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Wilfried
Martens Centre
for European Studies

The 7Ds for Sustainability – De-risking globalisation Extended

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Table of abbreviations

IDEA	Inspire, Debate, Engage and Accelerate Action (EU Fellowship Programme on China)
SME	Small and medium-sized enterprises
WTO	World Trade Organisation
G7	Group of Seven
CHIPS	Creating Helpful Incentives to Produce Semiconductors
MSE	Mini and Small Enterprises

Introduction

by Peter Hefeke

Several crises over the last two decades, including the Covid-19 pandemic and, most recently, the Russian war against Ukraine, have shown the vulnerability of global supply-chain systems and have shattered illusions about ever-progressing globalisation. This has forced the EU to rethink its traditional reliance on and support for multilateralism and global cooperation, which had led to an over-dependence on certain countries and producers in crucial fields such as raw materials and chemical products. Over the last couple of years, the Union has responded to these developments by creating a series of policies and launching initiatives to de-risk its economic relations and reduce the potential for political blackmail.

The biggest systemic competitor in this respect is China, due to its economic power, political governance system and global revisionist ambitions. The challenges posed by its unique politico-economic system require a comprehensive answer from all open and market-based societies in the West.

Any de-risking strategy has to consider the effects on the sustainable transformation the EU is currently undergoing. Europe has always been a herald for open markets and globalisation. As it undergoes a massive transformation towards a low-emission economy, Europe should not build 'green walls' and engage in a subsidy race that may damage its long-term competitiveness.

The success and flexibility of Europe's economy lie largely in supporting flourishing ecosystems for small and medium-sized enterprises. Industrial policy can contribute to enhanced resilience but must avoid over-regulation and unilaterally favouring large companies.

Shielding Europe's economy and political system from external risks should not lead to abandoning the efforts to revitalise an open and sustainable global trade system. The priority should be to create alliances of the willing and promote the EU as a regulatory leader and reliable partner for third countries, particularly in the Global South. Strengthening the transatlantic trading relationship will continue to be a key element of this strategy.



Strengthening Transatlantic Relations

by Roberta N. Haar

Summary

Addressing the challenges of de-risking globalisation within the transatlantic relationship requires a multifaceted approach. Regardless of who becomes the next US president, he or she will grapple with populist and protectionist sentiments domestically, and geopolitical challenges externally. Under Trump, expect a more isolationist stance, with strained alliances and increased economic decoupling from geopolitical rivals. Harris would likely continue the Biden administration's selective multilateralism, focusing on economic competitiveness while rebuilding security ties with allies. Europeans must strengthen their leadership, invest in their capabilities and foster transatlantic solidarity on global challenges.

Keywords US – EU – Globalisation – De-risking

Introduction

At the time of writing, it is not known who the next president of the US will be. Nevertheless, it is possible to say something concrete about US policy on de-risking globalisation, which has both economic and security elements. On the economic side, whoever is elected must deal with the populist, protectionist and anti-interventionist sentiments bubbling up in the American public today.

On the security side, the new president must deal with the geopolitics of emerging technologies and with a China whose economic rise continues to translate into growing military assertiveness. Emerging technologies are affecting the economic competitiveness of states, which has security ramifications. These technologies are also directly closely connected to national security issues and potential future threats. Not only is warfare becoming increasingly digitised, but micro-processing chips, quantum computing and artificial intelligence all have dual-use military applications.

Trump has both ignited and exploited the anti-elitist, nationalist and anti-interventionist sentiments being expressed in America. If Trump is re-elected, he will pursue a New Isolationist agenda. New Isolationists believe that it was foolish to help China grow economically, and they resent America's allies as free riders. They also believe that the US is already in a grey-zone conflict with China, especially over Taiwan, which they are undecided about defending. If the US intends to win any future conflict with China, it must de-risk its supply chains from Taiwan and strategically decouple its economy.¹

When President Joe Biden came to office, he chose to deal with the populist, protectionist and anti-interventionist sentiments in America by being less like Barack Obama and Bill Clinton, the two Democratic presidents who had preceded him and who had embraced the post-war liberal, free-trade and multilateral paradigm. An example of their approach is epitomised by Obama's negotiation of the Trans-Pacific Partnership with 12 countries, which emphasised the importance of free trade and open economic interchange.² Rather than continuing this focus on free trade, the Biden administration implemented a blunting strategy and has begun the process of decoupling with regard to China, globalisation and supply chains.

¹ R. Lighthizer, 'Testimony of Robert Lighthizer Before the House Select Committee on Strategic Competition Between the United States and the Chinese Communist Party', *Select Committee on the CCP* (17 May 2023).

² R. G. Sutter, *Chinese Foreign Relations: Power and Policy of an Emerging Global Force* (London: Rowman & Littlefield, 2021, 5th edn.).

Over time, however, Biden's foreign policy team have adopted European Commission President Ursula von der Leyen's formulation of 'de-risking'.³ While a European may have coined the phrase, the change nevertheless was dramatic, marking a shift in 50 years of post-war US policy. A key part of this policy shift is embodied in the protectionist measures stipulated in the Inflation Reduction Act and the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act,⁴ both of which have negative impacts for European states.⁵

If Kamala Harris wins the office of the presidency again for the Democratic Party, she will be more like Biden and less like Clinton or Obama, and will be selective in her multilateralism policies. This means that a Harris administration is likely to bring both darkness and light for Europeans by taking a flexilateral approach to globalisation—one that emphasises US interests in economic competitiveness, while also rebuilding its multilateral security ties with traditional allies in Europe and Asia.⁶

Given this state of play, the effort to de-risk globalisation together with the US centres on three key challenges in the transatlantic relationship: leadership, capability and solidarity. The leadership issue stems from a long-standing strain in US–European relations, which is being exacerbated by shifting global dynamics and new challenges that are undermining US leadership. The capability challenge arises from a US focus on the Asia–Pacific; renewed isolationism, exacerbated by the Trump administration; and emerging security threats, especially those associated with growing dependencies on geopolitical rivals for critical infrastructure. Lastly, the solidarity problem is fuelled by European disillusionment with the US commitment to the rules-based international order. It is deepened by differing views on key global issues such as climate change, how to respond to China and what to do about the recent surge in violence.

