The Internal and External Dimensions of EU Governance

04: The European Union’s Geoeconomic Predicament

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THE FUTURE OF EU
STRATEGIC
AUTONOMY

Agenda

1. The EU’s external commercial policies: Origins & development (12:30-12:30)
2. Trade & interdependence: Wandel durch Handel no more? (13:30-14:30)
3. Geoeconomic fragmentation: Quo vadis EU? (15:15-15:45)
4. In-class assignment: the EV revolution (15:45-17:45)
5. Wrap-up (until max. 18:00)

The EU's external policies: Origins & development

EU External Economic Competence

How Trade Policy “Works” in the EU

- The European Union possesses **exclusive competence** in common commercial policy, including trade. This means only the EU can legislate and conclude international trade agreements.
- This competence dates back to the Treaty of Rome.
- Traditionally, EU trade policy aimed to be insulated (‘siloed’) from foreign and security concerns, focused on technocratic and free-trade objectives. Policymakers were seen as “trade purists”.
  - DG Trade as the bulwark for free trade. It is one of the strongest DGs, and always led by a political heavy hitter from the North/West.
- While foreign policy circles have long advocated for using trade as a foreign policy tool, Structural and institutional factors previously prevented this integration.

Early Paradigm: Embedded Liberalism

Post-War to Single Market

- Early European integration, up until the 1980s, operated under “embedded liberalism” (Ruggie, 1982).
  - This approach combined a liberal trade policy with government leeway to intervene in markets for neo-mercantilist or social purposes.
- The **Single Market Programme (SMP)**, completed in 1992, liberalised internal trade by removing barriers to the free circulation of goods, services, capital, and people between member states.
- The SMP was conceived partly to propel European firms into foreign markets and was viable within a US-dominated global order supporting rule-based multilateralism.
- It facilitated market access for third country firms while also “debordering” internally and externally.

Shift Towards embedded neoliberalism (1990s-2000s)

The SMP was based on three tenets: trade liberalization is generally good, competitiveness important, and globalization inevitable. By the mid-1990s the Commission argues that protectionism ‘would be suicidal’ and that the EU must ‘demonstrate [the] recognition of the unavoidable globalization of the economy’ (cited in van Apeldoorn, 2002, 174).

- Space for exception: CAP and structural funds

Responding to Global Context

- Following the completion of the Single Market and the Uruguay Round (leading to the WTO in 1994), the EU argued its market was more open than others.
- The **1996 Market Access Strategy** argued for the need for “equal market access to EU firms in third countries”.
- This marked a focus on ensuring fair conditions and tackling regulatory barriers abroad.
- While primarily a free trade discourse, it incorporated concepts from the narrow fair trade paradigm. Broader normative principles like sustainable development were present but subordinate to free trade.
- The EU became a main “demandeur” for new multilateral negotiations on issues like competition, government procurement, investment, and trade facilitation (the “Singapore issues”), areas where the Single Market had advanced.

Global Europe and Beyond (mid-2000s-mid-2010s)

Under Peter Mandelson’s Global Europe (2005), the mantra of trade liberalisation reaches its heyday. “[We must pursue liberalisation] ‘even if this hurts vulnerable European industries’”

- The **“Global Europe” strategy** (2006) was also a response to the transformation of the global economy and the rise of emerging economies like China, India, Brazil, and Russia.
- It reiterated the desirability of free trade for EU jobs, growth, and competitiveness.
- Free trade was paired with a limited economic sense of fair trade: rejecting protectionism at home must be accompanied by activism for open markets and fair conditions abroad.
- These strategies increasingly focused on the Singapore issues and regulatory barriers. The TTIP negotiations with the US were seen as a culmination of this free trade paradigm.

GFC and (non)-change in EU trade strategy

- The global financial crisis did not represent a tipping point for changing Europe’s embedded neoliberal compromise (de Ville and Orbie, 2014).
- On the contrary, trade liberalization was promoted as the way to “trade ourselves out” of recession. Then trade Commissioner Karel de Gucht said of TTIP that it was “the cheapest stimulus package you can imagine”.
- Nevertheless, TTIP is where the first real challenge to the EU’s trade agenda was mounted.

