THE EU'S GEOECONOMIC TURN:

FROM POLICY LAGGARD TO INSTITUTIONAL INNOVATOR

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The EU's Geoeconomic Turn as Cornerstone of Open Strategic Autonomy

December 2019: Ursula von der Leyen declares that her new Commission will be "**geopolitical**" –a revolution for the EU which had steered clear of geopolitics until then!

Instead of naively preaching free flows of trade and investment, the EU would proactively **use economic tools for geopolitical purposes** ("**geoeconomics**")

Following this official "end of naivety", the EU has created in short order since 2019 a series of novel geoeconomic tools that became the cornerstone of the EU's new doctrine of "open strategic autonomy"

Culminating in the New Economic Security Strategy

New Economic Security Strategy

released in June 2023 by the EU Commission

Clarified in January 2024

Promote

(e.g. R&D, upskilling)

Protect

(geoeconomic tools)

Partner

(e.g. research cooperation, supply chain diversification)

See Special Issue of *Politics and Governance*, 2023, 11(4)

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Central Puzzle

An **out-of-character geoeconomic turn**: Neither its history, nor its unique institutional structure suggested that the EU would be well positioned

Indeed, EU was lagging behind other advanced economies in taking the geoeconomic turn

But the EU adapted remarkably quickly and created a series of innovative tools that have enabled it to play the geoeconomic game

Why and how has the EU been able to operate the doctrinal and policy changes towards geoeconomics?

Presentation Outline

1. EU as laggard in shifting from liberal economics to geoeconomics

2. The EU strikes back: A swift geoeconomic turn with innovative tools

3. Why and how the EU developed geoeconomic tools so quickly

4. Implications of the EU's geoeconomic turn

What is the geoeconomic turn?

- Geopoliticization (Meunier and Nicolaïdis, 2019) is:
    - shift away from liberal institutionalism (project of removing barriers through legally binding multilateral and bilateral instruments)
    - toward greater import placed on identifying/mitigating the security vulnerabilities that accrue from open, globally integrated markets
- Geopoliticization is not:
    - incompatible with open markets, synonymous with protectionism or even economic nationalism
- Geopoliticization differs from liberal institutionalism as matter of emphasis:
    - Liberal institutionalism: economic interdependence seen primarily as source of economic welfare and positive security externalities through the pacifying effects of commerce
    - Geopoliticization: interdependence seen primarily as a source of vulnerability that can be weaponized by strategic competitors (Farrell and Newman 2019)

Geopoliticization through geoeconomic tools

- Geoeconomics is when states engage in geopoliticization through economic tools **in normal times**
  - Some geoeconomic tools are **defensive**, designed to prevent others from leveraging economic dependencies against them – such as investment screening, supply chain diversification policies, and trade remedies
  - Other geoeconomic tools are **offensive**, designed to develop and maintain key chokepoints in trade, finance, technology, and infrastructure - such as supporting national champions to build key infrastructure abroad, controlling critical technology through export controls, and using industrial policy to dominate key global markets
  - Geoeconomic tools could be **inducements** (carrots) as well as **sanctions** (sticks)
  - Geoeconomic tools can be used for mixed purposes

Typology of geoeconomic tools

	Offensive	Defensive
Inducement	Industrial policy to achieve global market dominance Subsidized infrastructure projects abroad to control chokepoints like ports, electricity, and IT networks	Industrial policy for supply chain diversification
Sanction	Export controls to maintain global market dominance in chokepoint technology Outbound investment screening Extraterritorial application of otherwise defensive tools	Inward investment screening Trade remedies against foreign subsidized items Anti-coercion instruments Narrow export controls to prevent critical technology leakage

Source: Bauerle Danzman and Meunier, 2023

The EU as laggard in developing geoeconomic tools

- The EU’s major economic partners have taken the geoeconomic turn early, creating tools to put restrictions on open, liberal economic activity during “normal” times (eg, not sanctions in response to territorial aggression), especially investment screening
  - See PRISM dataset (Bauerle Danzman and Meunier, ISQ, 2023)

Mapping geoeconomic tools in EU partners

	Offensive	Defensive
Inducement	Some elements of U.S. IRA and Chips and Science Act (2022) Overseas development banks' investments in strategic infrastructure	U.S. IRA (2022) U.S. Chips and Science Act (2022) Japan's Economic Security Promotion Act (2022)
Sanction	Japanese semiconductor materials export controls on South Korea (2019) U.S. 7 Oct 2022 export controls on semiconductor items U.S. use of foreign direct product rule	Inbound investment screening: Australia (10 times since 2010); Japan (four times since 2014); U.S. (FINSA in 2007 and FIRRMA in 2018) Huawei procurement bans: Australia (2018); Canada (2022); Japan (2018); South Korea (2021); the U.S. (2019-2020); Export control reforms: Japan (2022); U.S. (2018)