Strengthening the global leadership role for the EU

State of play

If the transatlantic relationship is to be strengthened, the first concern that needs to be addressed is the leadership problem, which has bedevilled relations since the Obama administration. Shifting geopolitical landscapes and the emergence of new global challenges (such as the energy crisis in Europe, the rise of authoritarianism, the rise of populism, threats related to pandemics, vulnerabilities linked to critical infrastructure, pressures related to climate change and a general surge in global violence) are undermining the US's traditional global leadership role.

Prospects

First, Europeans need to expect that the transatlantic alliance and NATO will be tested, especially if Trump wins in 2024. A second Trump administration would indicate that the US remains deeply divided, and it would follow a potentially erratic foreign policy and/or put the US into a new phase of isolationism. But even if Harris is elected, Europeans can expect differences in how the US views relations with geopolitical rivals and how it deals with security risks such as those affecting global supply chains.⁷

The second policy recommendation applies regardless of who is in the White House. European states should strengthen their leadership role, which involves reinforcing the idea that Americans and Europeans share a common purpose. Europeans should also develop a grand strategy within the transatlantic partnership—

³ U. von der Leyen, speech on EU–China relations, Mercator Institute for China Studies and the European Policy Centre, 30 March 2023.

⁴ B. Deese, 'Executing a Modern American Industrial Strategy', speech made at the City Club of Cleveland, 13 October 2022.

⁵ R. Haar, 'Understanding the Debate in U.S. Foreign Policy Regarding the Benefits of Multilateralism and China', paper presented at the International Studies Association Annual Conference, San Francisco, California, 3–6 April 2024.

⁶ R. Haar, 'Continued Support in Security and Continued Scepticism of Globalisation: What Kamala Harris' Nomination Might Mean for the EU', interview by *Studio Europa*, 29 July 2024.

⁷ U. Jochheim, 'EU–China Relations: At a Glance', European Parliamentary Research Service, Briefing PE 754.637 (December 2023).

built upon the premise of shared global governance and a complementarity with the US's grand strategy as specified in its National Security Strategy.

Together, the EU and the US can sustain inclusive global institutions such as the G7, the G20, the WTO and the UN framework. For the EU, this means embracing more responsibility for co-developing strategic technologies, green technologies and the revolution in digitalisation.

If Harris wins the presidency, Europeans may find a pragmatic partner in global leadership in the US, one that keeps trade open and bolsters cooperation on critical issues such as AI regulation. In a Harris presidency, Europeans may find an ally who believes in the idea that the US has one critical task left as the *indispensable* superpower: it being 'the only country that can guarantee an open system'.⁸

Investing in capabilities to enable EU engagement on an equal footing

State of play

This leads to the second issue—that of capability, which has several facets. First, many European countries are failing to meet the 2% of GDP defence spending commitment set by NATO. Second, the US is now more focused on security challenges in the Asia-Pacific region. Third, new types of security threats are emerging, including to the resilience of global supply-chain systems, energy security and critical infrastructure. Fourth, the security environment in Europe has dramatically changed, with new threats emerging due to Putin's invasion of Ukraine and renewed violence in the Middle East. The recent upsurge in violence has also depleted stockpiles of weapons for both Americans and Europeans, putting further pressure on capabilities.

Prospects

First, European countries must meet NATO commitments and ensure sufficient resources and attention are devoted to addressing the new types of security threats. Such investments are key to de-risking globalisation. The EU could coordinate its investments with the US through several forums, the first of which is the EU-US Task Force on Energy Security. The goal of this task force—reducing reliance on Russian energy and diversifying natural gas supplies—not only aligns with climate goals for both the EU and the US, but augments resilient energy systems, promotes stability and transparency in the global energy markets, and enhances energy security.⁹

The second forum is the EU-US Trade and Technology Council, which was formed in June 2021 by Biden and EU leaders. Together, the EU and the US committed to sustaining market-oriented values by increasing transatlantic trade and investment in products and services related to emerging technologies, to strengthening their technological and industrial leadership in these same areas, and to protecting critical and emerging technologies and infrastructure.¹⁰ At the most recent meeting in Leuven, the US and the EU pledged to build resilient semiconductor supply chains and to establish synergies in the investments in the semiconductor sector taking place under the EU Chips Act and the US CHIPS Act.

⁸ R. Lissner and M. Rapp-Hooper, *An Open World: How America Can Win the Contest for 21st Century Order* (New Haven, CT: Yale, 2020), 216.

⁹ US Department of Energy, 'Joint Statement by the U.S. and EU Following the 11th U.S.-EU Energy Council' (15 March 2024).

¹⁰ Office of the United States Trade Representative, 'U.S.-E.U. Trade and Technology Council (TTC)'.

Supporting these forums is the EU's Global Gateway policy, which has allocated €300 billion to projects that focus on green energy, critical raw materials, connectivity, health and education in the Global South. The Global Gateway can help the EU to meet its international pledges as well as showing Americans that they can invest in ways that promote shared interests. Investing in global infrastructure and connectivity could offset the New Isolationists' campaign narrative that Europeans fail to spend enough on their own security and defence.

Second, in the defence and security arena, European countries must work to enhance their military integration and cooperation, both within NATO and with other European partners. This includes strengthening military planning and coordination, as well as developing joint military capabilities and joint procurement for defence systems. It could also involve the adoption of 'total defence' models that emphasise defence preparedness and civil defence.

A complementary step for the EU is to rectify fragmentation within the intra-European context. One way of overcoming fragmentation would be to coordinate EU investments, for example through the European Defence Agency and via Permanent Structured Cooperation. Fragmentation is one of the EU's perennial problems and dates back to the inception of the Common Security and Defence Policy. Duplication is wasteful and expensive. EU member states need to improve their pooling, sharing and specialisation of resources to prevent the improper use of funds.