Hair-cracks in the LIO: Challenging the Free Trade Paradigm

- The **TTIP negotiations** (Transatlantic Trade and Investment Partnership) sparked unprecedented protest in Europe.
- Main concerns included potential lowering of social, environmental, and public health standards (“race-to-the-bottom”), curtailing “policy space” or regulatory sovereignty, and the secrecy of negotiations.
- This contestation forced policymakers to draw on a wider range of trade paradigms beyond pure free trade.

> Trade for all (2015): “The Commission must pursue a policy that benefits society as a whole and promotes European and universal standards and values alongside core economic interests, putting a greater emphasis on sustainable development, human rights, tax evasion, consumer protection, and responsible and fair trade”

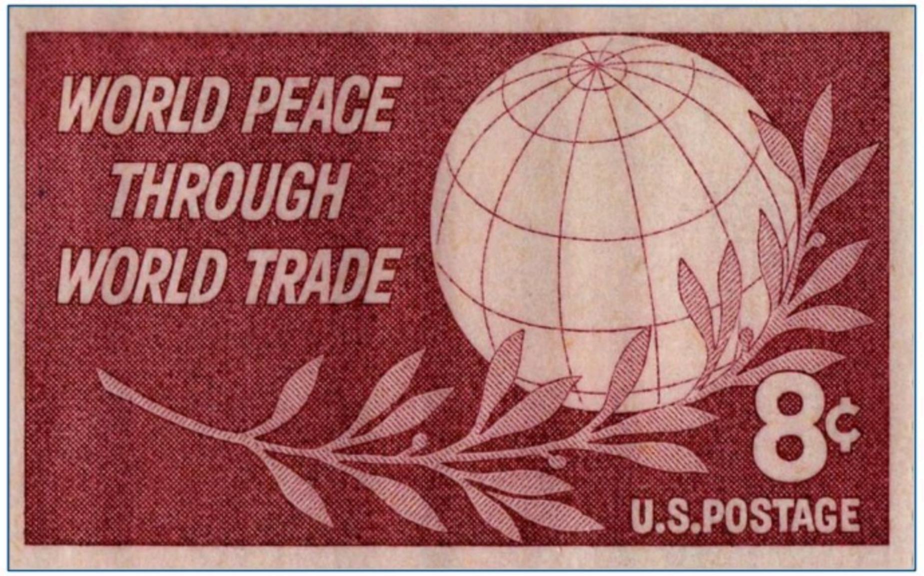
Ultimately these concessions were, quite literally, trumped by what came next…

Trade & Interdependence: Wandel durch Handel no more?

A word on interdependence

> "No two countries that are both part of a major global supply chain, like Dell's, will ever fight a war against each other as long as they are both part of the same global supply chain" (Friedman, 2007, 421).

> "Liberals claim that globalization has led to fragmentation and decentralized networks of power relations. This does not explain how states increasingly "weaponize interdependence" by leveraging global networks of informational and financial exchange for strategic advantage" (Farrell and Newman, 2019, 42)



From hair cracks to fractures: The Global Context Shifts

Challenging Embedded Neoliberalism

- Several external factors triggered a need for change in European leaders' beliefs:
  - Increasing authoritarianism and self-reliance in China.
  - The US's protectionist and unilateral turn under the Trump administration.
  - Brexit, seen as a deterioration of the liberal international order.
  - The COVID-19 pandemic, highlighting supply chain vulnerabilities and resource dependence.
  - Russia's invasion of Ukraine, emphasizing national security implications of concentrated sourcing (energy, key imports) and accelerating existing trends.
- These developments challenged the existing "embedded neoliberal" compromise, creating an opening for alternative approaches.

The Geoeconomic Turn Begins (2010s)

Policy-Driven Reversal of Integration

- **Geoeconomic fragmentation (GEF)** is defined as a policy-driven reversal of global economic integration.
- It is becoming a reality, with a sharp rise in restrictions on cross-border trade and FDI.
- Investment and financial flows are increasingly driven by geopolitical alignment.
- Production is relocating as companies worry about supply chain reliability.
- The EU is not immune to these trends. Domestic competitiveness, supply chain resilience, and climate change also drive GEF policies.
- This shift involves a rethinking of liberalization and market integration through more geopolitical approaches to economic instruments. It means states re-center themselves as primary actors, potentially distorting market dynamics.

