

Liberal Dilemmas: EU Policy Responses to a Shifting Geoeconomic Order

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Abstract

World's politics and economics have undergone major transformations, potentially leading to the emergence of a geoeconomic order. This thesis examines how liberal EU navigates the challenges posed by this shift, particularly in the context of EU-China relations. The research employs a qualitative approach, analyzing official EU documents, regulations, and policies from the past five to six years to understand the EU's policy responses. The study delves into the challenges of maintaining neoliberal principles by the EU while addressing economic security imperatives. The findings highlight the EU's strategic adjustments, manifested by a regulatory revolution, thereby illustrating the EU's evolving role as a geoeconomic player. This thesis contributes to the discourse on the EU's policy strategies in an increasingly geoeconomic world's order.

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1 Introduction

The political and economic world order has witnessed many changes in recent years. Some scholars contend that a once-prevailing neoliberal order, characterized by an emphasis on interdependence, free trade and free market capitalism, and deregulation, does no longer prevail (Menand 2023, Roberts et al. 2019, Farrell and Newman 2021). They argue that a new geoeconomic order is emerging, marked by the pursuit of de-risking strategies, convergence of security and trade, politicized and securitized economic relations, and weaponized and reduced interdependence. Assuming there is a shift in world's political and economic order, what does that mean for the European Union (hereinafter referred to as the EU)? The EU's trade policy is shaped by neoliberal principles of trade liberalization, non-tariff barriers (NTB) to trade, and the EU's economy revolves around trade (Titievskaia 2019). If a shift is happening, this will pose a challenge to liberal EU policymakers, as they will seek to reconcile their commitment to neoliberal principles with the new realities of a geoeconomic world order. The challenge is manifesting itself in the EU's relation with the People's Republic of China (hereinafter referred to as China), where the tensions between traditional neoliberal ideals and the realities of a geoeconomic world order come to the fore. Thus, this thesis seeks to examine how liberal EU policymakers address the challenges posed by the shift towards a geoeconomic order in on their relations with China, while balancing their commitment to neoliberal principles.

There are various factors that laid down the foundations for discourse on this topic. Most notably: long-unfolding US-China tensions, the Russo-Ukrainian war, and the COVID-19 pandemic.

The EU found itself caught in US-China geopolitical rivalry that spilled over technology and trade, which coincided with the election of Donald Trump. The Trump administration put a significant pressure on the EU to limit its engagement with China and was able to persuade several European countries to terminate telecommunications infrastructure contracts involving Huawei's 5G technology. However, the block had for some time been dissatisfied with China regarding trade imbalance favoring China, intellectual property theft, forced technology transfer, market access for EU companies, human rights issues, and increasingly assertive Chinese foreign policy in the South China Sea and the Taiwan Strait. This all was contributing towards a change of EU policy on China that was traditionally centered around economic engagement (Wright 2020).

Furthermore, the Russian's invasion of Ukraine took the international community by surprise. But the impact of this event has been particularly profound in Europe. Among other things, the war has exposed the vulnerabilities of European capitals to their trade partners when they saw the consequences of their over-reliance on Russia in the energy sector. Expectedly enough, it did not take long for Europeans to debate and question their relations with China. For example, the EU relies greatly on China when it comes to rare earth elements necessary in the process of energy transition; a strategic goal for the EU: "[T]he dependency in rare earths is 98 %, in antibiotics 79 % and close to 90 % of global solar panel production is in Chinese hands." (Schaus and Lannoo 2023). Moreover, the fact that China processes 90% of rare earth elements and 60% of lithium globally (Blenkinsop 2023) does not make life easier for Europeans.

Finally, during the COVID-19 pandemic, the EU also found itself relying heavily on China for protective equipment and pharmaceutical raw materials, which was a wake-up call for Europeans that exposed their vulnerable dependency on China. The EU wants now to reduce its dependency

on China and use its economic prowess to achieve economic independence and a more assertive foreign policy. This can mean reducing economic dependencies, forging economic relationships with other partners, preventing Chinese entities from investing in critical infrastructure in Europe, imposing control on export of sensitive technologies, among other things (Matthijs and Meunier 2023).

In conclusion, recent events such as US-China tensions, the Russo-Ukraine war, and the Covid-19 pandemic have laid the foundations for discourse on a shift in world's political and economic order. In the context of EU-China relations, these events have underscored the EU's vulnerabilities to external dependencies, particularly in critical sectors such as energy and healthcare, prompting the EU to reevaluate its relations with China. As the EU grapples with the imperative to reduce its reliance on foreign supply chains, the concept of “de-risking” has emerged as a cornerstone of the EU's trade policy. This shift in EU's foreign and trade policy raises fundamental questions about the relevance of the EU's neoliberal principles in a rapidly evolving geoeconomic environment.

1.1 Research Question

In what ways do liberal EU policymakers address the challenges posed by the shift towards a geoeconomic order in EU-China relations, while balancing their commitment to neoliberal principles? The research employs a qualitative approach to answer this question. Specifically, official pronouncements, regulations, and resolutions issued by relevant EU institutions over the past 5-6 years in an EU-China context are scrutinized to examine the EU response to this potentially emerging geoeconomic order.