Cultivating trust and transparency across the Atlantic

State of play

The third challenge is a solidarity problem. Like the previous issues, it has several sources, most prominently the fact that there is a growing sense of disillusionment among European leaders and citizens regarding the US's commitment to the rules-based international order that it built after the Second World War. Certainly, Trump's 'America First' foreign policy and its outright rejection of multilateralism propels this disillusionment. However, the Biden–Harris administration's attempts to engineer a comparative advantage through the Inflation Reduction Act, the CHIPS and Science Act, and the Infrastructure Investment and Jobs Act give Europeans the feeling that Biden and his vice-president have pulled the rug out from under their promised 'we're back' multilateral foreign policy—at least when it comes to free trade.

As she emphasised in her Democratic National Convention speech, Harris is expected to maintain the current de-risking approach to technological security, striving for US dominance in emerging technologies. Europeans are sure to experience this negatively. Following a flexilateral policy will involve backing continued investment in the US production of advanced technologies such as semiconductors, resisting the technology regulations primarily advocated by the EU, and showing a readiness to blur the lines on issues ranging from data collection to the military applications of AI, all in the interests of national security.

Prospects

To overcome both isolationist and flexilateral approaches, Europeans need to address the competitive–cooperative element of the economic transatlantic relationship by cultivating trust and transparency. This could be achieved through supporting existing initiatives, in addition to those already mentioned above, such as the Transatlantic Economic Council,¹¹ the Transatlantic Initiative on Sustainable Trade¹² and the Critical

¹¹ US Department of State, 'Transatlantic Economic Council'.

¹² European Commission, *Transatlantic Initiative on Sustainable Trade (TIST) Stakeholder Engagement Event — Summary Report* (31 January 2024).

Minerals Agreement.¹³ The Transatlantic Initiative on Sustainable Trade is a work programme of the EU–US Trade and Technology Council designed to promote a more integrated and resilient transatlantic green marketplace, while the Critical Minerals Agreement aims to strengthen supply chains for the minerals needed in the production of electric vehicle batteries

A second approach is to invest in soft-power initiatives such as cultural exchanges (e.g. Youth in Action and the European Voluntary Service) and educational programmes (e.g. Erasmus+). With the unifying framework of the Cold War diminishing, the alliance appears less suited to the contemporary geopolitical landscape; reminding publics on both sides of the Atlantic of the importance of their partnership and the global governance system could build solidarity.

Finally, collaborating with the US on a common policy for the Middle East, Africa and China would also go some way to forging a strong transatlantic partnership that can address risks at the global systems level. If the EU is to be a truly valuable partner in rebuilding a viable multilateral system, it must develop a meaningful focus on China and the Indo-Pacific, which could be coordinated through NATO/Supreme Headquarters Allied Powers Europe and the European Union Military Staff.

All these measures must encourage the US to remain open and multilateral. Trade sceptics reside in both main political parties in the US; there are many across the American political spectrum whose idea of de-risking globalisation is more protectionism. Europeans should stress that zero-sum approaches such as decoupling are ultimately ineffective at reducing threats to the US and come with the added expense that they hurt the rest of the world too. They should also emphasise that de-risking is about managing the risks with geopolitical rivals. Such management depends on healthy global multilateral forums. From time to time, the US needs reminding that its involvement in multilateral institutions and open markets is what made it a world leader.

Conclusion

Addressing the challenges of de-risking globalisation within the transatlantic relationship while also countering external threats such as Putin's aggression requires a unified and strategic approach focused on leadership, capability and solidarity. European nations must bolster their leadership role, aligning closely with the US to reinforce global governance and enable collaboration on critical issues such as climate change and how to harness the power of emerging technologies. Enhancing defence and security capabilities is essential to ensure that Europe and the US can jointly address new security threats and maintain resilient global supply chains. To sustain solidarity, fostering trust and transparency within the transatlantic partnership is crucial, particularly considering the external pressures that aim to weaken Western resolve. By investing in cooperative initiatives and maintaining a unified stance on global challenges, especially regarding China, the Indo-Pacific and the upsurge in violence in the Middle East, the US and Europe can employ their collective strengths, ensuring a stable and inclusive global order while countering threats to their shared values and security.

¹³ M. Szczepański, *EU–US Critical Minerals Agreement: Building Stronger Supply Chains Together*, European Parliamentary Research Service, Briefing PE 754.617 (November 2023).

	Programme 1	Programme 2	Programme 3
	Strengthening the EU's global leadership role	Investing in capabilities to enable engagement with the US on an equal footing	Addressing the solidarity issue
Project 1	Reinforce the idea that Americans and Europeans share a common purpose; maintain a strong strategic partnership to sustain inclusive global institutions such as the G7, G20, the WTO and the UN framework.	Do not play into the New Isolationists' campaign narrative in the US by failing to invest in national security and defence plans, digital infrastructure, and strategic capabilities and technologies. Adopt 'total defence' models that emphasise defence preparedness and civil defence.	Address the competitive–cooperative element of the economic transatlantic relationship by cultivating trust and transparency. Develop a cooperative relationship via the Transatlantic Economic Council, the Transatlantic Initiative on Sustainable Trade (for jointly assessing supply chains) and the Critical Minerals Agreement (for strengthening critical minerals supply chains). This will help to mitigate some of the negative repercussions of the US Inflation Reduction Act on EU industry.
Project 2	Develop a European grand strategy within the transatlantic partnership—built upon the premise of shared global governance and a complementarity with the US's grand strategy as specified in its National Security Strategy.	Invest in the means to meet new types of security threats, such as those to global supply-chain systems, energy security and critical infrastructure, such as smart electrical grids. Coordinate EU investments with the US through the EU–US Task Force on Energy Security, the EU Global Gateway, and the EU–US Trade and Technology Council.	Renew the commitment to diplomacy, and invest in soft-power initiatives such as cultural exchanges (e.g. Youth in Action, and the European Voluntary Service), educational programmes (e.g. Erasmus+) and by expanding Euronews. With the unifying framework of the Cold War diminishing, the alliance appears less suited to the contemporary geopolitical landscape; remind publics on both sides of the Atlantic of the importance of the partnership and the global governance system in order to build solidarity.
Project 3	Embrace more responsibility for promoting values globally, with a focus on those that pertain to the co-development of strategic technologies, green technologies and the revolution in digitalisation. Coordinate EU leadership through G7/G20 summits and the EU–US High-Level Dialogue on Climate Action, Environment and Energy.	Invest in ways that rectify fragmentation in the intra-European context, that enhance cooperative development of strategic technologies and infrastructure and green technologies, and that harness the revolution in digitalisation. Coordinate EU investments through the European Defence Agency and Permanent Structured Cooperation.	Collaborate with the US on a common policy for the Middle East, Africa and China. If the EU is to be a truly valuable partner in rebuilding a viable multilateral system, it must develop a meaningful focus on China and the Indo-Pacific. Coordinate EU policy through NATO/Supreme Headquarters Allied Powers Europe and the European Union Military Staff.