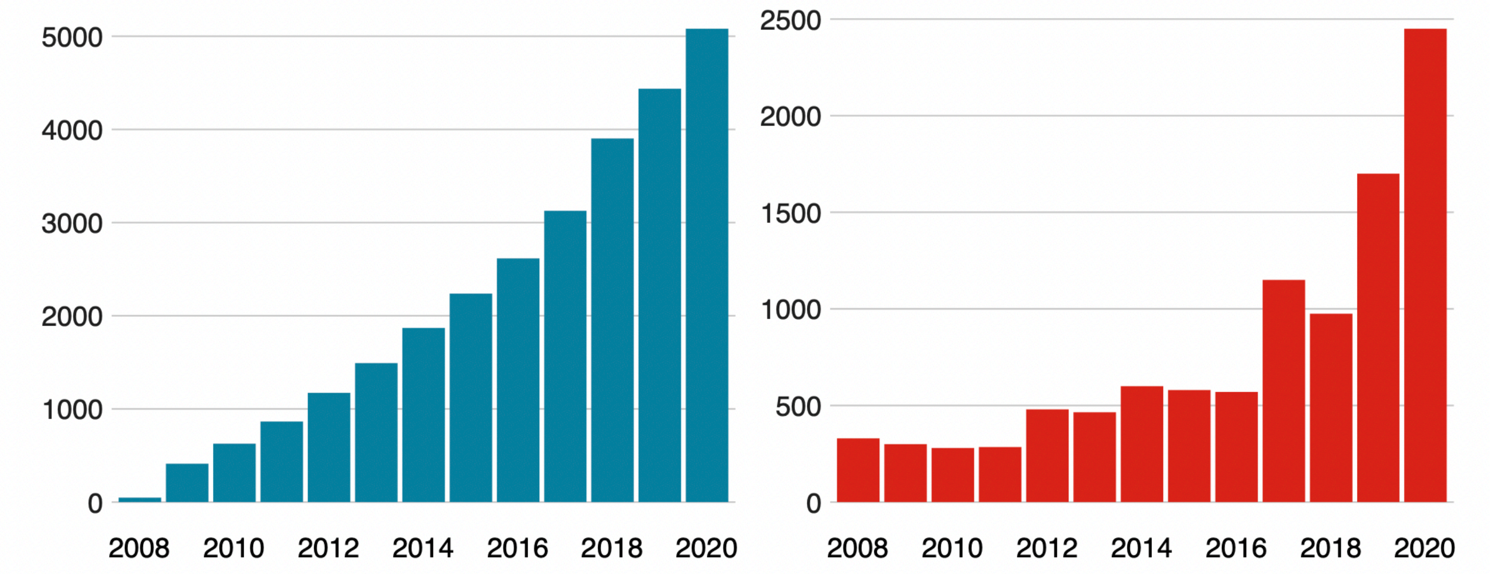


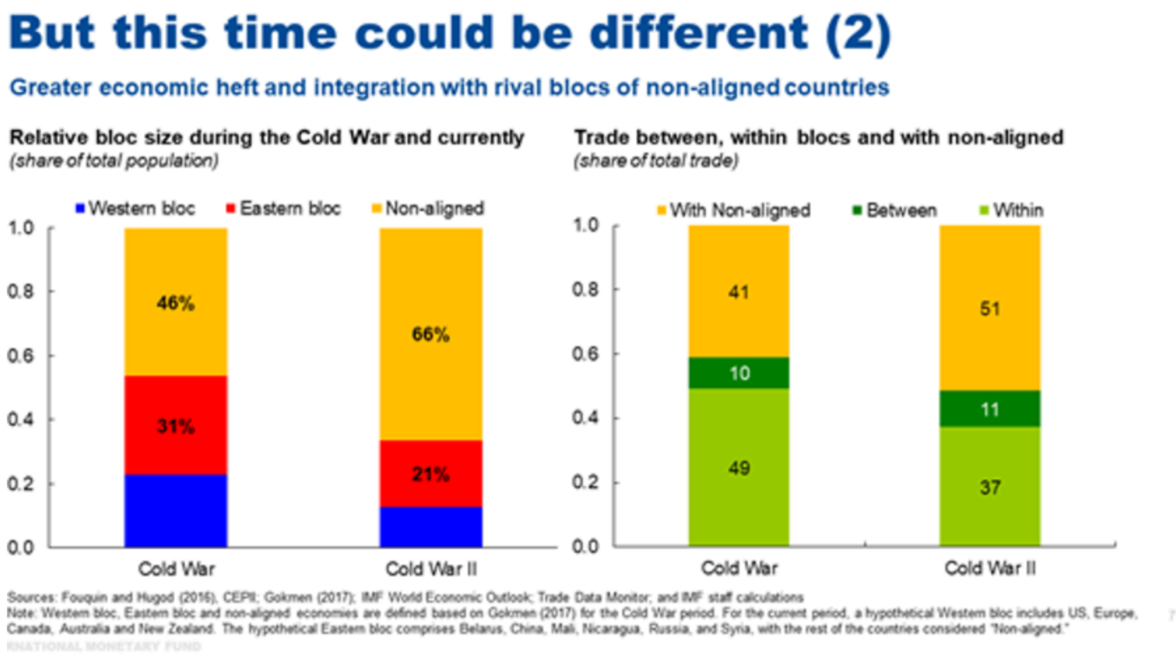
Figure 1: Number of subsidies (left) and trade restrictions (right). Source: IMF (2020) and Global Trade Alert (2021)