1.2 Literature Review

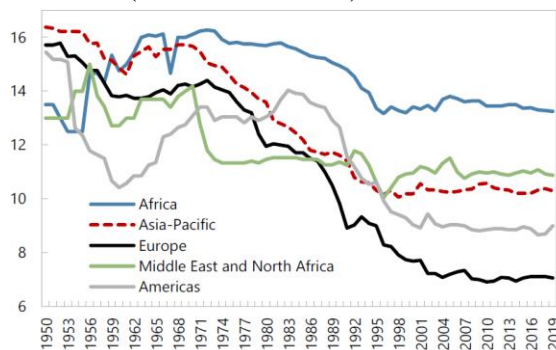
It has become increasingly evident that the US and China have been embroiled in political competition that spiraled over to trade and technology, and that they are both now engaged in geopolitical and geoeconomic competition (Nikolić et al. 2023). In the context of US-China relations, security concerns, rather than gains from trade, are what define their relations (Menand 2023). Therefore, peace through interdependence is no longer presumed, and output produced in the cheapest and most efficient way is no longer the aim. The question now is what are the goods and resources that are essential for national security?

On the other hand, there is much more ambivalence on the nature of the EU-China relations, which makes it an interesting case to investigate. Moreover, much of the recent literature on the topic of geoeconomics in world politics has been produced with a focus on US-China rivalry, and empirical research assessing Europe's position in such an environment is missing (Weinhardt et al. 2022). Therefore, this thesis aims to contribute to ongoing debates regarding the EU's position and (re)action in a potentially emerging geoeconomic order. It aims to shed light on the nuances of the EU's policy responses within this evolving environment. Should a paradigm shift in world politics and economics indeed be underway, how will liberal EU policymakers address the challenge of harmonizing their commitment to neoliberal ideals with the evolving dynamics of a geoeconomic order. This challenge manifests mainly in the EU's interactions with China, thus serving as the central focus of inquiry within this thesis.

The world economy has undergone a revolution towards openness with the advent of the neoliberal order, a transition in which the EU played a pioneering role by embracing trade liberalization earlier and to a greater extent than other regions (Baba et al., 2023).

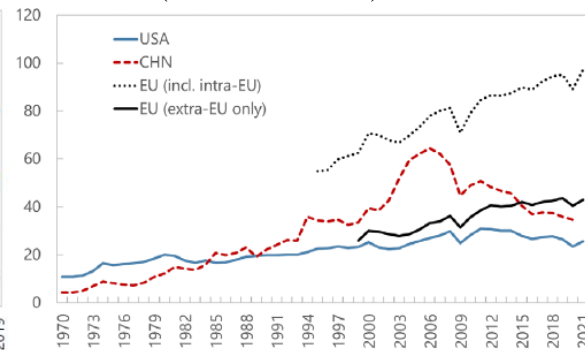
Embracing an open economic model, the EU's economy, characterized by liberal trade and capital flow, prospered (Bradford 2019 and Young 2015). In terms of the combined value of goods and services traded, the EU's economy is more outwardly oriented compared to both the US's and China's, despite their roughly equivalent economic sizes (Baba et al. 2023). Furthermore, in 2022, trade openness constituted 51% of the European Union's GDP, compared to 28% in the US (Cernat 2024). On the other hand, we can see from "Figure 2" how China's trade openness has been decreasing over the last two decades, which constitutes one of the many challenges the EU wants to address in its relations with China.

Figure 1: Trade Restrictions
(Percent of Trade)



Source: "Measurement of Aggregate trade Restrictions and Their Economic Effects,"
Estefania-Flores and others, cited in Baba et al. (2023)

Figure 2: Trade Openness
(Percent of GDP)



Source: Eurostat, cited in Baba et al. (2023)

The emergence of the neoliberal order traces back to the 1970s and 1980s. It became mainstream in politics and economics following the economic turmoil that took place back then (Roberts et al. 2019). To address the consequences of the economic crises of the 1970s and 1980s, western political elites embraced a set of aggressive webs of policies to reduce the governments' role in markets. Deregulation, open borders, and free trade are just a few of the transformative policies they embraced, revolutionizing society, the economy, and politics. Moreover, globalization, a by-product of neoliberalism (Frieden 2006), led to different economic phenomena such as

specialization, which increased efficiency in production but also interdependence between parties. All these developments happened with the promise of delivering prosperity to society. Peace also became a byproduct of this interdependence as parties interdependent on each other would be reluctant to get into conflict as such endeavor would cost them much, and therefore neoliberalism was further embraced (Mandelbaum 2002 and Ikenberry 1998). Finally, and most importantly, the question of security was not tied to economics in this order. Instead, the focus was to maximize economic profit for all parties involved. However, due to recent events such as the COVID-19 pandemic, the Russo-Ukrainian war, and US-China tensions, security considerations are taking a more vital role in trade and overall policymaking. This may suggest a shift from the neoliberal order that only focuses on the economic aspect of relations into a new geoeconomic order in which security consideration is a pillar and cornerstone.

The term geoeconomics was coined by Luttwak to describe “the admixture of the logic of conflict with the methods of commerce” (Luttwak 1990, 19). As the direct military confrontation between the west and Soviet Union started to wane after the cold war, “geoeconomic priorities and modalities became dominant in state action” (Luttwak 1990, 18). Scholvin and Wigell (2018) develop further the concept of geoeconomics, emphasizing that it is not just a foreign policy strategy or an analytical framework that relates to international relations realism, but also has geographical features that are inherent in foreign policy and international relations. In this context, a geoeconomic order emerges, where politics and economics are inseparable; markets are not left free; and economic policies have political and security consequences. In other words, it is an order where security and economics converge. Or as Roberts et al. (2019) put it, the geoeconomic order is an order that is “marked by a greater focus on relative – rather

than absolute economic gains in view of their implications for security, heightened concern over the security risks posed by economic interdependence and digital connectivity, strong competition over technological development, and increased invocations of security exceptions in ways that make it difficult to disaggregate motivations of protection and protectionism.”