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Derisking EU–China Relations

by Jakub Janda

Summary

The EU is assembling its new approaches to economic security, which include reassessing its relations with an increasingly hostile China, building relations with its partners in the Indo-Pacific, and mitigating for any strategic shock that might stem from a possible conflict between China and a democratic coalition led by the US. In this context, the new European Commission needs to quickly deploy a series of interconnected policy initiatives and measures to ensure that the EU can protect its economic stability and security interests in the light of China's aggression.

Keywords China – De-risking – Taiwan – Indo-Pacific – Economic security – Export controls – EU – European Commission – European External Action Service – Taiwan Strait – International law

Introduction

Since 2019 the EU has been using a three-pronged strategic approach to China: it has been viewed simultaneously as a partner, an economic competitor and a systemic rival. However, in the past two years, the Chinese government has decided to increase its hostility towards EU interests. China is pursuing an 'unlimited partnership' with Russia, which is perpetrating war crimes against Ukraine while enjoying significant material, political, informational and diplomatic support from China. China has been steadily increasing its disruptive actions against Taiwan and the Philippines, showing a lack of respect for international maritime law and the stability of maritime trade routes in East Asia, core EU interests. Chinese economic coercion and technological espionage against the EU member states have increased in recent years, despite the continuous efforts of the Union's diplomats and extensive EU–China trade. Similar to the EU's diplomatic efforts with regard to Russia between 2014 and 2022, the EU's appeasement and engagement policy towards China has failed. It is therefore time for a new paradigm in strategic-level EU–China relations.

The aim of the EU's de-risking policy is to ensure that China cannot coerce or damage the EU in a way that would prevent the Union from pursuing its own autonomous interests, such as stable regional trade in and with the East Asian region. Given its economic and technological interdependencies with East Asian countries such as Japan, South Korea and Taiwan, the EU has the ultimate reason to deter China from taking hostile or even military actions in East Asia: it could trigger an economic disaster for Europe.¹ The EU must therefore be free to make sovereign decisions, including on the development of possible sectoral sanctions packages and communicating its readiness to deploy these to the leadership of Chinese Communist Party should the Chinese breach the international law of the sea in East Asia. To be able to deliver such deterrents, the EU first needs to rapidly decrease its strategic economic and technological dependencies on the Chinese Communist Party by ensuring a robust institutional setup in economic security, and implementing internal and external policies. Below I have outlined several policy recommendations.²

¹ Kiel Institute for the World Economy, 'Cost of Decoupling From China for German Economy Severe but Not Devastating' (14 December 2023).

² These policy recommendations are based on an ongoing European Values Center for Security Policy and Wilfried Martens Centre for European Studies research project that has been running since autumn 2023 and which is scheduled to be published in a separate report in 2024.

Institutionalising EU economic security policy

Every major policy area needs a solid and robust institutional structure within the EU institutions so that there is enough internal capacity, capability and access to leadership, funding and staffing to ensure there is sufficient political weight behind the Union's agenda. The following steps should be taken by the new European Commission to enable it to respond to geostrategic competition with a geo-economic focus.

- *Project 1.* The new European Commission should establish an economic security portfolio that is the responsibility of one Commissioner, likely under the guidance of the vice-president for trade or economic issues.
- *Project 2.* A fully fledged internal Commission think tank should be established that horizontally covers all key strategic policy areas in the EU relationship with China. It should build on the pilot version of the Inspire, Debate, Engage and Accelerate Action (IDEA) Fellowships under the guidance of the president of the Commission, and be expanded to cover the wider Indo-Pacific. The think tank should have at least 10 full-time specialists organising monthly online check-ins for the wider European expert community to ensure a continuous flow of information and knowledge.
- *Project 3.* The Commission should set up a formal standardised platform for EU companies that seek to understand the risks of volatile and politically unreliable foreign markets. Such a platform should provide a private safe space in which EU companies and business associations can receive select intelligence and lessons from specialists in order to make their trade decisions in the most informed way.

The development of an economic security policy toolkit

Once the above-mentioned solid institutional framework has been established by the new European Commission, substantive policy initiatives can be added to the agenda. The new college of commissioners should develop an internal policy toolkit to address the economic security interests of the EU. As some initiatives will reach across multiple portfolios, the Commission's leadership will need to coordinate and enable cooperation. As the initiatives are not likely to be welcomed by some of the EU member states, and primarily by some of their companies, the Commission needs to acknowledge that this issue is fully political, and not just technical or purely regulatory.

