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# Geoeconomic Awakening: The European Union's Trade and Investment Policy Shift toward Open Strategic Autonomy

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# **Geoeconomic Awakening: The European Union's Trade and Investment Policy Shift toward Open Strategic Autonomy**

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## About the Author

Gonçalo Castro Ribeiro is an alumnus of the College of Europe, having graduated with a MA in EU International Relations and Diplomacy Studies (2022). He previously obtained a MSc in Political Economy from the University of Amsterdam (2021) after completing a BSc in Political Science and International Relations at the Nova University of Lisbon (2020). His main fields of interest are international political economy and EU affairs. He was an intern at the Portuguese Institute for International Relations (2019) and is currently a Blue Book Trainee at the Directorate-General for Trade of the European Commission. This paper is based on his thesis at the College of Europe (Éliane Vogel-Polsky Promotion).<sup>1</sup>

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<sup>1</sup> The author is currently affiliated with the European Commission. However, the views expressed herein are the author's own and do not reflect an official position of the European Commission.

## **Abstract**

This paper studies why the European Union (EU) has shifted its trade and investment policy strategy toward Open Strategic Autonomy, and the likely implications for its economic and political relations with the United States (US) and China. To answer this question, it draws on a rational decision-making model of foreign policy analysis. The paper contributes to the literature on the EU's external action and international political economy by examining the EU's power projection capabilities in the current external environment as well as the EU's answers to the increase of geoeconomic international competition.

The paper argues that the objective of Open Strategic Autonomy represents the 'geoeconomic awakening' of the EU. It is a consequence of the EU's need to face the growth of geoeconomic international competition, embodied in the geopoliticisation of trade and investment policies which, in brief, result from the relative decline of the US and the rise of China. Moreover, the paper argues that this strategic shift implies a greater EU alignment with the US and a greater relative distance from China, thus accelerating the prospects of a 'selective decoupling' from the latter.

## **Introduction: Multilateralism faces unilateralism**

In 2019, President von der Leyen announced a 'geopolitical Commission' in the presentation of her College of Commissioners.<sup>2</sup> This announcement came at a moment of increased tensions in the international arena embedded in the relative retreat of the United States (US) and the rise of China. The tensions that derive from these developments have resulted in an evident utilisation of economic vehicles in the pursuit of foreign policy strategic goals, in what can be perceived as the rise of geoeconomic competition and a consequent geopoliticisation of trade and investment policies. In this context, the European Commission's 2021 Trade Policy Review introduced the concept of Open Strategic Autonomy (OSA). In brief, OSA foresees an EU engaged in cooperating in the multilateral forum when possible and acting autonomously when needed.<sup>3</sup>

This paper proposes to study this novel driver of EU trade policy and its significance for the EU's relations with the two actors that rival its economic relevance in the international system: the US and China. For this purpose, this paper applies a foreign policy analysis (FPA) model to answer the question: Why has the European Union shifted its trade and investment policy toward Open Strategic Autonomy, and what are the likely implications for its economic and political relations with the US and China?

This paper argues that the EU has shifted its trade policy toward OSA to face the growing geoeconomic competition in the international arena, embodied in the geopoliticisation of trade policy, thus representing a true 'geoeconomic awakening'. Second, the paper claims that the shift toward OSA will most probably entail a greater alignment of the EU with the US and a relative distancing from China which may result in a 'selective decoupling' from the latter.

The paper contributes to the literature on the EU's external action and international political economy. First, it examines the EU's power projection capabilities in the current external 'geoeconomic environment'. Second, it focuses on the importance

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<sup>2</sup> Ursula von der Leyen, President of the European Commission, "European Parliament Plenary on the Occasion of the Presentation of her College of Commissioners and their Programme", Speech, Strasbourg, European Parliament, 27 November 2019.

<sup>3</sup> European Commission, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Trade Policy Review – An Open, Sustainable and Assertive Trade Policy*, COM(2021) 66 final, Brussels, 18 February 2021.

of international political economy structures in determining actors' foreign economic policies.

The paper is organised as follows. First, it presents the framework of analysis, describes the methodology employed and discusses its shortcomings. Second, it focuses on the concrete investigation of the motives behind OSA – analysing both the internal and external dynamics that contributed to it. Third, it discerns the implications of this strategy for the EU's political and economic relationship with the US and China. The paper then ends with some conclusions.

## **Analytical Framework**

The analytical framework draws on concepts such as 'power shift in the international system', 'gloeconomic competition' and 'open strategic autonomy'.

### *Power shift in the international system*

It is essential to start by framing this discussion in the context of the existing international order. As put forward by Han and Paul, the existing American-led international order "has been shaken by the relative downturn of the US economy and the simultaneous rise of China [...] as a serious contender for America's dominance".<sup>4</sup>

Naturally, the construction of EU trade policy and its dynamics do not operate in a vacuum: the characteristics and transformations of the international system have crucial implications for the EU's foreign economic policy. As argued by Gstöhl, "trade policy can be seen as a reaction to the constraints and opportunities flowing from the international political economy structures".<sup>5</sup> Thus, the EU's 'gloeconomic awakening' (understood as a shift away from neoliberalism) needs to be conceptualised in the context of this changing global environment.<sup>6</sup>

A power shift generally refers to a change in the existing power distribution in the international system. In this discussion, some argue that the US will maintain its

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<sup>4</sup> Zhen Han and T.V. Paul, "China's Rise and Balance of Power Politics", *The Chinese Journal of International Politics*, 13, no. 1 (2020), 1.

<sup>5</sup> Sieglinde Gstöhl, "The European Union's Trade Strategy in the Emerging Tripolar Structure with the United States and China", in *The Evolving Relationship Between China, the EU and the USA: A New Global Order?* eds. Jing Men, Simon Schunz and Duncan Freeman (New York: Routledge, 2020), 115.

<sup>6</sup> Luuk Schmitz and Timo Seidl, "As Open as Possible, as Autonomous as Necessary: Understanding the Rise of Open Strategic Autonomy in EU Trade Policy", *Journal of Common Market Studies* (2022), <https://doi.org/10.1111/jcms.13428>, 1-19.

dominant position for a long time due to the favourable institutional design that it has produced and its potential to 'lock in'.<sup>7</sup> Others see the liberal international order as definitely doomed and set to be replaced by a multipolar global system.<sup>8</sup> In any case, the international liberal order led by the US and supported by its allies has never been so contested.

As this paper argues, the OSA strategy is also a fruit of the changing dynamics in the international system, mainly prompted by an American retreat. The Trump administration highlighted the most apparent signs of the American retreat, particularly regarding the geopoliticisation of trade policy. As Roberts, Moraes and Ferguson suggest:

The hegemon typically supports free trade when it does not fear the economic growth of its strategic rivals. In such periods of relative peace, the hegemon can afford to focus primarily on its own absolute economic gains while largely ignoring changes in relative economic power.<sup>9</sup>

One of the consequences of the US' relative retreat from international governance is arguably the blockage of the World Trade Organisation (WTO). This institution has been crucial for the EU's projection of (economic) power, and its longstanding impasse is at the roots of the EU's 'gloeconomic awakening'. The next sub-section digs deeper into this theme.