Moreover, it is an order of weaponized interdependence, where informational and physical infrastructure are used as means to subjugate potential rivals as opposed to foster bilateral cooperation and mutual gains as is the case in the neoliberal order: “Asymmetric network structures create the potential for “weaponized interdependence,” in which some states are able to leverage interdependent relations to coerce others” (Farrell and Newman 2021, 45).

In essence, a potentially emerging geoeconomic order reflects a fundamental shift in world politics and economics, and a departure from the norms of the neoliberal era, as economic relations are not merely about mutual gains but also closely tied to security. This shift presents liberal EU policymakers with a formidable challenge: how to navigate the complexities of their foreign and trade relations while upholding their commitment to neoliberal principles? Will it be possible to craft policies that address both the imperatives of security and the imperatives of economic openness? Indeed, Lavery and Schmid (2021) argue that the EU is exposed to a new geoeconomic environment in which liberal internationalism has been disrupted, making it difficult to reconcile its neoliberal economic principles in an era of geopolitical and geoeconomic tensions: “The new global disorder has given rise to an old European dilemma but under a novel set of conditions: the question of how to adapt to a global political economy that is undergoing a series of structural transformations” (Lavery and Schmid 2021).

Within this context, the case study of EU-China relations serves as a central point for analysis, with a particular emphasis on the policy dimension of the geoeconomic order rather than the order itself. This examination delves into the EU's policy responses to this potentially emerging geoeconomic order. This will give us a lens on how the EU is adapting to the challenges posed by the evolving geoeconomic environment. Additionally, the analysis will cover two EU Parliament resolutions and some of the debate surrounding them.

By analyzing specific policies, parliamentary resolutions, and surrounding debates, the study aims to understand how liberal EU policymakers are navigating the challenges posed by a potentially emerging geoeconomic order while balancing their commitment to neoliberal principles—if at all.

2 Case Study: EU Policy Response to China

2.1 Historical Context and Recent Developments

EU-China relations date back to 1975 during Mao Zedong's rule, when diplomatic relations between both parties were established. A decade later, in 1985, both parties concluded the "trade and cooperation agreement," which was – and remains to this day – the legal foundation of this relations (Maher 2016). In 1998, annual EU-China summits were launched and there have been 24 of them to this date, most recently the one that took place in Beijing, China, in December 2023. The EU and China have also established over 50 sector-specific dialogues, which tackle issues such as trade, investment, and market access, among other issues (Bates and Small 2012). Moreover, China's aspiration to join the World Trade Organization (WTO), which eventually happened in 2001, further influenced the formulation of a more proactive China policy by the EU (Cabestan 2006). And to elevate EU-China relations beyond mere trade and investment matters, the EU announced the initiation of a "comprehensive strategic partnership" with China in 2003 to address some of the world's most pressing issues (Maher 2016). In that very year, the EU designated China as a strategic partner "on the international scene to safeguard and promote sustainable development, peace and stability" (European Commission 2003). In 2006, signs of an end to the EU-China honeymoon started to emerge with an EU Commission working paper titled "A policy paper on EU-China trade and investment: Competition and Partnership" (European Commission 2006). As the EU-China trade relationship doubling between 2000 and 2005, the EU began to grapple with a huge trade deficit with China, and an array of other concerns. Indeed, in the Commission working paper, the Commission emphasized the importance of ensuring China meets its WTO obligations, liberalizes access to its markets, and addresses concerns regarding intellectual property rights and unfair subsidization. By 2012, EU trade deficit with

China reached \$118 billion and by 2022 it scored \$365 billion (Statista 2024). However, the list of EU concerns regarding its relations with China have only grown ever since to encompass geopolitical, security and human rights concerns, among other issues (Brinza et al. 2024). In light of these developments, EU-China relations entered a new phase characterized by strategic reassessment and a deeper consideration of security challenges, all underscored by the dynamics of geoeconomic and geopolitical rivalry.

Indeed, EU-China relations took a distinct turn in 2019 with the Joint Communication “EU-China Strategic Outlook” issued by the European Commission and the European External Action Service (EEAS), which analyses the EU-China relations and includes policy recommendations. China’s growing economic power and political influence in recent years, with a more assertive foreign policy and rising US-China tensions have prompted the EU to start thinking more strategically about their relations with China. More importantly, the COVID-19 pandemic exposed the EU’s vulnerabilities to China through the over-dependence on it across several critical industries. The Russo-Ukrainian war was yet another call that contributed to the EU thinking shift about China when it demonstrated to EU policymakers the high costs associated with such dependencies. Other worries and concerns have also contributed to this potential shift in relations such as “unfair practices and the lack of a level playing field for European companies in China; human rights abuses; [and] geopolitical threats” (Brinza et al. 2024).

Therefore, the EU’s “EU-China Strategic Outlook” was the beginning of a series of official documents, pronouncements, and policies aimed at managing the EU’s relations with China. Indeed, the vision presented in the “EU-China Strategic Outlook” shows a change of perception. Interestingly, China became a partner, competitor, and systemic rival after it was only a partner whose relations to the EU was based on economic engagement and interdependence: “China

is...a cooperation partner with whom the EU has closely aligned objectives, a negotiating partner with whom the EU needs to find a balance of interests, an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance” (European Commission 2019a).