- *Project 1.* Internally, the Commission should prepare a trade defence escalation toolkit containing detailed economic, security and political analyses, and discuss it with the member states. It should involve possible scenarios for the deployment of the EU Anti-Coercion Instrument.
- *Project 2.* The Commission should conduct an annual assessment of the strategic dependencies of the EU and its member states' economies on its adversaries and competitors.³ This would answer the main policy question: how is the EU open to blackmail from specific non-friendly states?. The Commission should also conduct simulations of crisis scenarios.
- *Project 3.* The Commission should declare specific sectors 'strategically relevant to European interests' and dedicate specific action plans to providing them with enhanced protection. These sectors should be selected on the basis of European strategic need and their strategic vulnerability to external (non-EU) players.

³ For assessment methodologies, see J. Teer, D. Ellison and A. de Ruijter, *The Cost of Conflict: Economic Implications of a Taiwan Military Crisis for the Netherlands and the EU*, The Hague Centre for Strategic Studies (28 March 2024).

Global networking of EU economic security policies

As the EU is and wants to remain a global trade leader, economic security is not only a domestic matter for the EU internal market. Therefore, building a resilient global network of like-minded democracies and rapidly decreasing the EU's dependencies on its competitors should be the strategic political priorities. The EU should quickly prioritise 'teaming up' with those non-EU democracies which form the core of the global coalition to defend the rule of law and fair-trade practices. The new European Commission will have to spend much of its energy and political capital on persuading certain EU member states to drop some of their objections to EU trade deals with selected like-minded partners, otherwise the EU has no real chance of being the global fair-trade norm-setter.

- *Project 1.* The Commission should proactively search for potential positive trade and investment cooperation agreements with like-minded countries in the Indo-Pacific, including the Philippines, Australia and Taiwan.
- *Project 2.* The EU–China Comprehensive Agreement on Investment should be officially cancelled as, if it were to enter into force, it would deepen European strategic dependencies on the Chinese Communist Party, which is becoming increasingly hostile.
- *Project 3.* Establish a specialist team focused on sharing lessons in economic security policies with selected allies and like-minded partners in order to assist countries facing systematic Chinese economic coercion. The Commission should host an annual EU Economic Security Week.

Conclusion

It can be expected that the upcoming five-year term of the new European Commission will experience massive global turmoil as a result of the ongoing Russian military aggression in Ukraine and the increasing political and economic aggressiveness of China globally. The first Von der Leyen Commission was correct in declaring that it would have to focus on geopolitical issues, including setting up new economic security policies. The full-scale Russian invasion of Ukraine in 2022 forced the Commission to work unexpectedly rapidly. Today, we can clearly say that the European Commission is much stronger in terms of political will, bureaucratic capabilities and capacities. The new college of commissioners, who took on their roles in the middle of 2024, will face the political burden of dealing with (1) the increasing geostrategic aggressiveness of China against the EU, specific EU member states and selected business sectors; (2) the increasing divisions between some of the member states over how to approach the economic security agenda and the unstable geopolitical environment; and (3) the possible massive implications of the outcome of the November 2024 US presidential elections on these issues. In a nutshell, the new president of the European Commission and his or her commissioners will have to quickly develop deeply thought-through contingency plans and a robust institutional setup so that substantive economic security policies and measures can be tailored and implemented quickly, as required by the geo-economic climate.

At present, if China escalates either its political or economic coercive or blackmail policies against the EU, the Union as a whole will be caught without the ability to respond with proper defensive measures. Currently, the Commission has at its disposal the solid trade defence expertise and capabilities of the Directorate-General for Trade, but these should be considered more as tactical tools deployable as individual parts of an overall grand strategy—one which is still missing. That the EU does not have a full economic security strategy (comparable to Japan's, for example) stems from the fact that EU member states, and primarily some of their large businesses, have diverging views and interests. Therefore, a full strategy similar to the set of tools deployed by the EU against Russia in response to its aggression against Ukraine is still missing.

The geopolitical role of the Commission, together with that of the new president of the European Council, will be primarily internal—to facilitate the building of a general consensus among EU member states and large business interests. These parties need to achieve a common operational understanding of the threat coming from the Chinese government and agree on a set of expected scenarios for short- and mid-term geostrategic developments. Without such a full-picture view of, and agreement on the EU’s overall objectives, the Commission only has the ability to take relatively tactical and de facto technical measures in matters of economic security such as protecting advanced technologies from Chinese espionage.

As its top priority, the new European Commission needs to obtain agreement from the European Council and the majority of the new Members of the European Parliament on these key questions: how can we, as the EU, our member state governments and national businesses, respond to a world in which the Chinese dictatorship is becoming increasingly hostile and aggressive? And, given that we know that dependencies on dictators do not help us but make us hostages, how do we prepare for any form of conflict with the Chinese government in a way that ensures that we can deter structural escalation by Beijing, which would cause political and economic catastrophe in Europe?

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	Programme 1	Programme 2	Programme 3
	Setting up a robust institutional structure to respond to geostrategic competition with a geo-economic focus	Developing an internal policy toolkit for addressing the economic security interests of the EU	Building a resilient global network of like-minded democracies and rapidly decreasing EU dependencies on competitors
Project 1	Establish an economic security portfolio in the Commission that is the responsibility of a single commissioner, likely under the guidance of the vice-president for trade or economic issues.	Prepare a trade defence escalation toolkit within the Commission, which includes detailed economic, security and political analyses, and discuss it with the EU member states. It should include possible scenarios for the deployment of the EU Anti-Coercion Instrument.	Proactively search for potential positive trade and investment cooperation agreements with like-minded countries in the Indo-Pacific, including the Philippines, Australia and Taiwan.
Project 2	Establish a fully fledged internal Commission think tank that horizontally covers all key strategic policy areas in the EU's relationship with China. This should build on the pilot version of the IDEA China Fellowships under the guidance of the president of the Commission, and be expanded to cover the wider Indo-Pacific. It should have at least 10 full-time specialists organising monthly online check-ins for the wider European expert community to ensure a continuous flow of information and knowledge.	Conduct an annual assessment of the strategic dependencies of the EU and its member economies on its adversaries and competitors. This would answer the main policy question, 'How is the EU open to blackmail from specific non-friendly states?' The Commission should also conduct simulations of crisis scenarios.	Officially cancel the EU–China Comprehensive Agreement on Investment, as if it were to enter into force it would deepen European strategic dependencies on the Chinese Communist Party, which is becoming increasingly hostile.
Project 3	Set up a formal standardised platform for EU companies that seek to understand the risks of volatile and politically unreliable foreign markets. Such a platform should provide a private safe space where EU companies and business associations can receive select intelligence and lessons from specialists in order to make their trade decisions in the most informed way.	Declare specific sectors 'strategically relevant for European interests' and dedicate specific action plans to providing them with enhanced protection. The sectors should be selected on the basis of European strategic need and their strategic vulnerability to external (non-EU) players.	Establish a specialist team focused on sharing lessons in economic security policies with selected allies and like-minded partners in order to assist countries facing systematic Chinese economic coercion. The Commission should host an annual EU Economic Security Week.