### *The multilateral trade system and gloeconomic competition*

It seems perfectly reasonable to concur with the allegation that the WTO is currently "suffering from a deep malaise".<sup>10</sup> This is mainly due to the failure of the Doha negotiation round and the organisation's inadaptability to the evolution of international commerce, marked by the expansion of global value chains and the geographical dispersion of production.<sup>11</sup> As an advocate for free trade and of the

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<sup>7</sup> John Ikenberry, *After Victory: Institutions, Strategic Restraint, & the Rebuilding of Order After Major Wars* (Princeton: Princeton University Press, 2019), 54.

<sup>8</sup> John J. Mearsheimer, "Bound to Fail: The Rise and Fall of the Liberal International Order", *International Security*, 43, no. 4 (2019), 7-50.

<sup>9</sup> Anthea Roberts, Henrique Choer Moraes and Victor Ferguson, "Toward a Gloeconomic Order in International Trade and Investment", *Journal of International Economic Law*, 22, no. 4 (2019), 656.

<sup>10</sup> Richard Baldwin, "The World Trade Organization and the Future of Multilateralism", *Journal of Economic Perspectives*, 30, no. 1 (2016), 95.

<sup>11</sup> *Ibid.*

multilateral rules-based order, the EU has always favoured a geographical dispersion of production<sup>12</sup> that now largely contributes to the insecurities surrounding its supply chains.

Global value chains have been an essential dimension of the multilateral trade order and the increase in geoeconomic rivalry is inherently a challenge to their viability – and, more pessimistically, their existence. Nowadays, one can see that these value chains are already being used as an instrument of (state) economic coercion in what is referred to by Farrell and Newman as ‘weaponised interdependencies’.<sup>13</sup> As trade policies increasingly assume an essential role as foreign policy instruments, it is difficult to consider a scenario where the WTO can come back to being an effective forum for international rulemaking and implementation. The absence of dialogue, rulemaking and respective enforcement creates the conditions for geoeconomic competition to arise.

This paper understands geoeconomics as “the geostrategic use of economic power”.<sup>14</sup> This can also be understood as the application of economic instruments by states – or groups of states – to achieve strategic goals. It seems sensible to consider the EU as a legitimate and powerful geoeconomic actor when one considers Baracuhy’s claim that economic power consists of markets – understood as the economic weight of a given state’s market; resources – framed as the access to financial and technological properties; and rules – the actor’s capacity to shape or influence the international economic order.<sup>15</sup> The EU readily fulfils these three requisites: it possesses the largest single market in the world, its resources and products are exported at massive levels, and its influence in the international economic and financial arena is visible through its trade power, the relevance of the Euro or its important role at international institutions such as the WTO or the International Monetary Fund.

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<sup>12</sup> Andreas Dür, Jappe Eckhardt and Arlo Poletti, “Global Value Chains, the Anti-Globalization Backlash, and EU Trade Policy: A Research Agenda”, *Journal of European Public Policy*, 27, no. 6 (2020), 944-956.

<sup>13</sup> Henry Farrell and Abraham L. Newman, “Weaponized Interdependence: How Global Economic Networks Shape State Coercion”, *International Security*, 44, no. 1 (2019), 42-79.

<sup>14</sup> Sören Scholvin and Mikael Wigell, “Geo-economic Power Politics”, in *Geo-economics and Power Politics in the 21<sup>st</sup> Century: The Revival of Economic Statecraft*, eds. Mikel Wigell, Sören Scholvin and Mika Aaltola (New York: Routledge, 2019), 9.

<sup>15</sup> Braz Baracuhy, “Geo-economics as a Dimension of Grand Strategy”, in *Geo-economics and Power Politics in the 21<sup>st</sup> Century: The Revival of Economic Statecraft*, eds. Mikel Wigell, Sören Scholvin and Mika Aaltola (New York: Routledge, 2019), 14.

As claimed by Baracuhy, “geoeconomics and geopolitics are two sides of the same coin”,<sup>16</sup> as both represent real competition between actors in the international arena, which differ only in their specific tools and instruments. Geopoliticisation can be understood as the designation of one particular subject or theme as a geopolitical problem or threat.<sup>17</sup> Following Meunier and Nicolaidis', the idea of geopoliticisation is used in this paper in “a strategic sense, to characterise the external face of economic statecraft whereby trade policies come to be embedded in power rivalries”.<sup>18</sup> The next sub-section makes the linkage between the concept of OSA and the rise of geoeconomic competition.

### *Open Strategic Autonomy*

The concept of ‘strategic autonomy’ is traditionally related to the idea of the EU developing its defence and security capabilities and thus reducing its reliance on the American ‘defence umbrella’.<sup>19</sup> However, OSA has been introduced in the European Commission’s update of its industrial strategy<sup>20</sup> and, in greater detail, in its latest Trade Policy Review, which states that:

Open strategic autonomy emphasises the EU’s ability to make its own choices and shape the world around it through leadership and engagement, reflecting its strategic interests and values [...]. It further signifies that the EU continues to reap the benefits of international opportunities while assertively defending its interests, protecting the EU’s economy from unfair trade practices and ensuring a level playing field.<sup>21</sup>

One may thus infer that the addition of the term ‘open’ to the idea of ‘strategic autonomy’ is made to reassure that the EU maintains its firm commitment toward the multilateral (trade) order from which it has largely benefited. Nonetheless, it is also clearly stated that its trade and investment policy will be used to increase the EU’s

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<sup>16</sup> *Ibid.*

<sup>17</sup> David Cadier, “The Geopoliticisation of the EU’s Eastern Partnership”, *Geopolitics*, 24, no. 1, (2019), 71-99.

<sup>18</sup> Sophie Meunier and Kalypto Nicolaidis, “The Geopolitization of European Trade and Investment Policy”, *Journal of Common Market Studies*, 57, S1 (2019), 103-113.

<sup>19</sup> Barbara Lippert, Nicolai von Ondarza and Volker Perthes. “European Strategic Autonomy: Actors, Issues, Conflicts of Interests”, *SWP Research Paper*, 4, (2019).

<sup>20</sup> European Commission. “Updating the 2020 Industrial Strategy: Towards a Stronger Single Market for Europe’s Recovery”, Brussels, 5 May 2021, accessed 9 January 2023, [ec.europa.eu/commission/presscorner/detail/en/ip\\_21\\_1884](https://ec.europa.eu/commission/presscorner/detail/en/ip_21_1884)

<sup>21</sup> European Commission, *An Open, Sustainable and Assertive Trade Policy – Open Strategic Autonomy*, *op. cit.*, 8.

ability to autonomously achieve its goals where and if needed. This is precisely the part that represents a true 'gloeconomic awakening'.

As set out in this paper, this 'gloeconomic awakening' is operationalised through the development of different autonomous instruments by the Commission. In his analysis of OSA, Tobias Gehrke allocates these different policies in four different 'baskets' according to their goals: i) tackle economic distortions; ii) defend against economic coercion; iii) link values and sustainability; and iv) strengthen critical infrastructure and critical resilience.<sup>22</sup> The paper merges the first two 'baskets' into one and proposes the creation of the basket 'resilience, security and technological sustainable competitiveness' – thus merging the two other 'baskets'. The next section explains the methodological approach used in this investigation.

