis 2023), once derogations become the rule, the credibility of competition policy as a constitutional safeguard erodes. What was intended as a short-term response to crisis risks turning into a systemic feature of EU governance, undermining the Union's long-standing project of depoliticised market integration (Majone 1996). Secondly, **distributional asymmetries** exacerbate existing divides within the Union. Larger Member States, with greater fiscal

capacity, dominate subsidy allocation. As European Commission's report demonstrates (European Commission 2023a), Germany and France accounted for over three-quarters of approved aid under the Temporary Crisis Framework, leaving smaller states structurally disadvantaged. This dynamic threatens not only market fairness, but also the political cohesion of the Union, as disparities in support may reinforce perceptions of a "two-speed Europe." Thirdly, some elements of these policies may exhibit features concerning protectionism. Targets such as producing 40% of net-zero technologies domestically by 2030 raise questions about compatibility with global trade rules. Hoekman and Nelson (2020) caution that industrial strategies framed in terms of resilience and climate leadership may be interpreted abroad as discriminatory, potentially triggering disputes at the World Trade Organization or retaliatory measures from trading partners.

Fourth, **implementation challenges** undermine the feasibility of ambitious targets. Mining projects under the Critical Raw Materials Act, for example, encounter resistance from local communities and environmental groups (OECD 2023). These social constraints illustrate the difficulty of reconciling strategic autonomy with sustainability commitments, and they cast doubt on whether numerical targets for domestic production can realistically be met.

Finally, **geopolitical dependencies persist**, albeit in reconfigured form. By privileging "trusted partners" such as Canada, Australia, or Chile, friend-shoring strategies mitigate reliance on China, but also risk creating new dependencies on a narrower set of suppliers (OECD 2023). As critics note, resilience premised on political alignment may in fact reduce diversification and flexibility, replacing one form of vulnerability with another.

Taken together, these contradictions underscore the paradox of the EU's industrial turn. While framed as strategies of resilience and autonomy, they reveal a more fragile reality: the weakening of constitutional constraints, deepening distributive divides, contested legitimacy in global trade governance, and persistent dependencies. Unless these tensions are addressed through stronger institutional safeguards and a more balanced approach, the EU risks undermining the very stability and credibility that its industrial policy seeks to secure.

5. Discussion of key findings

The EU's turn toward re-shoring and friend-shoring represents a profound change in its economic governance. While initially framed as pragmatic responses to shocks such as the pandemic, the energy crisis, and geopolitical tensions with Russia and China, these measures have gradually normalised a discretionary model of industrial policy. Instruments like the European Chips Act, the Critical Raw Materials Act, and the Net-Zero Industry Act illustrate how resilience and strategic autonomy have become guiding principles, displacing the long-standing emphasis on competitive neutrality and strict state aid control.

From a public choice perspective, these developments risk opening avenues for rent-seeking, as firms and governments compete for subsidies justified by "strategic au-

tonomy," producing concentrated benefits and diffuse costs. EU state-aid and competition rules historically functioned as commitment tools limiting discretionary intervention. Their relaxation raises the question of whether these changes are temporary crisis-driven adjustments or indications of a deeper constitutional transformation (Brennan & Buchanan, 1985). Once governments claim discretion to deviate from general competition rules, they open the door to lobbying by well-organised interest groups (Buchanan 1975). Industrial policy is particularly prone to such capture, because benefits are concentrated whereas costs are widely dispersed (Aidt, 2016).

The Chips Act institutionalises large-scale subsidies and allows the Commission to designate semiconductor projects as strategically important, effectively relaxing long-standing restrictions on state aid (Articles 107–109 TFEU). From a public choice perspective, this creates incentives for lobbying by national governments and powerful firms (Krueger, 1974; Blauberger, van Hüllen 2021). Likewise, the Critical Raw Materials Act's binding extraction and processing targets, combined with friend-shoring partnerships, respond to legitimate supply-security concerns, but also represent a departure from the neutral market-based governance that characterised the EU since the 1980s (Majone 1996).

Moreover, the expansion of state aid frameworks has led to significant distributional asymmetries. Larger Member States are better positioned to subsidise domestic industries, thereby amplifying inequalities within the Single Market. Friend-shoring strategies blur the boundaries between industrial policy, security policy, and external economic relations, while creating new dependencies on a narrower group of trusted suppliers. Regulatory sandboxes and privileged financing channels in clean-technology sectors further increase the likelihood of interest-group influence over allocation.

These developments reveal mounting tensions at multiple levels: the erosion of constitutional safeguards against discretionary intervention, the risk of subsidy races, the feasibility constraints of domestic production targets, and the persistence of strategic vulnerabilities despite diversification efforts. From a constitutional political economy perspective, the core concern lies in the weakening of rule-constraining institutions that historically underpinned EU integration.

6. Conclusions

The EU now faces a dual challenge. On the one hand, re-shoring and friend-shoring seek to enhance resilience, reduce external dependencies, and respond to geopolitical pressures. On the other hand, the shift toward discretionary industrial policy risks undermining the credibility and cohesion of the EU's rule-based economic order. Without stronger EU-level safeguards – such as common financing instruments and clear, generalisable criteria for support – strategic autonomy may entrench distributive inequalities, politicise industrial outcomes, and weaken the constitutional foundations of the Single Market.

Whether the EU can reconcile strategic autonomy with rule-based governance will depend on whether new industrial policies are embedded within transparent, predict-

able, and non-discriminatory institutional frameworks. The long-term stability of European integration will hinge on maintaining this balance.

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