Working With Global Partners to Shape Global Trade

by Peter Hefele

Summary

The global trade landscape is undergoing significant changes after decades of growth, during which trade outpaced GDP expansion. Recent crises, including geopolitical tensions and the Covid pandemic, have slowed trade dynamics, raising concerns about the future of economic integration. Governments and businesses are now tasked with creating frameworks to stabilise supply chains and promote sustainable economic transformation while avoiding protectionist measures. The WTO, once a central figure in global trade governance, has struggled to adapt, leading to a rise in regional trade agreements such as the United States–Mexico–Canada Agreement and the Regional Comprehensive Economic Partnership in Asia. However, Europe has lagged behind others in forming new trade agreements with key partners such as India and the Association of Southeast Asian Nations, diminishing its influence in global trade.

Future European trade policy must address three critical areas: first, enhancing resilience against external shocks through supply-chain diversification; second, aligning trade practices with sustainable transformation to regain competitiveness; and third, leveraging digital technologies to facilitate faster and more secure transactions. As Europe hosts a diverse array of small and medium-sized enterprises, promoting their engagement in international trade and enhancing their contribution to the digital economy will be essential for navigating these evolving dynamics and ensuring robust economic growth amidst an uncertain global landscape.

Keywords Globalisation – Trade – Trade agreements – Resilience – Digitalisation – Sustainable development

Introduction

The global trade landscape is at a watershed moment. For four decades of almost uninterrupted growth, global trade grew faster than GDP.¹ It became a major driver in the economic development of developed and developing countries alike. But several crises have significantly slowed global trade dynamics when measured in terms of the ratio of global trade to GDP growth or the openness of trade.² Even if there is no reason to buy into ‘deglobalisation’, the development patterns of the global economy are changing and will put the benefits of economic integration at risk. Several reasons for these changes have been identified, such as technological advancements, shifting consumer preferences and destabilising geopolitical conflicts. For decades many politicians and entrepreneurs considered trade a magic wand for pacifying and overcoming tensions between different political systems, such as the strain between China and the West. More recently, however with the Russian war on Ukraine, the subsequent Western sanctions and the ‘weaponisation’ of trade by an increasingly aggressive China, these illusions have been dispelled. *Economic security* is now the new strategic guideline for major trading centres such as the US, Europe and Japan. This raises some fundamental questions for European economic policymakers, since policy is—internally and externally—the most integrated but also one of the most vulnerable areas in terms of being affected by frictions in the international trade system.

¹ R. Baldwin, ‘The Peak Globalization Myth: Part 1’, *VoxEU*, Centre for Economic Policy and Research (21 August 2022).

² See J. Matthes, ‘Deglobalisierungs-Debatte: Was eine veränderte Globalisierung für das deutsche Exportmodell bedeutet’, *Makronom*, 24 May 2023.

Governments and companies alike must navigate these trends and engage much more than before in creating new frameworks to ensure stable supply chains, optimise the cost advantages they offer and contribute to a sustainable transformation of the global economy while preventing a fall back into (green) protectionism. The symbol of the traditional trade order, the WTO, has been largely paralysed, and any quick recovery to its position as *the* central platform of further trade integration and dispute settlement seems out of sight.³

In reaction to this weakness, there is an increasing focus on regional trade agreements as countries and regional blocs seek to bolster economic ties *within* their regions or with their neighbours. Agreements such as the United States–Mexico–Canada Agreement and the Regional Comprehensive Economic Partnership in Asia aim to reduce tariffs and create more streamlined trade conditions within regions.

In contrast to this development, Europe has not been very successful in extending its net of sophisticated and ambitious free-trade agreements with extra-European partners, such as India or the Association of Southeast Asian Nations. Thus, it has lost influence in shaping the principles and characteristics of future global trade. Its efforts to revitalise existing global trade governance mechanisms, in particular the WTO, have failed as other major powers have blocked any reform for various reasons.

Therefore, any future European trade policy must engage on at least *three levels*:

1. As seen during the Covid pandemic, the global trade system is highly vulnerable to external shocks. Not fully recovered from the aftermath of the global pandemic, the Russian war against Ukraine, high energy prices and volatile raw materials, markets will remain subject to significant factors of uncertainty. Hedging these risks by supply chain diversification, whether through friend-, near- or re-shoring, has just begun. *Restructuring exchange patterns as part of increasing resilience* will remain a decade-long challenge for the EU.
2. These efforts should be, at the same time, in line with a *clear orientation towards sustainable transformation*, which has already begun to shape global trade practices. Europe's (to-be-regained) competitiveness is closely linked to the extent it can present itself as a laboratory of transformation—not by becoming a 'green fortress' but rather through being a catalyst of change for other economies.
3. Digitalisation, in the form of blockchain, artificial intelligence and Internet of Things technologies, is helping companies make transactions faster, more transparently and more securely. Technologically driven shifts in factor combination and allocation will also influence global trade flows and economic policies, and are increasingly impacting trade-related services, including trade finance. Europe is home to the most diversified and innovative landscape of small and medium-sized enterprises (SMEs) and thus must further promote the involvement of such companies in international trade.