In this context, the EU has introduced a policy of de-risking in 2023, aimed at managing risks from the EU’s relations with China and better positioning the EU in a new geoeconomic environment (Juncos and Vanhoonacker 2024). Moreover, the policy aims to position Europe as an active geopolitical actor in a world of great power rivalry, transcending the perception of a merely reactionary block to changing trends in world politics: “The policy of de-risking is...connected with a diversification of the EU’s economic ties and the quest for strategic autonomy, by building Europe’s capacities and ability to act as a geopolitical actor” (Brinza et al. 2024). Indeed, in her inauguration in the European Parliament, President-elect von der Leyen was explicit about her intention to lead a “geopolitical Commission,” one that actively shapes world politics rather than merely reacting to them, while also emphasizing the Commission’s role as a “shaper of a better global order” (European Commission 2019b). Significantly, this is a new EU perception of itself and China in world politics and economics. The predominant thinking that China is an economic partner does no longer prevail and in its place a view of China as a geopolitical competitor and the EU as a geopolitical actor (Brinza et al. 2024).

2.2 List of New Regulatory Measures

In 2023, the European Commission announced the European Economic Security Strategy to bolster the block’s economic security “at a time of growing geopolitical tensions and profound

technological shifts” (European Commission 2024a). More concretely, the Strategy aims at “achieving economic security by promoting the EU's economic base and competitiveness; protecting against risks; and partnering with the broadest possible range of countries to address shared concerns and interests” (European Commission 2023b). In January 2024, the European Commission adopted five further complementary initiatives to secure the EU’s economic security “while upholding the openness of trade, investment, and research for the EU's economy” (European Commission 2024a). The initiatives are: (1) tightened screening of foreign investment into the EU; (2) advancing more rigid export controls; (3) improved screening of outbound investments and risks associated with them; (4) support research and development involving technologies with dual-use potential; and (5) enhancing research security (European Commission 2024a).

The European Economic Security Strategy and de-risking policy build upon specific measures and policies discussed and adopted by the EU over the past five years. Together, they constitute the EU policy framework to protect the EU economy from unfair measures from their Chinese counterpart and de-risk the EU from China (Brinza et al. 2024). Below are some specific examples of policies and measures with an eye On China:

Brussels’ outbound investment screening tool: still under discussion and yet to be implemented, it is the EU’s planned tool to scrutinize investments made by Europeans business outside the EU. In particular, it will look into the type of investments made, the counties in which EU investments are taking place, and which technologies and know-how transfers are involved in the investments. Clearly, the tool is introduced with an eye on China, as indicated by von der Leyen’s reference to a “systemic rival.” According to Gisela Grieger’s document

“OUTBOUND INVESTMENT SCREENING,” published by the Legislative Train Schedule of the European Parliament, European Commission President Ursula von der Leyen stated: “We need to ensure that our companies’ capital, expertise and knowledge are not used to enhance the military and intelligence capabilities of those who are also systemic rivals” (Grieger 2024).

Foreign Subsidies Regulation (FSR): entered into force on 12 January 2023, it is a subsidies-control tool by the European Commission that is intended to level the playing field between the EU and its non-EU strategic competitors. According to the European Commission website, the aim of the FSR is “to address distortions caused by foreign subsidies allows the EU to ensure a level playing field for all companies operating in the Single Market” (European Commission 2023c). The tool gives power to the Commission to imposes mandatory notification and approval requirements for acquisitions of significant EU businesses and large EU public tenders.

Foreign Direct Investment (FDI) Regulation: first became operational on October 11th 2020, it is an EU-wide investment screening tool that looks into deals of FDI made by businesses in the EU. Moreover, the tool aims to establish a framework for EU Member States and the Commission to share information and opinions regarding the FDI taking place in the respective member state. Or as per the European Commission’s website, the tool’s aim is to “to make sure that the EU is better equipped to identify, assess and mitigate potential risks to security or public order” (European Commission 2024b). Although the Regulation does not explicitly mention China, it targets sectors such as quantum engineering, AI, semiconductors where China’s investments are seen as a threat to Europe’s economic security.

Anti-Coercion Instrument (ACI): entered into forced on December 27th, 2023, it is the EU’s new “deterrent against economic coercion” (European Commission 2023d). According to the regulation “economic coercion” takes place where “a third country applies or threaten to apply a

third-country measures affecting trade or investment in order to prevent or obtain the cessation, modification or adoption of a particular act by the Union or a Member State, thereby interfering in the legitimate sovereign choices of the Union or a Member State” (Official Journal of the European Union 2023). A prominent recent example of economic coercion happened when China chose to prohibit imports of beef, dairy, and beer from Lithuania in 2021 due to Taiwan’s establishment of a representative office in Lithuania.

Net-Zero Industry Act: on February 6th, 2024, the European Parliament and the Council reached an agreement on the Net-Zero Industry Act. The Act is intended to reduce EU’s “strategic dependencies” on their partners in climate technologies and make the EU a competitive leader in clean technologies. Although the Act does not mention China, but having China as the main EU partner in clean tech technologies and citing the past over-reliance on Russian fossil fuels indicates that the Act is indeed targeting EU’s over-reliance on China in this sector: “The Net-Zero Industry Act will increase the competitiveness and resilience of the EU’s net-zero technology industrial base.[T]he Act also aims to reduce the risk of replacing our reliance on Russian fossil fuels with other strategic dependencies that might hinder our access to key technologies and components for the green transition” (European Commission 2023e).