The EU as laggard in developing geoeconomic tools

- The EU has long remained a holdout for liberal institutionalism, even while its partners developed more geopolitical attitudes towards managing their economic relationships. Why? Because of unique EU characteristics:
  - centrality of the single market and multilateralism to the process of European construction
  - institutional division of competences that empowers the Union in the areas of trade and competition
  - traditionally pro-free market ideological bent of Commission, esp. DG Trade
  - openness seen as comparative advantage

- Does not mean that EU has not been using trade for non-trade purposes
  - EU has long leveraged access to the single market as a carrot to induce conditional change among its partners (Meunier and Nicolaidis, 2005, 2013)
  - for political, not geopolitical, reasons

The EU’s geoeconomic turn was swift and innovative

- By 2017, the EU undertook a **policy turn**
  - Jean-Claude Juncker, State of the European Union: “*We are not naïve free traders. Europe must always defend its strategic interests. This is why today we are proposing a new EU framework for investment screening.*”
- Followed by a **doctrinal turn**
  - 2019 release of its China strategy
  - 2021 trade policy review “An Open, Sustainable, and Assertive Trade Policy”
- Once the EU made the assessment that it had been holding onto these liberal ideals a bit too long and that this “naivety” had indeed been costly, it unleashed with great rapidity a series of unilateral geoeconomic tools to accompany its new doctrine of “open strategic autonomy”

Mapping the new EU Geoeconomic Tools

	Offensive	Defensive
Inducement		European Chips Act (2022) Carbon Border Adjustment Mechanism (2022) European Green Deal Industrial Plan (2023) Net-Zero Industry Act (2023) Critical Raw Materials Act (2023)
Sanction	International Procurement Instrument (2022) Outbound FDI screening (in consultations)	FDI Screening Regulation (2018) Export Control Regulation (2021) Foreign Subsidies Regulation (2022) Carbon Border Adjustment Mechanism (2022) Anti-Coercion Instrument (2023)

The new EU geoeconomic tools

Investment screening framework

Investment screening: Practice by which governments review inward FDI transactions and deny entry to, or require the divestment of, investments that are deemed unacceptable –usually on national security grounds (esp. critical technologies and infrastructure)

A quick policy-making timeline

- September 2017: launch of policy process
- March 2019: approval
- October 2020: implementation

Results after 3 years but not a true ISM

- Consultation and cooperation framework, ultimate decision rests with country where transaction is incoming
- From 11 to 26 national ISMs
- Over 260 transactions reviewed in year 1, over 400 in year 2 (mostly from US, UK, China, Canada and UAE)
- Maybe a first step towards a EU ISM?
- January 2024: next steps outlined by Commission

The new EU geoeconomic tools

International Procurement Instrument (IPI)

Long-standing regulatory gap

Designed to restore a level-playing field and introduce reciprocity in public procurement

- Commission will determine if third countries allow fair access to EU companies in procurement tenders
- If not, price penalty for bids or exclusion of certain countries from bidding

Adopted in March 2022 after a decade of negotiations

The new EU geoeconomic tools

Foreign Subsidies Regulation (FSR)

Long-standing regulatory gap

- Internally: control of state aid to ensure level playing field
- Externally: foreign companies are not subjected to EU rules
- The EU has no instrument to prevent market distortions caused by subsidies given to foreign firms that then compete with EU firms on takeover bids (in the EU or abroad) or public procurement

2021: Proposal issued by Commission for EU to monitor FDI transactions, investigate foreign subsidies, adopt remedies

2022: Adopted in November

2024: First probe launched in February against Chinese train company CRRC Qingdao Sifang Locomotive

The new EU geoeconomic tools

Anti-Coercion Instrument (ACI)

2021: Commission proposed anti-coercion regulation in December

- Retaliation tool against countries taking coercive economic action against a member state's legitimate sovereign choices for political reasons
- Enables countermeasures (tariffs and quotas, exclusion from public procurement, blocking exports, restricted access to EU capital)

Adopted in 2023

Urgency as shown by dispute between China and Lithuania and, more broadly, weaponization of economic interdependence by third countries

See Freudlsperger and Meunier, JCMS, 2024

The new EU geoeconomic tools

Future instruments

Discussions on outbound screening

Discussions on export controls

Discussions on nature of economic security

And plenty more!