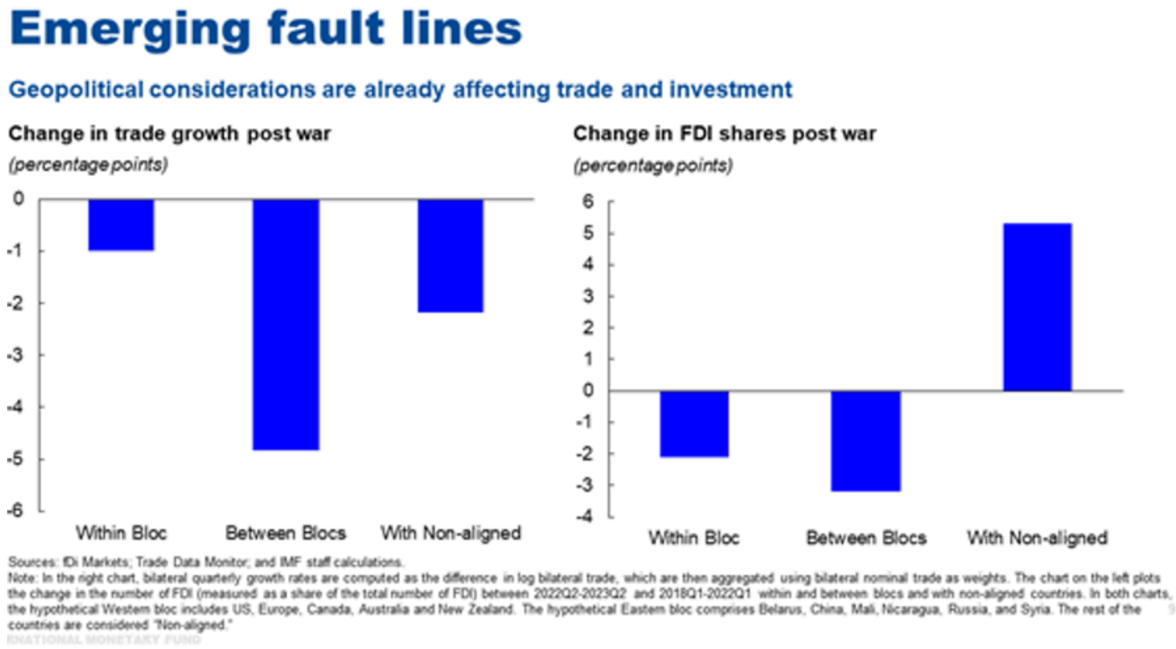
Geoeconomic Fragmentation: Quo Vadis EU?

EU's Exposure to Fragmentation Risk

- The EU is a large, diverse, and highly-open region, making it exposed to geoeconomic fragmentation risk across several dimensions.
- GEF can lead to economic costs, such as reduced EU output and trade, and higher prices.
- These losses can be significantly larger in the short term when economies are less able to adjust .
- Whether the current situation is an emerging "geoeconomic order", "de-globalisation", or an "interregnum" is debated, but the Single Market faces new challenges.