*Approach and methodology*

The approach applied in this paper is a classic rational model of decision-making.<sup>23</sup> This is suitable for analysing and schematising in an accessible fashion complex phenomena such as the one being studied. Table 1 shows the questions offered by the FPA model and on which this investigation will base its empirical analysis. These questions help answer the research question: the first part is answered by the first two questions of the table, and the second part is answered by the last question.

Table 1 – Rational Model of Decision-Making (adapted)

<b>Rational Model of Decision-Making</b>
What are the circumstances that the EU conceives as threats or opportunities?
What are the instruments for addressing these threats and opportunities and reach OSA?
What are the implications for the EU's political and economic relationship with the US and China?

Source: based on Mintz and DeRouen, *op. cit.*

<sup>22</sup> Tobias Gehrke, "EU Open Strategic Autonomy and the Trappings of Geoeconomics", *European Foreign Affairs Review*, 27, (2022), 61-78.

<sup>23</sup> The rational actor model is a classical decision theory model which is regularly applied to FPA; see, for instance, Alex Mintz and Karl DeRouen Jr, *Understanding Foreign Policy Decision Making*, (New York: Cambridge University Press, 2010), 57-67.

To answer these questions, this paper relies on document analysis and interviews with practitioners in the field of international trade, which are particularly important for the second part of the research question. Specifically, the paper analyses legislation proposed by the European Commission and the inputs received from both the European Parliament and the Council. Regarding interviews, this paper bases its insights on talks with EU officials at DG TRADE and members of the Trade Section of EU Delegations.

Inevitably, every methodological approach has limitations. Some have argued that the application of an FPA model is inconsequential in the study of EU external relations given that the EU is not a 'state' and hence is not able to have a foreign policy *stricto sensu* – understood as an exclusive prerogative of the sovereign state. Furthermore, it is important to mention the traditional critique of rational models of decision-making that highlight the principles of bounded rationality and the impossibility of agents acting fully rational at any instance, ideas that receive exciting insights from the field of biopolitical science.<sup>24</sup> The second part of this research question is, in its essence, prospective. The existing literature can only provide insights into the past and perspectives over possible future scenarios, which constitute natural and evident limitations to this study. The next section starts the empirical analysis by addressing the first question of the FPA model.

### **The shift towards Open Strategic Autonomy in the EU's trade strategy**

This section addresses the first stage of the FPA model and is divided into two sub-sections: internal context and external context. The first examines the internal EU dynamics that permitted the shift in trade policy toward OSA. The second explores the motives for pursuing OSA which derive from the international context. Naturally, the two sub-sections are deeply linked: the external threats and opportunities stimulate the internal discussion and create the policy window to better seize them; the internal context encompasses the different political and legislative procedures which are necessary for the EU to act on the threats and opportunities observed.

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<sup>24</sup> See, for instance, John M. Friend and Bradley A. Thayer, "Evolution and Foreign Policy: Insights for Decision-Making", *Biopolitics: The Life Sciences and Public Policy*, 10 (2012), 97-117.

## *Internal context*

The paper focuses particularly on the internal discussions at the Commission and on the positions of the European Parliament and the Council (via member states). Regarding the Commission, it is important to mention that, as a product of an internal Commission negotiation in which every Directorate-General has a say, the concept of OSA was discussed with the College of Commissioner's traditional lines of action. While some Commissioners were particularly supportive of underlining the term 'openness', others were keener to reinforce the 'autonomy' component.<sup>25</sup>

The European Parliament seems to have been particularly supportive of introducing the concept of OSA. In its Motion for a Resolution on the latest Trade Policy Review, the Committee on International Trade stated that it "welcomes the concept of open strategic autonomy", considering it "crucial to coordinate and create synergies between trade policy and internal policies"<sup>26</sup> such as industrial, environmental, and digital policies.

Regarding the position of member states, it can be said that these were aligned with their overall foreign (economic) policy stances. For instance, member-states that are or were more prominent recipients of Chinese foreign direct investment (FDI) were more reluctant concerning OSA. It is reasonable to think that this might have happened because of the Chinese strategy of 'dividing and ruling'.<sup>27</sup> On the other hand, member states with a traditional transatlantic orientation were cautious in framing the idea of 'autonomy' concerning the US. Moreover, member states that traditionally favour trade liberalisation pushed for a greater underscoring of the term 'openness'. The fundamental problem around the concept was then the wording. The concept of OSA can arguably be seen as a classic product of Council negotiations, even if it originated in the European Commission. In this sense:

Every member state advocates for a phrasing that suits its interests: the liberals are satisfied with the word 'open'; the French with the 'autonomy', while 'strategic' is well received by everyone at the table.<sup>28</sup>

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<sup>25</sup> Interview with EU Official 2, via Videocall (Webex), 29 April 2022.

<sup>26</sup> European Parliament, *Motion for a Resolution – Trade Policy Review, 2020/2761 (RSP)* (Brussels: Committee on International Trade, 23 September 2020).

<sup>27</sup> See, for instance, Thorsten Benner and Jan Weidenfeld, "Europe, Don't let China Divide and Conquer", *Politico Europe*, 19 March 2018, accessed 21 April 2022, <https://www.politico.eu/article/europe-china-divide-and-conquer>.

<sup>28</sup> Interview with EU Official 4, via Videocall (Webex), 28 April 2022.

In sum, it can be considered that the EU's internal context was fertile and permissive for the shift that OSA represents. This is, to a large extent, arguably explained by the forces coming from outside the EU – as the next sub-section explains.

### *External context*

Here, the paper focuses particularly on how various phenomena in the international arena contributed to the EU's shift toward OSA. It highlights in particular the paralysation of the multilateral trade system, the EU's relationship with the US and with China, the COVID-19 pandemic and the issue of technological 'sustainable competitiveness'.

#### The decline of the multilateral trade system

As Bluth puts it, the loss of credibility of the WTO to serve as a forum for "effective trade policy rulemaking" is a symbol of the growing immobility of various international organisations.<sup>29</sup> Proof of the EU's awareness of the WTO's 'sickness' is its trade policy development throughout the past decades, from 'managed globalisation' and prioritisation of the WTO to a 'competitive liberalisation' strategy based on bilateral free trade agreements to the more recent 'geopolitical turn' of the EU's trade and investment policy.<sup>30</sup>

The EU is a major stakeholder within the WTO, and the efforts to reform the latter are underlined as a priority in the OSA primary documents.<sup>31</sup> This must, however, not be interpreted as an impeditive for the EU to 'arm' itself with more autonomous instruments – embedded in the OSA strategy – to protect the EU in the 'worst case scenario'.

#### Sino-American (economic) competition

The tensions between the US and China are a direct threat to the EU's sovereignty – considering Leonard and Pisani-Ferry's argument that "sovereignty, for the EU as a

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<sup>29</sup> Christian Bluth, *Europe's Trade Strategy for the Age of Geoeconomic Globalisation: The EU, China and the US Competing in the Face of the Global Megatrends of Climate, Technology and Demographic Change* (London: CEPR Press, 2021), 120.