3. Explaining the EU's swift geoeconomic turn

External factors that triggered European leaders' beliefs that change was necessary

Internal factors that made such change institutionally and politically possible

Reinforced by the **politics of crisis**

External factors that triggered European leaders’ beliefs that change was necessary

China:

Unfair competition with geo-political purposes

US:

Retreat from the Liberal International Economic Order

Technological change

China: Unfair competition with geopolitical purposes

Frans Timmermans, European Commission vice-president in charge for European green deal (2023)

"For too long, Europe thought the market would take care of everything itself. We now understand that the strategic choices China made a decade ago are now coming home to roost and we also have to make our own strategic decisions now for the decades to come."

China: Unfair competition with geopolitical purposes

Every single one of these instruments has been created first and foremost in the shadow of China, with its state-imposed market distortions, objective of self-sufficiency by any means, and ultimate geopolitical purposes

- ISM: rise of China as foreign investor with unique characteristics
  - Technological catching up
  - Opaque governance
  - Non-ally (Russia also a motivator for some MS)
- IPI: distortive Chinese subsidies and unfair competition
- FSR: distortive Chinese subsidies and unfair competition
- ACI: designed against Chinese (and Russian) weaponization of economic relations

US: Retreat from the Liberal International Economic Order

Weakening of US support for the LIEO since early 21st century (“competitive liberalization”, criticism of WTO’s judicial activism, etc.)

Challenges to LIEO magnified by unilateral and protectionist turn under Trump

Better transatlantic relations under Biden but

- Cannot be taken for granted
- US policies (IRA and CHIPS act) challenge rules-based LIEO
- EU trying to “Trump-proof” economic relations

New policy instruments:

- ISM: no
- IPI: yes
- FSR: yes
- ACI: yes – “anti-bullying” designed in direct response!

Technological change

Blurring of lines between economy and security

- Used to be clearer demarcation between goods/services with and without potential security implications (e.g. defense goods, dual-use)
- Today, internet of things and personal data have drastically broadened potential for exploitation of trade and investment for geopolitical purposes

Need for new regulations on investment screening

Internal factors that made such change institutionally and politically possible

- Transfer of investment competence
- Brexit
- Populist politics

Transfer of investment competence

Many of these new instruments could not have existed prior to Lisbon for competence reasons

Lisbon Treaty: transferred competence over FDI policy to EU level

Inter-institutional dispute over exact nature of competence settled only by 2019 by CJEU

Brexit

UK departure changed the ideological balance of power within the EU

Populist politics

Elections in various Member States brought to power more populist and interventionist government coalitions, reinforcing the less liberal camp

Rise of protectionist demands was heard by EU Commission

Reinforced by the **politics of crisis**

- COVID pandemic
- Russian invasion of Ukraine

COVID pandemic

Pandemic accelerated fears about critical infrastructure and supply chain disruptions (see rise of ISMs)

More broadly, Covid changed the tone of the economic policy discussion and opened possibilities for policies that were previously unthinkable

Russian invasion of Ukraine

2014 and 2022 Russian aggression in Ukraine heightened EU concerns over dependence and weaponization

Helped strengthen EU coordination and centralization (for instance of export controls)

Implications of the EU's geoeconomic turn

Paradigm shift or shift in methods?

Same objectives, different means

To ensure free and fair trade

MEP Lange: "Sometimes you have to put a gun on the table, even when you know that you might not use it" (2022)

New objectives, paradigm shift

To intervene more directly in the management of the economy (pandemic effect/populist politics)

To use international economic relations for "strategic autonomy"/geopolitical purposes

Implications of the EU's geoeconomic turn

- As one of the world's three largest economic powers, and a champion of multilateralism (at least in rhetoric, if not always in action), the EU's turn towards geoeconomics will have major implications on the global order
    - Demand for geoeconomics is self-reinforcing domestically and internationally (e.g. industrial policy and investment screening) –current Bauerle-Danzman and Meunier work on sequencing economic security
    - Opportunities for deeper cooperation among allies (eg TTC)
    - Risks for fragmentation of economic networks into regional blocs
- Future research agenda questions:
    - Can actors develop shared definitions over national security and public order or a mechanism through which to enforce this standard?
    - How will governments ensure that greater state control over internal markets is used only for security purposes and not to encourage corruption?
    - How can governments trust each other as economic exchange and technology development is increasingly seen through zero-sum frames?

Thank you!

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