The 'geoeconomic turn' is as much about changing world order as it is about changing policies and changes in the ability and modality of projecting EU power externally (Herranz-Surrallés et al., 2024).





The EU’s Response: Open Strategic Autonomy

A New Trade Policy Doctrine

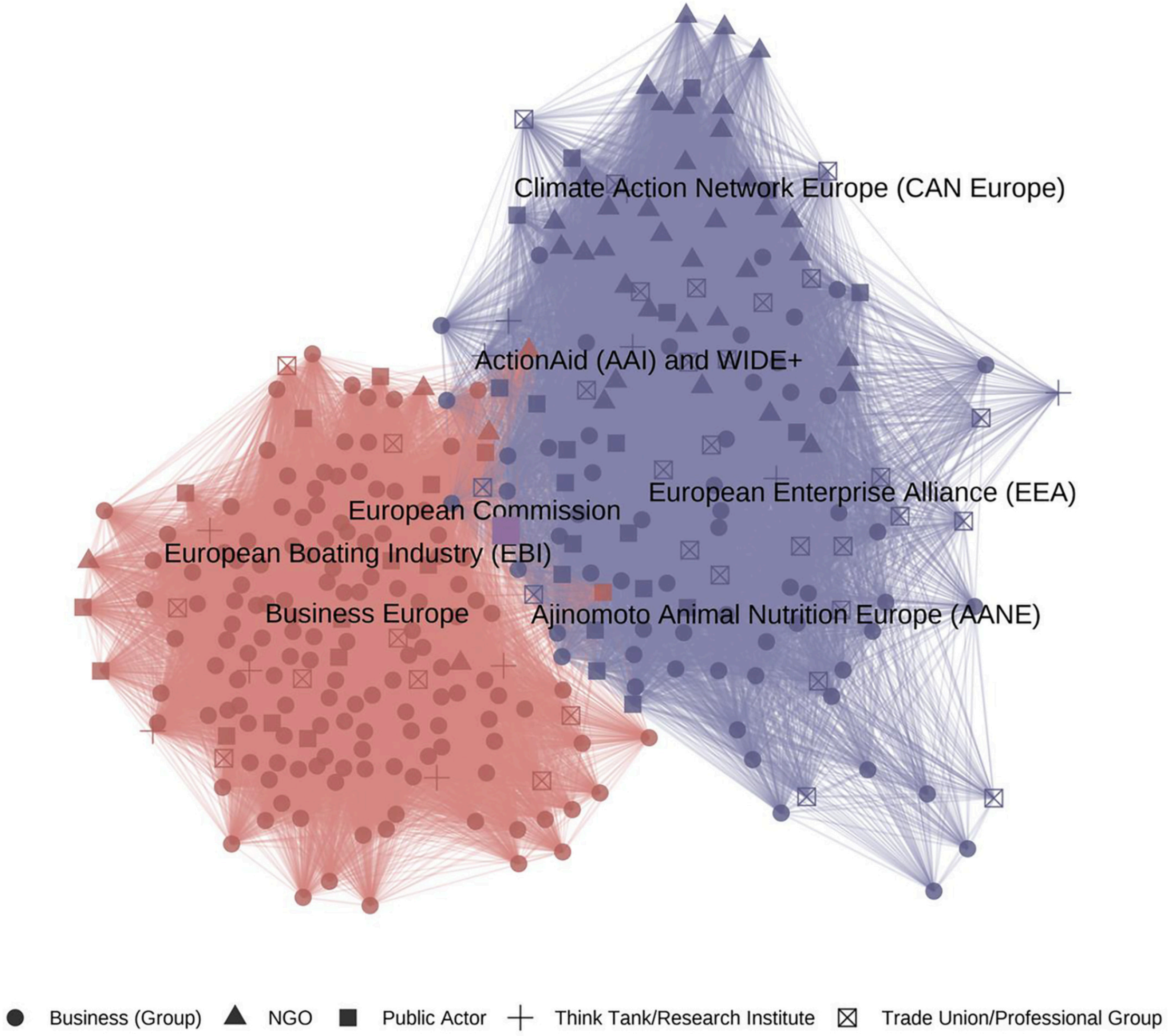
- The EU has embraced **“open strategic autonomy”** as its new trade policy doctrine.
- Encapsulates the tensions between internal/external liberalisation and reconsidering reliance on global value chains an open global economy.
- OSA constitutes a significant challenge to and departure from previous neoliberal ideas, incorporating “trade as foreign policy” and “fair trade” ideas more prominently.
- “Open” is seen not as oxymoronic, but as key to autonomy (e.g., diversification for resilience), though openness is pursued less naively.