Critical Raw Materials Act (CRMA): adopted by the European Council in March 2024 and presented in parallel to the Net-Zero Industry Act, the CRMA aims to secure the EU’s access to critical raw materials needed to pursue the EU’s climate transition and ensure its strategic sovereignty (Hool et al. 2023). Providing 100% of the EU’s supply of heavy rare earth elements, the CRMA eyes China’s dominance in rare earth materials and aims to address the EU’s vulnerability and overdependence in the critical raw materials sector.

3 Policy and Debate Analysis

3.1 EU and Member States China Policy Perspectives

It is important to point out that such policies and proposals are introduced at the EU level, where the European Council, European Commission, and European Parliament yields a powerful say.

In this context, it is also relevant to shed light on the EU legislative process. The process starts with a proposal from the European Commission and consists of up to three readings. Upon initial reading, both the Parliament and Council in parallel review the Commission's proposal.

However, it is the Parliament that takes the initial action, voting by a simple majority. After the Parliament takes its position, the Council has the option to endorse the Parliament's position, leading to the adoption of the legislative act, or reject it and return it to the Parliament for a second reading (European Parliament n.d.).

The unanimity requirement makes it difficult for the EU to adopt a unified and conclusive policy on China: "The controversial unanimity requirement creates a significant hurdle to developing a united position in general, and towards China in particular. A few member states have now advanced a proposal to move away from unanimity in foreign and security policy in favor of an approach based on qualified majority" (Barsch and Wessling 2023). Moreover, different EU Member States look at the question of China differently and do not agree on the EU-led China policy. This is mainly due to the diverging economic interests of the Member States with China: "Some European countries have devised national China strategies, some prefer a less public, more decentralized approach, others do not consider China an important issue for their national politics" (Barsch and Wessling 2023). For example, Germany, Finland, Sweden and the Netherlands have published China-specific policy papers and strategies in the past 5 years while countries such as Italy Hungary and Poland do not have a China strategy (Mardell 2023).

Moreover, the approaches included in these strategies towards China vary in each country. For example, while export serves as the backbone for the Czech Republic's towards China, Greece has the Greece-China Tourism Action Plan for their China's strategy (Barsch and Wessling 2023). Hungary is yet another striking example of having an independent China policy that clearly differs from the EU-wide policy. The very recent warm reception of the Chinese President Xi by Hungary and the signing of a strategic partnership agreement, highlights this diversity of perspectives (Higgins 2024). Moreover, this EU Member State stands as one of the few places in the EU where China is considered an indispensable ally rather than a rival, a reality that has been exemplified by the recent strategic partnership. Notably, during the visit, it was announced that China's BYD, one of the world's largest electric vehicles (EVs) manufacturers, will establish its first European EV production facility in the south of Hungary, at a time when the European Commission is considering levying huge tariffs on Chinese EV imports (Valero and Nardelli 2024). It is also noteworthy that Hungary is already home to several Chinese EV battery plants and aspires to become a global hub for lithium-ion battery production. Moreover, Hungary has embarked on a railway project, aligned with Xi's Belt and Road Initiative, to link the country with the Chinese-controlled port of Piraeus in Greece, serving as a hub for Chinese goods moving into Central and Eastern Europe (Szandelszky 2024).

Confronted with these realities, the European Commission has adopted a more active role in steering the EU towards a more hawkish position on China and greater coherence in China policy. European Parliament is in line with the Commission efforts, especially after adopting a resolution "A new EU-China strategy" (Official Journal of the European Union 2022). However, there is still unclarity about EU-wide China policy and the direction of EU measures, especially given that Member States have their own national strategies—or none.

In short, it appears that not all EU countries understand and have a unified China policy. And even the concept of de-risking would vary from one EU Member State to the other: “the concept of de-risking in relation to China has to date yet to find broad consensus among Member States” (Brinza et al. 2024). Apparently, China also joins them in their confusion. In a readout published by the Chinese Ministry of Foreign Affairs, Wang Yi, Director of the Chinese Communist Party Central Committee Foreign Affairs Commission described this policy as a traffic light whose all three lights are turned on at the same time: “It’s like driving to a crossing and finding the red, yellow and green lights all on at the same time. How can one drive on?” (Ministry of Foreign Affairs, the People’s Republic of China 2024). Indeed, it appears that the issue of de-risking is more political than economic in nature for China. During his address at the World Economic Forum in June 2023, China’s Premier Li Qiang denounced the West’s politicization of economic relations and criticized the notion of derisking as a fallacious proposition and ideological tool (Hale 2023).

3.2 EU Parliament Resolutions

On January 18th, 2023, the EU Parliament adopted a resolution on the implementation of the common foreign and security policy. The EU relations with China constituted a large part of this EU Parliament debate. The debate shows how China is no longer seen as a trade partner and is increasingly perceived as an economic competitor and systemic geopolitical and geoeconomic rival. More specifically, the resolution calls for recalibrated approach towards China—one that is marked by assertiveness, coherence, and comprehensive strategy. Moreover, the geopolitical dimension of the resolution’s tone is clear when it mentions the rising power of China, its assertive foreign policy, and the need to contain this challenge: “[The Parliament] notes that the

relationship between the EU and the PRC is increasingly characterized by economic competition and systemic rivalry; reiterates its requests for a renewed, more assertive, comprehensive and coherent EU-China strategy that shapes relations with the PRC in the interest of the EU as a whole and takes full account of the challenges stemming from the PRC's rise as a global actor and its increasingly oppressive domestic policies and assertive foreign policy, including towards the Union and towards candidate and potential candidate countries" (European Parliament 2023a).