<sup>30</sup> Gstöhl, "The European Union's Trade Strategy in the Emerging Tripolar Structure with the United States and China", *op. cit.*

<sup>31</sup> European Commission, *Trade Policy Review – An Open, Sustainable and Assertive Trade Policy – Open Strategic Autonomy*, *op. cit.*

whole, is first and foremost economic sovereignty".<sup>32</sup> Being sovereign states, the US and China were always able to intertwine their economic and security policies, in contrast to the EU.<sup>33</sup>

The theory of comparative advantages guides the multilateral trade system designed by the US. It follows that the modern capital-intensive economies (such as the US or the EU) inevitably focused their labour-intensive economic activities on countries with ample labour supply (such as China or other Asian countries).<sup>34</sup> This, coupled with China's admission to the WTO in 2001, provided the country with the conditions to benefit from globalisation like no other. At the same time, the West expected China to eventually become a 'responsible stakeholder' of the rules-based international order.

The competition between the US and China is complex and not easily comparable with the Cold War scenario of US-Soviet rivalry. The levels of economic interdependence between the US and China are enormous when compared to the Cold War period during which globalisation was in its infancy. It is then important to study the rise of China and its implications for the EU trade policy.

### The rise of China

The rise of China is one of the most hotly debated topics in the field of international relations. The EU-China strategic partnership firmly rests on the mutual economic dependency between both parties. However, this dependency is "changing in character driven by the profound transformation of the international system as well as significant internal developments" on both sides.<sup>35</sup>

The Belt and Road Initiative (BRI) – commonly described as the 21<sup>st</sup> century Silk Road – was proposed by Chinese President Xi Jinping in 2013. It is easy to understand that this initiative is a crucial element of China's grand international expansion strategy. It is also a good example of the geopoliticisation of trade policies. The BRI has natural consequences for the relationship between the EU and China. Some suggest that the

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<sup>32</sup> Leonard *et al.*, *op. cit.*, 2.

<sup>33</sup> Gstöhl, "The European Union's Trade Strategy in the Emerging Tripolar Structure with the United States and China", *op. cit.*

<sup>34</sup> Ding Chun, "EU-China-US Trilateral Relations", in *The Evolving Relationship Between China, the EU and the USA: A New Global Order?* eds. Jing Men, Simon Schunz and Duncan Freeman (New York: Routledge, 2020), 99-112.

<sup>35</sup> Anna Michalski and Zhongqi Pan, *Unlikely Partners? China, the European Union and the Forging of a Strategic Partnership* (Singapore: Palgrave, 2017), 41.

Chinese strategy towards the EU in this regard is a perfect example of the country's traditional foreign policy of 'dual identities' – "combining a developing country reality with the power ambitions of a great global power".<sup>36</sup> The EU initially welcomed China's intention to engage in an initiative to support developing countries. When the BRI started raising suspicions due to its unclear framework and objectives, the Chinese initiative had already highlighted the difficulty for the EU to speak 'with one voice' with China.<sup>37</sup>

Furthermore, it is crucial to refer to the importance of the EU-China FDI dynamics in the context of OSA. While it is already decreasing and was mainly embedded in mergers and acquisitions, the levels of Chinese FDI in Europe increased exponentially throughout the last decade – particularly by state-owned companies. Due to fears of an 'unlevelled playing field' and the lack of reciprocity, this raised suspicions on the Commission's side.

The Comprehensive Agreement on Investment (CAI) arguably represented a significant step towards 'levelling the playing field' with China. It was expected that the further elimination of trade and investment barriers between both sides would contribute to a strong recovery of the world economy after the pandemic and create the conditions to "establish a closer political cooperation between China and the European Union".<sup>38</sup> As explained later in this paper, this scenario is unlikely to come into being. Ultimately, one can reasonably argue that the ratification of the CAI seems now a very remote possibility. Having analysed the rise of China, it is now important to examine the recent past of the transatlantic relationship.

### The instability of the transatlantic relationship

The US is the EU's most important partner, and the transatlantic relationship is one of the strongholds of the current international order. The most recent Joint Communication by the Commission and the High Representative (HRVP) on the transatlantic relationship highlights the need to "look for solutions that respect our

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<sup>36</sup> Jie Yu, "The Belt and Road Initiative: Domestic Interests, Bureaucratic Politics and the EU-China Relations", *Asia Europe Journal*, 16 (2018), 232.

<sup>37</sup> Zhao Minghao, "The Belt and Road Initiative and its Implications for China-Europe Relations", *The International Spectator*, 51, no. 4 (2016), 109-118.

<sup>38</sup> Peter H. Egger, "Putting the China-EU Comprehensive Agreement on Investment in Context", *China Economic Journal*, 14, no. 2 (2021), 187-199.

common values of fairness, openness and competition".<sup>39</sup> Further, the own strategy laid by OSA foresees the rebuilding of the transatlantic partnership as one of its crucial lines.<sup>40</sup> Nevertheless, it is impossible to ignore the signs of distancing between the two sides throughout the last decade(s) – which are not merely linked to economic issues.<sup>41</sup>

The election of Donald Trump accelerated the American disengagement from global (economic) governance and served somehow as a 'tipping point' for the 'distancing' in the transatlantic relationship. As an EU official puts it:

the Trump presidency made the EU understand that the USA is an ally on which we could not count forever and unconditionally, so the EU had to equip itself to defend itself from adverse situations.<sup>42</sup>

The Trump administration's "disorderly retreat"<sup>43</sup> from rule-making at the international level – seen, for instance, in the number of trade agreements concluded outside the WTO framework – could only contribute to a further discredit of the multilateral trade system. By examining the recent past of the transatlantic relation, one may point to two particular events that arguably contributed to an even greater economic distancing between both parties: the failure of the Transatlantic Trade and Investment Partnership (TTIP) and the tariffs imposed by the Trump administration on the EU's exports of steel and aluminium.

The TTIP negotiations were launched in 2013 with a level of expectation that matched its 'mega-deal' ambition of establishing the greatest free trade area in the world. The failure of the TTIP negotiations in 2016 is widely recognised as being caused by the unprecedented politicisation of the deal and the difficulties inherent in reaching regulatory convergence.<sup>44</sup>

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<sup>39</sup> European Commission and High Representative, *Joint Communication to the European Parliament, the European Council and the Council: A New EU-US Agenda for Global Change*, JOIN(2020) 22 final, Brussels, 2 December 2020.

<sup>40</sup> European Commission, *Trade Policy Review – An Open, Sustainable and Assertive Trade Policy*, *op. cit.*

<sup>41</sup> Marianne Riddervold and Akasemi Newsome, "Transatlantic Relations in Times of Uncertainty: Crises and EU-US Relations", *Journal of European Integration*, 40, no. 5, (2018), 505-521.