> Europe “must learn quickly to speak the language of power, and not only rely on soft power as we used to” (Borrell, 2020)

The revenge of strategic yogurt

How the EU started speaking French when it comes to the economy

Strange bedfellows & coalition magnets



Operationalizing OSA

Table 1: Typology of Geoeconomic Instruments.

	Offensive	*Defensive*
Inducement	Industrial policy to achieve global market dominance in chokepoints 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

Operationalizing OSA

Table 3: Mapping the New EU Geoeconomic Instruments.

	Offensive	*Defensive*
Inducement		European Green Deal Industrial Plan (2023) European Chips Act (2022) Carbon Border Adjustment Mechanism (2022)
Sanction	International Procurement Instrument (2022) Outbound FDI screening (in consultations)	FDI Screening Regulation (2019) Export Control Regulation (2021) Foreign Subsidies Regulation (2022) Carbon Border Adjustment Mechanism (2022) Anti-Coercion Instrument (2023)

Abbreviations: EU, European Union; FDI, foreign direct investment.

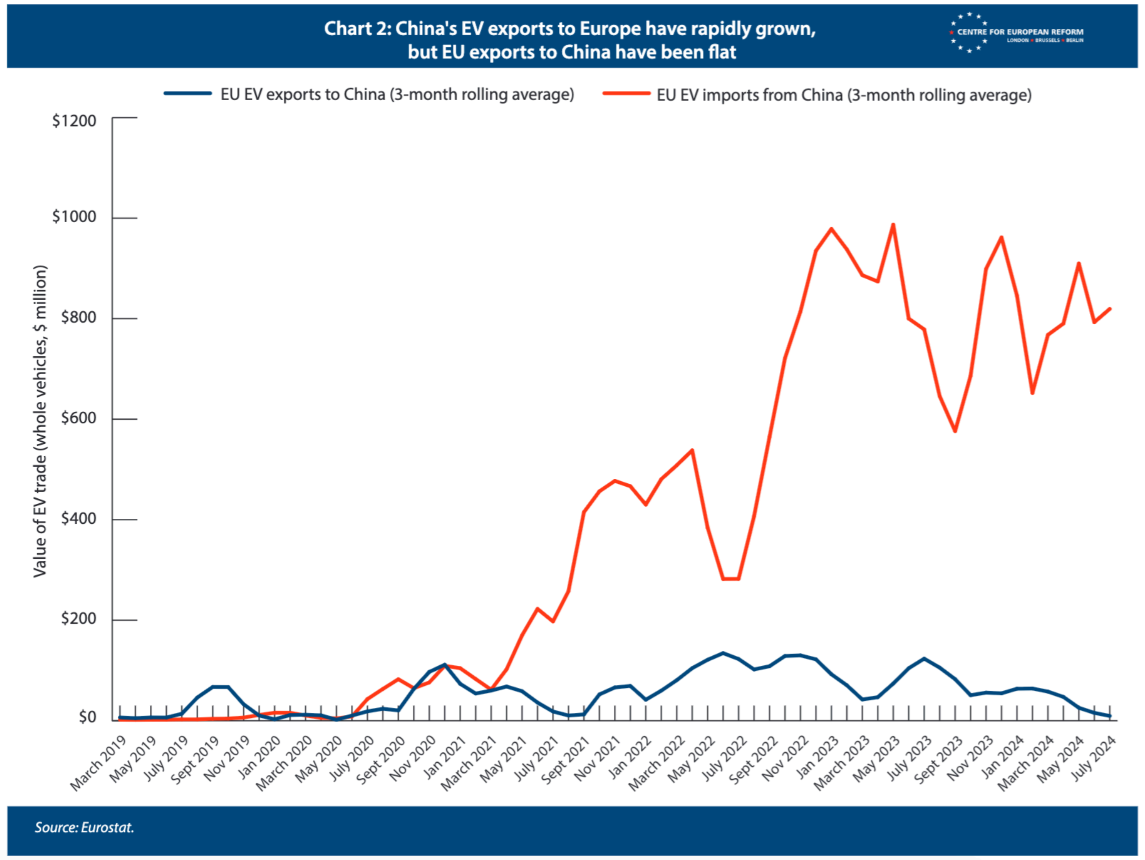
In-class Assignment

The EV revolution: A primer

- The European Commission identifies the electric vehicle (EV) battery sector as a strategic industry. The aim is to build a full, EU-based value chain to reduce reliance on imports.
- Imports of EVs from China into the EU have **surged dramatically**, increasing from USD$1.6 billion in 2020 to $11.5 billion in 2023.
- The market share of China-produced EVs in Europe has surged to 19%.
- China has rapidly transitioned from a net importer to the world's largest net exporter of cars
- This growth is driven by weak domestic demand and significant **overcapacity** in China, pushing manufacturers to seek export markets like Europe.
- This poses a **direct challenge** to the core European automotive industry, which supports **13.8 million jobs** (6.1% of EU employment).
- It is seen as a "second China shock," impacting core industrial sectors and contributing to fears of **deindustrialisation** in Europe.

The (fraught) case for tariffs

- The EU Commission initiated an anti-subsidy investigation into Chinese EV imports in October 2023.
- The goal is to impose **countervailing duties** to address the risk of subsidized imports damaging the European auto industry.
- However, duties at the envisioned level (15-30%) may not be sufficient to deter highly competitive producers like BYD. They have substantial cost advantages and enjoy a significant “EU premium” (~€13,000 profit) per car exported to Europe compared to China.
- There’s a possibility that Chinese producers might even be willing to **sell at a loss** short-term to gain market share.