Furthermore, the debate clearly mentions the issue of the risks associated with overdependence and the need to avoid the mistakes from the Russian experience. It is interesting to see that the rhetoric of the discussion put both China and Russia in the same category when drawing comparisons between them: "whereas it is imperative for the Union to address its key vulnerabilities, such as its recent overdependence on Russia and the People's Republic of China's (PRC), and strengthen its resilience and preparedness in the face of threats emanating from totalitarian and non-democratic regimes" (European Parliament 2023a).

In a separate text adopted in the EU Parliament on December 13th, 2023, a wide-sweeping recommendations were put forth to the Council and the Vice-President of the Commission / High Representative of the Union for Foreign Affairs and Security Policy concerning EU-China relations. The text clearly states that "the People's Republic of China (PRC) is simultaneously a partner and also increasingly a competitor and systemic rival to the EU; whereas China is, of its own accord, clearly shifting the core of our relations towards systemic rivalry" (European Parliament 2023b). Specifically on the policy of de-risking from China, the text calls for an EU strategic autonomy strategy in which the EU is able to defend its economic interests and advance

its goal of “de-risking trade flows with the PRC to reinforce the EU’s open strategic autonomy without aiming to decouple or turning inward” (European Parliament 2023b). And as in the previous resolution, the text calls for an “assertive and coherent EU approach towards China” (European Parliament 2023b). The resolution also stresses the need to “work towards a more coordinated approach towards the protection of critical infrastructure at EU level to limit control by China” and for a unified EU strategy to address the “challenge posed by China, especially but not exclusively on issues such as strategic dependencies, economic coercion” while promoting a “rules-based multilateralism and strategic solidarity between democracies” (European Parliament 2023b).

3.3 De-risking vs. Decoupling

According to von der Leyen, the EU does not aim for a broad de-coupling from China. Instead, it wants to manage the risk associated with the relations with China: “I want to be very clear here too: Europe does not want to decouple from China. We have seen a decoupling of Europe from Russia, for good reasons. We do not want a decoupling from China. What we want is de-risking. De-risking is about managing the risks we see, addressing excessive dependencies through diversification of our supply chains – so strengthening our supply chain, have a more robust supply chain from several suppliers – and thus increasing our resilience” (European Commission 2023a). But what is the difference between the two terms? There remain some ambiguities and, in this section, I aim to disentangle this ambiguity. Part of the ambiguity surrounding these terms is that the EU did not specify exactly what does de-risking mean, nor did it provide parameters or framework to measure this policy. The policy is rather general and while it targets specific industries and sectors, the extent and nature of this targeting is not quite straightforward. Still,

there seems to be an agreement among academics and journalists about the definition of de-risking and decoupling that largely echoes the definition put forth by EU policymakers.

For example, according to Benson (2023), decoupling “entails a complete economic disentanglement...One the other hand, de-risking is based on the recognition of a threat.” Cave (2023) contends that de-risking “is meant to sound more moderate, more surgical. It reflects an evolution in the discussion over how to deal with a rising, assertive China.” Or as Brinza et al. (2024) put it: “Ultimately, the de-risking approach proposed by the Commission may be considered one of risk mitigation or management, rather than a cleansing exercise.” In a Financial Times article covering this topic, Chatham House’s Marianne Schneider-Petsinger defines de-risking as a “targeted action for a very narrow set of sensitive technologies that are crucial for national security” and is focused on “reducing excessive dependencies through diversification” to build greater national resilience, while decoupling is something wider, broader, and close to total (Romei 2023).

An example of the de-risking policy is EU’s new probe into China’s Green tech subsidies (Fappani and San Matin 2024). In essence, the probe was made possible thanks to the Foreign Subsidies Regulation (FSR), entered into force on 12 January 2023, which is part of the EU de-risking policy framework. The action, part of President Ursula von der Leyen's push for EU autonomy in green technologies, aims to ensure fair competition in key sectors such as wind turbines (Blenkinsop and Hummel 2024), solar panels (Yun Chee 2024), and electric cars (EVs) (Blenkinsop 2024). The probes come amidst concerns that Chinese subsidies distort markets and hinder EU companies. EU’s recent probe into China’s public procurement of medical devices

(Blenkinsop and Melander 2024) serves as another example. The move comes amid longstanding allegations from the EU that China employs unfair practices, making it difficult for European companies to secure public contracts in the medical devices sector. Such practices include rigorous certification procedures and opaque approval systems. As a response, the EU is considering potential retaliatory measures to address the imbalance in market access between Chinese companies in the EU and EU companies operating in China. Again here, the probe was made possible thanks to the EU international procurement instrument, entered into force on 29 August 2022 (Szczepański 2022).

Finally, it is worthwhile to point out that these policy definitions and instances of implementation fall short of clearly explaining the breadth of the de-risking policy. Moreover, they do not provide insights into its future application, nor do they elucidate the policy's limitations, scope, and technical details. This has left many stakeholders, including business leaders and investors in a state of worry and confusion, not knowing how to navigate their current and future businesses in China. Chinese policymakers are not spared the confusion either. Indeed, the EU's Chinese partner seems to be struggling to understand the new EU policy. To them, this unclarity is intentional, one that gives policy space to their EU partner to maneuver. Moreover, the Chinese believe that what is taking place now is a containment strategy and a decoupling at some later point in time would follow. A readout published by the Chinese Ministry of Foreign Affairs in May 2023 states that while "China appreciates the statements from the German and European sides that they will not decouple from China, China is concerned about the voice of "de-risking" from the European side. If the EU seeks to decouple from China in the name of "de-risking", it will decouple from opportunities, cooperation, stability, and development. China, Germany, and the EU should all abide by international trade rules and the

spirit of contract, keep opening up to each other, and refrain from politicizing normal economic, trade and investment cooperation and interfering with the market” (Ministry of Foreign Affairs, the People's Republic of China 2023).