Enhancing the resilience of the global trade system against external shocks

State of play

There is no reason to believe in the need for 'de-globalising'. However, the outlook for stabilising and revitalising the global trade system along the Bretton Woods principles⁴ is rather bleak. Among the major trading blocs, only the EU and Japan—along with a couple of smaller nations, such as Singapore—have a genuine interest in

³ BDI, 'The Crisis of the WTO' (28 July 2022).

⁴ I. Shine, 'We Need a New Bretton Woods Moment, Says António Guterres. What Was the Original Bretton Woods and What Did It Achieve?', *World Economic Forum*, 10 March 2023

signing trade agreements on an equal and multilateral footing. However, the development of a new hegemonic power structure—for example, around China—has a tendency to lead to new, rather exclusive forms of economic integration and exclusion.

The detrimental effects of systemic crises such as Covid reveal the need for closer international cooperation. Part of the current system's failure to react—its inertia—lies in fundamental geopolitical conflicts and contradictory economic governance regimes. The current system of EU trade agreements follows a catch-all approach that at the same time attempts to achieve policy objectives beyond trade. Only in recent years has the debate on resilience⁵ and economic security led to a new conceptual framework for the EU's economic and trade policy, rebalancing priorities and providing a more comprehensive approach across external (economic) relations.

Prospects

Economic security and resilience have become the 'shield' of the Union's economic exchange with non-EU countries, while enhanced competitiveness serves as the 'sword'. However, there is no systematic screening and scenario-building to deal with economic security and external shocks, in contrast to the regular economic forecasting inside the EU.⁶

If trade integration does not necessarily lead to democratisation, it can significantly enhance cooperation with and the mutual strengthening of democratic/democratising nations.⁷ Therefore, everything speaks in favour of a G7-plus format as the first circle of the next phase of trade integration. In addition, purpose-specific alliances, such as climate clubs,⁸ can also be seen as a substitute for all-inclusive agreements.

As the debate on the Carbon Border Adjustment Mechanism has shown, unilaterally imposed measures mostly hinder further trade integration and do not contribute to enhanced resilience or any development goals. Disseminating innovation through trade integration is, given certain circumstances, a preferable way of upgrading the economic structures of developing countries.⁹ Combined with a diversification strategy, the EU could regain lost territory in international trade and become a model of sustainability. However, these efforts need to be complemented inside the Union by enhanced competitiveness and progress in creating a true single market.¹⁰

Recommendations

- Following the example of the US and Japan, forecast capabilities for external shocks should be co-developed with democratic partners, and consultancy should be given to developing countries as a basis for deepened partnerships.
- Screening all trade measures against the framework of sustainable development would help to avoid European policies slipping into a purely reactive, defensive mode and would increase Europe's resilience as well as its importance as a role model for next-generation development.

⁵ A. E. Juncos, 'Resilience as the New EU Foreign Policy Paradigm: A Pragmatist Turn?', *European Security* 26/1 (2017).

⁶ The US and Japan have developed more sophisticated tools. See E. Fabry et al., *Shields Up: How China, Europe, Japan and the United States Shape the World Through Economic Security*, Jacques Delors Institute, Policy Paper no. 298 (Paris, 2024).

⁷ M. Tabellini and G. Magistretti, 'Economic Integration and the Transmission of Democracy', *VoxEU*, Centre for Economic Policy and Research (12 February 2023).

⁸ Energy and Climate Policy and Innovation Council, 'The Climate Club Can Be Key to Decarbonizing the Steel Sector' (27 November 2023).

⁹ K. Acri née Lybecker, 'Innovation and Technology Dissemination and Transfer in Low-Carbon Technology Markets: The Role of Intellectual Property Rights, Trade, and Other Enabling Factors', *Social Science Research Network* (2014).

¹⁰ Paradoxically, many obstacles to further external trade cooperation can be found inside the Union. In certain markets, e.g. the agricultural sector, domestic obstacles prevent internal and external market integration.

- Even with the further unionisation of other policy fields, such as defence,¹¹ trade integration remains *the* most important channel of external influence for the Union. The enormous efforts to be made during the next rounds of enlargement should not divert European policymakers from retaking the initiative with like-minded partners. The window of opportunity for newly emerging powers in Latin America and Africa is still open.

Unleashing the potential of new technologies to optimise the economic benefits of trade for SMEs

State of play

The important role of SMEs in the economic landscape of Europe is widely recognised,¹² but their interests, particularly in international economic relations, are under-represented and often not explicitly addressed by national and European policymakers. Global market expansion for SMEs is still limited in many ways. For example, expanding management capacities or access to innovative financial services and market information usually comes with high transaction costs. New digital-based business models might have the potential to lower those entry barriers. However, to date they have been used by only a tiny percentage of SMEs. In some cases, regional clusters around multinational companies have paved the way abroad. However, in many other cases, SMEs are bound to specific economic environments, an issue which is difficult for the many (somewhat standardised) support programmes established by national and European bodies to address. Rather, past experiences speak to limited success in trans-regional and -national cooperation. These problems are mirrored in some ways in SMEs in developing countries which seek access to global and European markets.

Prospects

There is a huge danger that European solutions for innovations in tailor-made finance and the scalable design of platform technologies are lagging behind those of US and even Chinese competitors. The gap between multinational companies and SMEs, and in particular the majority of mini and small enterprises (MSEs), is instead widening in terms of the application of cutting-edge technologies, leaving productivity gains and competitive advantages under-developed. The limited capabilities of MSEs to generate digital-based business models are widely acknowledged. On the other hand, new opportunities for SMEs, for example in Central and Eastern European countries, may open up. Yet, digitalisation should not be seen as a magic wand for overcoming traditional obstacles, such as regulations, lack of qualified staff or market access barriers. Unfortunately, when talking about the integration of SMEs into international trade, we are talking about the second step when the first one has not yet been taken.