<sup>42</sup> Interview with EU Official 4, *op. cit.*

<sup>43</sup> Sophie Meunier, "A Disorderly Retreat from Global Governance? US Trade and Investment Policies in the Trump Era", in *The Evolving Relationship Between China, the EU and the USA: A New Global Order?* eds. Jing Men, Simon Schunz and Duncan Freeman (New York: Routledge, 2020), 132.

<sup>44</sup> Alasdair R. Young, "Nor Your Parents' Trade Politics: The Transatlantic Trade and Investment Partnership negotiations", *Review of International Political Economy*, 23, no. 2 (2016), 345-378.

The imposition of sanctions on the EU's exports of steel and aluminium based on "national security concerns"<sup>45</sup> was received in the EU with 'shock' and was arguably at the very origin of the initial design of the EU's Anti-Coercion Instrument (ACI).<sup>46</sup> These actions from the Trump administration epitomise this paper's main concepts of geoeconomic competition, the 'malaise' of the multilateral trade system and the power shift that is structurally behind this American retreat from its hegemonic responsibilities. All of these are, naturally, at the roots of the EU's 'geoeconomic awakening'.

The EU then understood that it could neither fully stand with the US (as protectionist measures were also targeting it) nor with China (due to its history of ignoring the rules of the multilateral system).<sup>47</sup> The eruption of a global pandemic could only exacerbate the existing problems in the EU's relationship with both countries.

### The COVID-19 pandemic

The COVID-19 pandemic had a severe impact on international trade: as the global economy slowed down, the demand for imports fell at the same time that, on the supply side, exports were threatened by disruptions in production.<sup>48</sup> This led to a quick rise in arguments favouring rearranging supply chains, mainly due to China's dominant position in producing health protection materials such as face masks.

The (political) conditions were set for governments to start looking 'inward', at a moment when the multilateral trade order was already not at its best. The European Commission clearly stated that while supply chains were tested and failed at some moments, the situation would not have been much different or better with production concentrated in Europe.<sup>49</sup> However, the Commission also recognised that its exposition to one-sided supply chain dependencies is a source of vulnerabilities.<sup>50</sup> With interdependencies already being 'weaponised', the pandemic further contributed to

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<sup>45</sup> Marianne Schneider-Petsinger, "US-EU Trade Relations in the Trump Era: Which Way Forward?", *Research Paper*, London, Chatham House (2019).

<sup>46</sup> Interview with EU Official 2, *op. cit.*

<sup>47</sup> Goulard, *op. cit.*

<sup>48</sup> Richard Baldwin and Rebecca Freeman, "Supply Chain Contagion Waves: Thinking Ahead on Manufacturing 'Contagion and Reinfection' from the COVID concussion", *VOXEU*, accessed 18 April 2022, <https://voxeu.org/article/covid-concussion-and-supply-chain-contagion-waves>.

<sup>49</sup> European Commission, *Trade Policy Review – An Open, Sustainable and Assertive Trade Policy*, *op. cit.*

<sup>50</sup> European Commission Joint Research Centre, *Shaping & Securing the EU's Open Strategic Autonomy by 2040 and beyond* (Brussels: 2021), 37.

the growth of international 'economic warfare' and to the Commission's urge to develop its 'geoeconomic toolbox'.

To deal with the severe disruption brought by COVID-19, the Commission considered changing its competition policy as an effective tool to reallocate the production of essential products to Europe. This would arguably represent a geopoliticisation of the EU's very own competition policy,<sup>51</sup> something that would represent a groundbreaking approach to industrial policy by the EU. This reorientation regarding state aid rules and ended up being announced in the context of the EU's answer to the US's Inflation Reduction Act (IRA). With the IRA in the background, this paper now examines the road toward 'technological sovereignty' and 'competitive sustainability'.

### The race for technological sovereignty and competitive sustainability

'Technological sovereignty' and 'competitive sustainability' are two central concepts in the EU's position in the face of the twin digital and green transition, resting upon the fourth industrial revolution.

Regarding 'technological sovereignty', the existing digital infrastructures and technology transfers are particularly mentioned by the Joint Research Centre as fragilities of the EU in comparison with the US and China.<sup>52</sup> The Joint Research Centre further mentions that increasing "the sustainable competitiveness of the EU's economy" to "decrease asymmetric economic dependencies" is needed in order for the EU to become a more autonomous player – thus having an obvious link with the goal of OSA.<sup>53</sup>

There is a direct link between 'technological sovereignty' and 'competitive sustainability' and this paper's central concepts of geoeconomic competition and power shift in the international arena. This is because the winners of the digital and sustainability race will inevitably shape the architecture of a redefined international order. These areas are another example of the EU finding itself structurally 'trapped' in a situation that directly challenges its *status quo*. On the one hand, if the EU competes with the US and China, this might demand an unprecedented approach to the EU's

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<sup>51</sup> Klaudia Majcher, "'Open Strategic Autonomy': Towards the Geopoliticisation of EU Competition Law?", *Kluwer Competition Law Blog*, 20 November 2020, accessed April 21 2022, <http://competitionlawblog.kluwercompetitionlaw.com/2020/11/20/open-strategic-autonomy-towards-the-geopoliticisation-of-eu-competition-law/#respond>.

<sup>52</sup> European Commission, Joint Research Centre, *op. cit.*

<sup>53</sup> *Ibid.*, 79.

competition law standards and its regulatory history – as it would arguably mean the build-up of so-called 'European champions' to compete with American and Chinese major companies.<sup>54</sup>

On the other hand, the decision to not compete might undermine the EU's quest for autonomy among two technology giants who would then continue to hold major power in influencing every EU policy field that touches the digital or sustainability domain. The announcement of the Inflation Reduction Act by the Biden Administration and the subsequent Net-Zero Industry Act put forward by the Commission showed that the Commission indeed opted for an unprecedented approach to its competition and industrial policy.

It is now time to explore the policies developed by the EU to address these internal and external challenges and opportunities and answer the second question of the FPA's model.

### **Instruments to promote the EU's Open Strategic Autonomy**

This section focuses on the instruments designed by the Commission in its quest for OSA. It describes the set of policies designed by the Commission to strengthen the EU's 'geoeconomic toolbox', reach the goal of OSA and thus operationalise the EU's 'geoeconomic awakening'.

The list here provided is not exhaustive, and other policies could be included in it. This paper makes a distinction between each policy's goals of 'Tackling Economic Distortions or Defending Against Economic Coercion' or aiming at 'Resilience, Security and Technological Sustainable Competitiveness', based on an adaptation of Gehrke's 'policy baskets' mentioned earlier.<sup>55</sup> A brief description of each instrument is also provided.

#### *Tackling economic distortion or defending against economic coercion*

Table 2 displays the instruments designed to tackle economic coercion.