3.4 General Analysis

Overall, it is remarkable to see that all the regulations and policies discussed above are the product of the last 5-6 years. Just after China was labeled as a “systemic rival” by the European Commissions (2019a), a regulatory revolution was triggered to address strategic dependencies on partners as well as rivals. The confluence of US-China tensions, the Russo-Ukrainian war and the Covid-19 pandemic has further pushed EU industrialists and policymakers to address these challenges. Moreover, many of the tools and regulations presented above show a significant shift towards a greater role of governments and their institutions in markets that once considered free. Just 10 years ago many of the tools and regulations discussed above were associated with protectionism. Moreover, they were viewed unfavorably by the public in many European states (OECD 2022, 16). And any attempt by states to interfere in the markets were highly criticized and policies that legalize such interventions faced significant hurdles in legislatures. Moreover, some of the tools and policies presented above can be considered artificial barriers to international trade and capital flows, both of which are cornerstones of the neoliberal order. However, winds of change seem to be coming now. Geoeconomic considerations are taking precedence over the neoliberal principles and interestingly, staunchly free-market, liberal countries, like the Netherlands and Germany, are now embracing such policies.

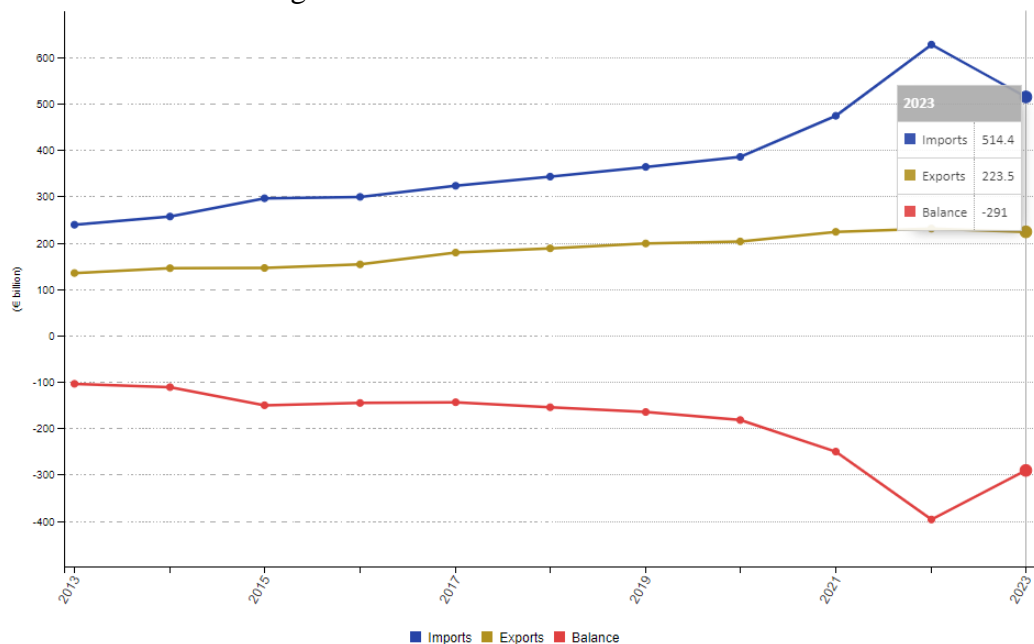
However, Herranz-Surrallés et al. (2024) argue that these policies need not stand in contrast to the idea of free, open markets, nor do they qualify as protectionist. According to them, the key difference between geoeconomic attitudes and neoliberal ideals boils down to where they place their emphasis. Neoliberal-driven policies see economic interdependence as a force for generating economic well-being and positive security outcomes, thanks to the peace-inducing effects of trade. Conversely, policies shaped by geoeconomic thinking view interdependence as a source of power to be yielded or as a source of vulnerability to be exploited by rivals (Aggarwal and Reddie 2021). Moreover, Danzman and Sophie (2024) argue that the broader objective of the EU trade and investment policy remains largely committed to the neoliberal ideals of open and multilateral economy that are essential for prosperity and peace. However, the tools to achieve this goal have now changed, adapting to an environment in which the question of national security is increasingly linked to economics. Finally, according to Noah Barkin, a Europe-China expert at the US-based research firm Rhodium Group, the EU's China growing policy toolbox is reactionary and defensive. Its primary aim is to ensure economic reciprocity rather than fundamentally restructuring the relationship to adapt to a new era of confrontation. And while China poses a challenge to the EU and its way of approaching global governance, the EU remains committed to upholding a rules-based international order and facilitating free trade and investment flows (Barkin 2023). In any case, a regulatory revolution in the EU has been underway and the EU is increasingly willing to position its place in this new geoeconomic environment. It is doing so through introducing policies and measures aimed at reducing risks from its relations to partners as well as rivals. This new positioning is closely tied to the discussion on the neoliberal principles that define the EU.