- Duties in the 15-30% range could also negatively impact non-Chinese automakers (e.g., BMW, Tesla) who export EVs produced in China to Europe.



QMV: Rules of the game

For many policy areas, the EU has adopted qualified majority voting (QMV). Since the Lisbon Treaty (2009), QMV is the default decision-making procedure for Commission proposals. Around 80% of EU legistlation is adopted by ordinary QMV.

Two key rules:

1. A proposal is adopted when it has support from **≥55%** of member states (15/27), AND
2. These member states make up **≥65%** of the EU population

A proposal may be blocked by a **blocking minority** that makes up **≥4** Council members representing **≥35%** of the EU's population (in practice, this is done to prevent large member states from creating blocking coalitions).

When the blocking minority threshold of four Council members is not reached the qualified majority is deemed attained, even if the 'yes' votes account for less than 65 percent of the EU's population.

So far, so good? Things are about to get more complicated…

Reinforced and reverse QMV

- Reinforced QMV: increases member state threshold to **≥72%** (population remains 65%).
  - Used for proposals not coming from the Commission or High Representative
- Reverse QMV:
  - Instead of needing a qualified majority to **support** a Commission proposal, votes subject to rQMV need a qualified majority to **block** said proposal.
  - *Inter alia*, this applies to EU trade defense instruments since Lisbon. Therefore, Anti-dumping and anti-subsidy measures are adopted unless EU Member States **oppose** the measures through a qualified majority vote.
  - When neither a blocking majority or a supporting majority is reached, a 'no opinion' advice is issued, essentially giving green light to the Commission to go ahead.

Assignment:

For the next 120 minutes, you will tether into the heart of Brussels contentious economic policy making.

We will simulate the Council vote on the EU Commission’s recommendation to impose up to 35,3% tariffs on Chinese EVs.

The flow is as follows:

1. Instruction and set-up (5 minutes)
2. Country teams deliberate internally (45 minutes)
3. Intergroup negotiation (30 minutes)
    a. Opening statements (1-2 minutes per country group)
    b. Negotiation (25 minutes)
4. Voting takes place (5 minutes)
5. Debrief & discussion (20 minutes)

Wrap-up

1. What did you make of the in-class exercise?

2. What are your broader take-aways for EU economic governance? Is this a viable mode of politics and policy making?

Any further questions?

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