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<sup>54</sup> See, for instance, European Commission, "Mergers: Commission Prohibits Siemens' Proposed Acquisition of Alstom", 6 February 2019, accessed 20 April 2022, [https://ec.europa.eu/commission/presscorner/detail/it/IP\\_19\\_881](https://ec.europa.eu/commission/presscorner/detail/it/IP_19_881)

<sup>55</sup> Tobias Gehrke, *op. cit.*

Table 2 – Instruments for Open Strategic Autonomy (i)

<b>Instrument</b>	<b>Type of (legal) action</b>	<b>State of play</b>
International Procurement Instrument	Regulation	In action
Trade Enforcement Regulation	Regulation	In action
Creation of the Chief Trade Enforcement Officer	Organisational changes	In action
Distortive Foreign Subsidies Instrument	Regulation	In action
Anti-Coercion Instrument	Regulation	Trilogues initiated

### International Procurement Instrument

The Commission's initial proposal for an International Procurement Instrument (IPI), was first 'lost' amidst legislative blockage caused by member states' diverging positions, but it was recently revisited and approved "with China in mind".<sup>56</sup> The IPI has the primary goal of limiting the disadvantage caused to the EU when it opens its public procurement market to actors that do not reciprocate this openness. The implementation of this instrument demonstrates that the EU has somehow understood that it could not continue opening such important markets without reciprocity, thus correcting its former 'naivety'.

### Trade Enforcement Regulation

The new trade enforcement rules put forward by the Commission specifically refer to the incapacity of the WTO Appellate Body to deliver concrete results.<sup>57</sup> As suggested by an EU official, the blockage to which the new rules intended to provide an answer – the so-called 'appeals into the void' – are also being perceived as a threat by other countries.<sup>58</sup> It seems that the EU has served as an inspiration for others to update their legislations towards greater assertiveness and pragmatism in the WTO forum.<sup>59</sup> It is easy to establish a link between this policy and the decline of the multilateral trade system.

<sup>56</sup> János Ammann, "With China in Mind, EU Agrees on Rules to Force Open Tenders", *EURACTIV*, 15 March 2022, accessed 21 April 2022, <https://www.euractiv.com/section/economy-jobs/news/with-china-in-mind-eu-agrees-on-rules-to-force-open-tenders>.

<sup>57</sup> Council of the European Union, "Regulation 2021/167 of the European Parliament and of the Council amending Regulation No 654/2014 Concerning the Exercise of the Union's Rights for the Application and Enforcement of International Trade Rules", *Official Journal of the European Union*, L49/1, 12 February 2021.

<sup>58</sup> Interview with EU Official 4, *op. cit.*

<sup>59</sup> *Ibid.*

## Creation of the Chief Trade Enforcement Officer

The mission letter to former Trade Commissioner Phil Hogan states: "The College will appoint a Chief Trade Enforcement Officer (CTEO) to work under your direct guidance to monitor and improve the compliance of our trade agreements".<sup>60</sup> The Commission further mentions that the CTEO is responsible for ensuring that the countries with which the EU has trade agreements commit, *de facto*, to providing market access to the EU agents, to respect labour laws, and to the climate transition objectives. The creation of the CTEO and this 'renewed' implementation and enforcement arm of DG TRADE thus constitute a clear addition to the EU's 'geoeconomic toolbox'.

## Distortive Foreign Subsidies Instrument

The foreign subsidies instrument aims to avoid unbalances in the playing field between companies in the EU's internal market.<sup>61</sup> This would threaten the competitiveness of the internal market and would create fertile soil for foreign actors to influence the behaviour of economic agents according to their strategic interests. The Commission explicitly mentions that this initiative stems from the inexistence of EU instruments to "address distortions caused by foreign subsidies" and the limitations of the WTO dispute settlement mechanism under the WTO Agreement on Subsidies and Countervailing Measures, which is limited to goods.<sup>62</sup> This stresses the EU's need to act autonomously in the face of the geopoliticisation of investment policies.

## Anti-Coercion Instrument

The Commission proposed the creation of an instrument aimed at protecting the EU and its member states from "economic coercion by third countries".<sup>63</sup> This instrument is also expected to "allow the Union, in the last resort, to counteract such actions".<sup>64</sup> This proposal is ground-breaking, but it faces some challenges. The definition of

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<sup>60</sup> European Commission, "Mission Letter to Commissioner for Trade Phil Hogan", 1 December 2019, accessed 25 April 2022, [https://ec.europa.eu/commission/commissioners/sites/default/files/commissioner\\_mission\\_letters/mission-letter-phil-hogan-2019\\_en.pdf](https://ec.europa.eu/commission/commissioners/sites/default/files/commissioner_mission_letters/mission-letter-phil-hogan-2019_en.pdf).

<sup>61</sup> Council of the European Union, "Regulation 2022/2560 of the European Parliament and of the Council of 14 December 2022 on Foreign Subsidies Distorting the Internal Market", *Official Journal of the European Union*, L330/1, 23 December 2022.

<sup>62</sup> *Ibid.*, 2.

<sup>63</sup> European Commission, *Proposal for a Regulation of the European Parliament and of the Council on the Protection of the Union and its Member States from Economic Coercion by Third Countries*, COM(2021) 775 final, Brussels, 8 December 2021.

<sup>64</sup> *Ibid.*

'economic coercion' can be interpreted in various manners, with multiple corresponding outcomes. As argued by an EU official, "the circumstances that can trigger the use of the ACI are very broad",<sup>65</sup> and it might be difficult to find regular internal agreements over the activation of the instrument.

Having briefly described the developments on the first 'basket' of instruments, this paper now turns to the second 'policy basket'.

### *Resilience, security and technological 'sustainable competitiveness'*

Table 3 shows the policies developed with the goal of resilience and security.

Table 3 – Instruments for Open Strategic Autonomy (ii)

<b>Instrument</b>	<b>Type of (legal) action</b>	<b>State of play</b>
Foreign Direct Investment Screening Mechanism	Regulation	In action
Export Controls	Regulation	In action
Carbon Border Adjustment Mechanism	Regulation	Provisional political agreement reached
Corporate Sustainable Due Diligence	Directive	Rapporteur (European Parliament) published the draft report
Chips Act	Regulation	To be voted in European Parliament's plenary
Forced Labour Ban	Regulation	Rapporteur appointed, Council discussion in preparatory bodies
Critical Raw Materials Act	Regulation	Commission proposal expected in March 2023

### FDI Screening Mechanism

The European Commission created the framework for FDI screening "on grounds of security or public order", aiming at achieving a "balance between maintaining the EU's general openness to FDI inflows and ensuring that the EU's essential interests are not undermined".<sup>66</sup> The main challenge for this instrument seems to be that it only

<sup>65</sup> Interview with EU Official 1, *op. cit.*

<sup>66</sup> European Parliamentary Research Service, *EU Framework for FDI Screening*, (Brussels: European Parliament Research Service, 2019).

provides a framework for member states in case they wish to screen investments,<sup>67</sup> without being mandatory. This policy initiative is easily linked with the geopoliticisation of investment policies.

### Export Controls

The Commission's regulation on an export control regime provides a framework for regulating the export of dual-use items – items that can be used both for civilian and military purposes.<sup>68</sup> This regime has gained particular relevance in the context of the invasion of Ukraine in 2022. The regulation establishes common export control rules and assessment criteria and a common EU list of dual-use items.<sup>69</sup> This is a policy area where trade and security are explicitly intertwined and in which the EU has developed its capabilities in the context of the quest for OSA.