And while the full implications of such a new policy positioning will need time to manifest, experts have already begun voicing concerns about its various potential implications. For example, according to an IMF research paper titled “Goeconomic Fragmentation and the Future of Multilateralism,” a pivot towards goeconomic world order will have far-reaching economic consequences for all countries around the world—those engage in policy competition and the bystanders (Aiyar et al. 2023). The research shows that consumers, workers, and businesses will pay high prices as a result of trade restrictions and prioritizing economic security over global economic integration. In advanced and emerging markets, the loss will be 2 to 3 percent of GDP. In low-income countries, the loss is projected to be around 4 percent of GDP. For low-income countries, this will exacerbate an already acute debt crisis, social instability, and food insecurity. Additionally, there are concerns that the EU’s embrace of goeconomic policy, despite its liberal foundation, may induce other states to adopt similar and potentially more hard-core course of policy action as a response (Wesley 2016). Other worries are related to global governance and what would this policy change mean to multilateralism, governing clubs such the G-20, and international organizations (Damro et al. 2024). For example signs of strain are already evident, such as the US blockage of the appointment of new judges to the World Trade Organization’s (WTO) seven-member appellate court servers as an example of such an impasse.

That being said, it is worthwhile to mention that while a regulatory revolution has been underway in the EU, the precise scale, nature, and consequences of such a policy shift remain unclear within the EU-China trade and political relations, leaving some questions unanswered. For example, data banks still show a great level of integration between China and the EU, regardless of the rhetoric and policies discussed. For example, China is still the most important

trading partner of the European Union. According to the German Federal Statistical Office, in 2021, the EU and China traded goods worth € 696 bn (imports and exports). This represents 16% of all EU trade in goods. The share of the United States amounted to approximately 15%. Compared to 2000, the proportion of trade with the United States has decreased significantly, whereas China's share of EU trade has nearly tripled from 4.4% to 16.2% (German Federal Statistical Office 2024). And in 2023, China was the largest partner for EU imports of goods (20.5 %) and the third largest partner for EU exports of goods (8.8 %) (Eurostat 2024). Also, in 2023, the EU trade in goods deficit with China stood at €291 billion. These statistics underscore the enduring strength of the economic ties between the EU and China, showing the complexity of the relationship between both and how both rivalry and partnership are somehow difficult to reconcile in this relationship, thus posing a challenge to the EU.

Figure 4: EU Trade in Goods with China



Source: Eurostat 2024

4 Conclusion

Recent events in world politics such as US-China tensions, the Covid-19 Pandemic, and the Russo-Ukrainian war have led many scholars to argue that world politics is heading towards geoeconomic rivalry prevail (Roberts et al. 2019, Farrell and Newman 2021). Interestingly, this order poses a challenge to the neoliberal governing logic, which traditionally prioritizes economic cooperation over security concerns. Thus, liberal EU and policymakers find themselves in a delicate position to reconcile their ideals and principles that define them within this potentially emerging geoeconomic environment.

A nuanced case study of the EU response to this new environment with a focus on its relations with China shows, slowly but surely, the EU is adapting to this new environment of geopolitical and geoeconomic tensions and learning how to become a geoeconomic player. Over the past 5-6 years, a regulatory revolution has been underway in the EU as a response to a potentially emerging geoeconomic order. And despite the complexity inherent in the EU decision-making process, the EU has proven an agility and flexibility to create new regulations and policies and has shown an ambition to become a more assertive player in world politics. This evolution is underscored by President von der Leyen's commitment to transform the EU into a geopolitical entity. Indeed, while the EU is still committed to the neoliberal order and its institutions, it seems it is increasingly willing to give precedence to its own economic and security interests. This has been clear in its dealings with potential threats coming from China and the Russo-Ukrainian war is an example of how the EU has matured in this regard. Former European Commission President Jean-Claude Juncker once said, "Let me be clear: we are not naive free traders. Europe must always defend its strategic interests" (European Commission 2017). This sentiment appears

to persist under his successor, Ursula von der Leyen. A recent illustration of this assertive spirit is the EU's plan to impose tariffs on electric vehicles' imports from China, aiming to prevent European market-overflood with Chinese goods. Nevertheless, while the EU shifts towards a more assertive geoeconomic considerations regarding China, individual Member States, such as Hungary, retain the autonomy to pursue their own China policies as shown in the recent signing of Hungary-China strategic partnership.

Beyond the expected economic damage from a “geoeconomic fragmentation,” it is unclear how the security, social, and political ramifications from a geoeconomic pivot will look like. Research on this topic is still in its infancy, and there are few resources available that look into the question of geoeconomics in general and EU's place in a geoeconomic world order in specific (Wigell 2016). Moreover, data on trade flow and investment between the EU and China, especially to specific critical industries targeted in the de-risking policy framework are yet to be published. For example, specific figures regarding trade in semiconductors, rare earth materials, and pharmaceuticals for the years 2023 and 2024 remain unavailable. Such data could tell us more about the scope of the de-risking policy and its various implications, on China, the EU, and potentially the global economy. What we have for now is data that shows that both the EU and China remain big trading partners and trade flow and investment do not show any significant adjustments.

Therefore, moving forward, it would be recommended to assess the implications of an EU pivot towards geoeconomic considerations but also investigating the implications of world's order pivot towards geoeconomic considerations and what does that mean for cooperation tackling

global challenges, such as climate change, international development, and peace and security. Second, assessing the effectiveness of the EU de-risking policy presents a significant area for future research. Third, investigating the EU's engagement with multilateral institutions in promoting a rules-based, liberal world order, while advancing its geoeconomic objectives is another avenue for potential research. These areas of study will enhance our understanding of the various consequences of a geoeconomic world order and help inform policy decisions to mitigate any adverse, undesirable outcomes.

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