Recommendations

- The creation of a single European digital market, combined with progress in other European markets— the financial markets, for example—is critical to creating appropriately sized markets within a homogeneous regulatory environment. However, complex regulatory environments are often not designed for the majority of MSEs. Efforts made to reduce bureaucracy¹³ should address the needs of SMEs and MSEs.

¹¹ On European defence see Acri née Lybecker, 'Innovation and Technology Dissemination and Transfer'.

¹² See H. Heitz, 'Empowering SMEs in the EU', in P. Hefele, K. Welle et al. (eds.), *The 7Ds for Sustainability: In Depth*, Wilfried Martens Centre for European Studies (Brussels, June 2024).

¹³ U. von der Leyen, Statement at the European Parliament Plenary, Strasbourg, 18 July 2024, European Commission, 18 July 2024.

- The lack of management capacities and skilled labour will not be ‘cured’ by digitalisation; rather, it might, in the worst case, widen. Training programmes (initial and continuous) must be adapted accordingly.
- Access to national and global research and development, not only in the digital sphere, and their transformation into business models hardly happens in SMEs. Knowledge clusters hardly see any significant participation from SMEs. A change in the mindset of research and development actors is also needed.

Making Europe a stronger voice in the regional and global trade architecture

State of play

As a consequence of Europe’s perceived role as a normative power¹⁴ and its exclusive competences in trade-related negotiations, trade policy has evolved into an almost ‘universal’ tool for the European Commission to achieve objectives beyond the promotion of economic exchange.¹⁵ Promoting human rights and the rule of law through trade agreements has been a distinct feature of European trade policy. Initiatives such as the Global Gateway¹⁶ aim to create alternative integration models centred around democratic countries. Still, they must also remain open to those partners who have an interest in maintaining and strengthening this order, as opposed to being unilateral and hegemonic trade structures. Contradictions remain between national and European trade-related policies due to differing national interests and economic structures, as can be seen in the discussion on import tariffs on Chinese products.

Prospects

On the Eurasian continent, in the Belt-and Road Initiative put forward by China and the Eurasian Economic Union spearheaded by Russia, political cooperation and economic integration by authoritarian powers reinforce each other. By contrast the list of open or unfinished bilateral and multilateral agreements¹⁷ in the EU is worrying. The rise of left- and right-wing ‘souverainist’ forces in the recent European elections may slow down or halt negotiations, making it almost impossible to improve Europe’s leverage substantially through further trade integration. Some voices wish to set aside options for more ambitious objectives beyond trade, advocating instead a more modular, gradual approach as a more productive way to proceed. However, this less ambitious method will face massive opposition from the left and green political parties. Under the auspices of economic security, strategic alliances—for example, in the areas of raw materials and food—will dominate future discussions on the orientation of European trade policy. However, the lack of globally relevant industrial players in the EU diminishes the weight of the Union in global supply chains.

Recommendations

- The EU has become a trail-blazer in the regulation of key elements of future trade, particularly in the digital services field. It has a unique chance to become a leading voice in the process of digitally upgrading international trade relations and revising the architecture of trade. This potential can only be exploited, however, if Europe manages to create global players which can compete with their counterparts in the US and China.

¹⁴ European Union External Action Service, ‘Critically Assess and Analyse the Notion That the EU Is a Normative Power’ (24 November 2016).

¹⁵ J. Adriaansen and E. Postnikov, *Geo-Economic Turn in Trade Policy?: EU Trade Agreements in the Asia-Pacific* (London: Palgrave MacMillan, 2022).

¹⁶ S. Tagliapietra, ‘The European Union’s Global Gateway: An Institutional and Economic Overview’, *The World Economy* 47/4 (2024).

¹⁷ European Commission, ‘Trade Agreements: What the EU Is Working on’ (11 March 2024).

- The Union must exploit ‘low-hanging’ fruit with its neighbouring regions, for example in North Africa, promoting both economic integration and political stabilisation.
- Centrist political forces at the European level should fight against the further protectionism that left- and right-wing parties demand, in both the fulfilment of the single market and external trade relations, as they are inseparably linked.
- The enlargement process can provide models for step-by-step economic integration and serve as a blueprint for closer economic relations with neighbouring regions.
- Closer coordination of trade-related strategies¹⁸ across the Atlantic needs more political ‘investment’ on both sides to counter alternative autocratic integration models.

¹⁸ See R. N. Haar, ‘Strengthening Transatlantic Relations’, in P. Hefe, K. Welle et al. (eds.), *The 7Ds for Sustainability: In Depth*. Wilfried Martens Centre for European Studies (Brussels, June 2024).

	Programme 1	Programme 2	Programme 3
	Enhancing the resilience of the global trade system against external shocks	Unleashing the potential of new technologies to optimise the economic benefits of trade	Making Europe a stronger voice in the regional and global trade architecture
Project 1	Improve the coordination of forecasting and consulting on trade developments among Europe and its like-minded partners.	Reduce the complexity of the regulatory environment of the European digital market to make the advantages of the common European markets available to SMEs.	Revitalise transatlantic trade relations as a starting point and nucleus for a democratic trade area which is open to other partners, in particular, Europe's neighbourhood—through initiatives such as the Global Gateway—as an alternative to economic integration with authoritarian governments.
Project 2	Develop joint platforms with like-minded countries, both industrialised and developing, in parallel to the enlargement process, to enhance Europe's influence through trade cooperation.	Enhance SMEs' access to national and global research and development networks in combination with helping them create new digital-based business models.	Apply the advanced regulatory framework, particularly to the European digital space, to become a trail-blazer and leading voice in a digitally upgraded international trade architecture.
Project 3	Reorientate global trade policy along the lines of sustainable development and aim to enhance Europe's resilience.	Enhance the management capacities and skill levels of the labour force through specific training programmes to better tap into the potential of the digital economy.	Continue to fight against regional and global attempts at protectionism by finalising the European single market as a role model for free economic exchange.

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