### Carbon Border Adjustment Mechanism

The Commission proposed the Carbon Border Adjustment Mechanism (CBAM) to prevent the risk of carbon leakage and fortify the EU's stance on the challenge of climate change while simultaneously guaranteeing compatibility with WTO rules.<sup>70</sup> The CBAM is linked to the objective of OSA in the sense that the EU not only perceives climate change as a threat but also as an opportunity to consolidate its international leadership in the area of 'sustainable competitiveness'. The greatest challenge that the CBAM faces is exactly its compatibility with WTO rules and international trade law in general,<sup>71</sup> and it has become a hot topic within the WTO, with many countries considering it an unfair unilateral policy.

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<sup>67</sup> Diana A. A. Reisman, "The EU and FDI: What To Expect From The New Screening Regulation", *Institut de Recherche Stratégique de L'École Militaire* (2020).

<sup>68</sup> European Union, "Regulation (EU) 2021/821 of the European Parliament and of the Council of 20 May 2021 Setting up a Union Regime for the Control of Exports, Brokering, Technical Assistance, Transit and Transfer of Dual-use Items (recast)", *Official Journal of the European Union*, L206, 11 June 2021, 64.

<sup>69</sup> *Ibid.*

<sup>70</sup> European Commission, "Carbon Border Adjustment Mechanism: Questions and Answers", accessed 21 April 2022, [https://ec.europa.eu/commission/presscorner/detail/en/qanda\\_21\\_3661](https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_3661).

<sup>71</sup> Cecilia Bellora and Lionel Fontagné, "The EU in search of a WTO-compatible Carbon Border Adjustment Mechanism", *VOXEU CEPR*, 26 March 2022, accessed 21 April 2022, <https://voxeu.org/article/search-wto-compatible-carbon-border-adjustment-mechanism>.

## Corporate Sustainable Due Diligence

The Commission's Directive on Corporate Sustainability Due Diligence was introduced as a tool to regulate companies' standards through "mitigation processes for adverse human rights and environmental impacts in their value chains and integrating sustainability into corporate governance".<sup>72</sup> It may be perceived as an instrument for OSA as it arguably aims at filling "gaps in international rules that have been used by other countries to take advantage of the EU" while also reinforcing the EU's normative power dimension and stressing the importance of 'competitive sustainability'.<sup>73</sup>

## Chips Act

The Chips Act was introduced as an instrument clearly directed toward the goal of 'digital sovereignty' and thus as a crucial component of the overall strategy of OSA. It is also an answer to the fact the semiconductor value chain is hugely dispersed throughout 'key players' such as the US, China, Japan, Taiwan, South Korea and the EU, with no single region being able to claim a position of 'strategic autonomy' or 'digital sovereignty'.<sup>74</sup> Naturally, these key players have also understood the vitality of the semiconductor industry for their autonomy, which emphasises both the geopolitical contours of this question and the Commission's *rationale*.

## Forced Labour Ban

The Commission's proposal on prohibiting products made with forced labour from entering the internal market forms part of its initiatives aiming at 'sustainable competitiveness' in combination, for instance, with the Corporate Sustainability Due Diligence Directive.<sup>75</sup> While its linkage with the goal of OSA might not be evident, the forced labour regulation contributes to consolidating the EU as a global standard-setter on the respect for human rights and its linkage with a fair climate transition. This contributes to the expansion of the EU's influence across the globe through an autonomous policy initiative and promotes its 'sustainable competitiveness'.

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<sup>72</sup> European Commission, *Directive of the European Parliament and of the Council on the Corporate Sustainability Due Diligence and amending Directive*, COM(2022) 71 final, Brussels, 23 February 2022.

<sup>73</sup> Interview with EU Official 4, *op. cit.*

<sup>74</sup> Jan-Peter Kleinhans and Nurzat Baisakova, "The Semiconductor Value Chain" (Berlin: Stiftung Neue Verantwortung e.V., 2020).

<sup>75</sup> European Commission, *Proposal for a Regulation of the European Parliament and of the Council on Prohibiting Products Made With Forced Labour on the Union Market*, COM(2022) 453 final, Brussels, 14 September 2022.

## Critical Raw Materials

The Commission will propose a 'Critical Materials Act' as a way of securing the essential raw materials needed for the climate and digital transitions. This legislative proposal appears also as a response to the 'weaponisable interdependencies' on which the current supply of these materials rests. As stated by President von der Leyen, "our twin green and digital transition will live or die through the functioning of our supply chains".<sup>76</sup> This proposal is still being prepared by the Commission and further developments will occur throughout 2023.

Having answered the second question of the FPA model through the examination of the instruments put forward by the Commission in its quest for OSA, the following part discusses its implications for the EU's relationship with the US and China and thus answer the third question of the FPA model.

## Implications for the EU's economic and political relations with the US and China

This section is dedicated to the examination of the consequences of OSA – both political and economic – the EU's relationship with the US and China.

### *The EU-US economic and political relations*

The transatlantic relationship is clearly stated as being crucial for the EU's goal of OSA.<sup>77</sup> Indeed, the US continue to be not only the EU's most important partner but also the country that designed the existing rules-based international order. It can then be reasonably argued that an alignment between the EU and the US is inevitable if the EU is committed to following its own strategy. The growing assertiveness showed by the EU seems to have been well received by the current American administration,<sup>78</sup> which might constitute a sign of the US accepting an EU capable of sharing the responsibility of protecting the rules-based international order. This might increase the prospects of sincere and pragmatic cooperation with the US – especially regarding China – and in crucial fields such as digital and climate governance.

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<sup>76</sup> European Commission, "Critical Raw Materials Act: Securing The New Gas & Oil at the Heart of our Economy", accessed 28 January 2023, [https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT\\_22\\_5523](https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_22_5523).

<sup>77</sup> European Commission and High Representative, *Joint Communication to the European Parliament, the European Council and the Council: A New EU-US Agenda for Global Change*, *op. cit.*

<sup>78</sup> Interview with EU Official 4, *op. cit.*

Currently, both sides seem to understand that the existing differences can be overcome through a sectoral approach to fields in which cooperation is seen as beneficial. The Trade and Technology Council (TTC) is a good example of it. This directly contrasts with the method embodied in the TTIP, which now seems as inconsequential. In fact, according to an EU official, "it would be a big mistake to think that in the future the EU could go back to this type of comprehensive free trade negotiations with the USA".<sup>79</sup>

The European Commission regards the TTC as a "very promising forum":<sup>80</sup> in addition to gathering the regulators from both sides and having two Vice-Presidents of the European Commission dedicated to it, the TTC provides a forum for the EU and the US to jointly address the growth of geoeconomic competition in the international arena and consequently coordinate instruments to avoid the creation or utilisation of unilateral tools by each side. As argued by an EU official, "the EU fundamentally agrees with the US' analysis of the current problems of the multilateral order, but sees problems in the American approach to address these issues".<sup>81</sup> However, every scenario of cooperation must be handled with care. After all, even if the Biden administration is considered a 'friendly' administration, it still puts forward the Inflation Reduction Act with severe consequences for the EU's competitiveness.

One could argue that one of the possible setbacks of OSA for the transatlantic relationship is that it somehow adds to this uncertainty. While OSA is crucial for the EU's economic sovereignty, it might represent a policy window for a future (more) protectionist American administration to engage in an economic conflict with the EU that might leave the latter in a vacuum if, by then, the EU has not a fully developed geoeconomic arsenal and, perhaps, a security and defence one. To avoid this, continuous concertation between the EU and the rest of the West and its allies is essential.

In the field of multilateralism, it seems that the Biden administration still needs to provide concrete proof of its engagement with, for instance, the reform of the WTO: while the EU has presented a proposal for the latter to happen, the US have barely answered this call.<sup>82</sup> Furthermore, the ACI is an important novelty in the context of the transatlantic relationship. Some see it as a possible source of future tensions between

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<sup>79</sup> Interview with EU Official 2, *op. cit.*

<sup>80</sup> *Ibid.*

<sup>81</sup> Interview with EU Official 2, *op. cit.*

<sup>82</sup> *Ibid.*

the US and the EU, as was the case when the US implemented sanctions on Iran that also affected European companies, which made the EU adopt a 'blocking statute' instructing European companies to not follow American legislation on this matter.<sup>83</sup> Naturally, all these scenarios are expected to be more probable in the case of a Republican White House but cannot be discarded even with a Democratic leadership.

### *The EU-China economic and political relations*

The 2019 Commission Communication on the EU-China strategic outlook describes China as a negotiating partner for cooperation, an economic competitor, and "a systemic rival promoting alternative models of governance".<sup>84</sup> Both the pandemic and the Russian invasion of Ukraine heavily influenced the prospects of the EU-China relationship, while at the same time highlighting the linkage between economic competition and systemic rivalry and stressing the relevance of OSA. The question of Taiwan should also not be ignored in this context. Currently, looking for a strong EU-China bilateral investment framework or pushing for a concerted WTO rulebook seem to be outdated lines of thought considering the earlier-mentioned events. Nevertheless, there is still hope among officials in Brussels that China will do its part for the maintenance of the multilateral forums, such as the WTO, that benefit both sides.<sup>85</sup> In the context of EU-China relations, it can be argued that the adoption of OSA has one apparent benefit and a larger perspective of costs.

On the one hand, the introduction of OSA represents, in the eyes of a part of the Chinese administration, the intention of the EU to 'break free' from the US' dependency.<sup>86</sup> Since the US is seen as 'evil' by China,<sup>87</sup> this could entail new perspectives of cooperation on matters in which China is an essential stakeholder, such as the climate transition, or continued dialogues to develop common frameworks on market access in specific industries.

On the other hand, and with greater weight, there seems to be a clear concern among Chinese officials that OSA might represent a first step by the EU towards

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<sup>83</sup> Interview with EU Official 4, *op. cit.*

<sup>84</sup> European Commission and High Representative, *Joint Communication to the European Parliament, the European Council and the Council: EU-China – A Strategic Outlook*, JOIN(2019) 5 final, Brussels, 12 March 2019, 1.

<sup>85</sup> Interview with EU Official 2, *op. cit.*

<sup>86</sup> Interview with EU Official 3, via Videocall (Webex), 28 April 2022.

<sup>87</sup> *Ibid.*

forming an international alliance to isolate China. This would put the EU on a clear collision route with China – which would be unprecedented given the Chinese tradition of giving the EU some ‘breathing space’ and not including it in the same ‘nasty basket’ as the US.<sup>88</sup> This alliance would naturally be formed by the West and its like-minded partners – the EU, the US, the UK, Japan, Australia, and Canada, among others – something that was always one of China’s greatest concerns.<sup>89</sup> Furthermore, while China already portrayed the EU FDI screening mechanism as the EU adopting a protectionist stance, the introduction of the ACI and the revival of the IPI will undoubtedly contribute to accusations following the same line of reasoning.

Naturally, the Chinese position of ‘friendship without limits with Russia’ in the conflict in Ukraine serves as an even greater accelerator for the EU to reconsider the Chinese intentions and the consequence of future economic alignments. The idea of ‘economic decoupling’ from China now seems like a policy put forward by the Chinese administration itself, mainly based on its ‘zero COVID’ strategy (which has been tragic for Western citizens and companies) and, as earlier mentioned, the ‘true multilateralism’ rhetoric.<sup>90</sup> One may take almost for granted that at least some degree of ‘selective decoupling’ from China will happen: the EU does not want to be dependent on China for certain assets, and the same logic applies the other way around.<sup>91</sup> The rhythm of this phenomenon will naturally be strongly influenced by China’s stance on Russia’s war in Ukraine and the future of Taiwan.

In sum, there seems to be a common understanding surrounding the idea that the EU-China relationship “has become edgier and is definitely not going in the right direction”,<sup>92</sup> with a growing fear reigning in Brussels over a possible future bifurcation of the multilateral order.

### **Conclusion: Unprecedented measures for unprecedented times**

This paper examined why the European Union has shifted its trade and investment policy strategy toward Open Strategic Autonomy, and what the likely implications for its economic and political relations with the United States and China are. It argued that OSA represents a ‘geoeconomic awakening’ of the EU and was introduced to

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<sup>88</sup> *Ibid.*

<sup>89</sup> *Ibid.*

<sup>90</sup> Interview with EU Official 4, *op. cit.*

<sup>91</sup> Interview with EU Official 2, *op. cit.*

<sup>92</sup> Interview with EU Official 3, *op. cit.*

face the growing geoeconomic international competition. This, as explained earlier, has been stimulated by the relative decline of the US and the rise of China, and has become increasingly evident through the geopoliticisation of trade and investment policies in general. It can certainly be said that the quest for OSA is a crucial part of building an actual 'geopolitical Commission' – especially when one goes back to Baracuhy's claim that geoeconomics and geopolitics are "two sides of the same coin".<sup>93</sup>

Further, it was argued that the shift toward OSA will probably bring a greater alignment with the US. This will most likely entail a relative distancing from China, resulting in a selective decoupling from the latter. In a nutshell, this results from the importance given by the OSA strategy to the defence of the rules-based international order, which was founded and is still unavoidably guided by the US.

As the lines between economic and (foreign) policy goals become increasingly blurred, the EU faces the unprecedented challenge of needing to further increase its influence over competencies that are normally those of its member states. The conflict in Ukraine, in which the energy crisis embodies the concept of 'weaponised interdependencies', has prompted an unprecedented common European response to an external threat. The EU's ambitions, after all, seem to develop at each critical moment that it faces. The recent developments have been promising, but only the future will tell if this is verified once again and if, as Jean Monnet proclaimed, Europe continues to be "forged in crisis".<sup>94</sup>

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<sup>93</sup> Baracuhy, *op. cit.*

<sup>94</sup> Jean Monnet, *Memoirs* (London: Third Millenium, 2015).

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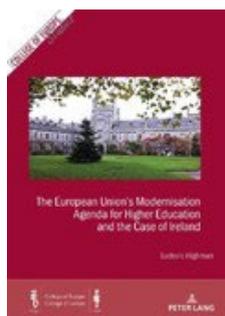
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