



Aspen In-Depth

Maneuvering a Risky World: EU Economic Foreign Policy – A New Doctrine for a New Geopolitical World

Stormy-Annika Mildner, Claudia Schmucker, and Elisabeth Saulnier



trade policy technology geopolitics United States security
globalization exports investment climate hybrid risks China
polarization natural catastrophes EU cyberattacks anti-coercion
multilateralism resilience supply chains competitiveness subsid
security WTO fragmentation rearmament sustainability

A shorter version of the article appeared on February 13, 2025, in ifo Schnelldienst 2/2025 under the title: Wohlstand und Sicherheit: EU-Wirtschaftsaußenpolitik – eine neue Doktrin für eine neue geopolitische Welt (<https://www.ifo.de/publikationen/2025/zeitschrift-einzelheft/ifo-schnelldienst-022025-geopolitische-risiken-fuer-deutschland-und-europa>).

The publication is part of the German-American Trade and Tech Dialogue (GATT-D) of the Aspen Institute Germany. The GATT-D brings together a diverse group of transatlantic representatives from politics, administration, business, academia, and civil society and provides new impetus for German-American cooperation. The project includes virtual workshops and an annual conference. The GATT-D would not be possible without the support of a diverse group of supporters.

This text represents the personal views of the authors.

Key Takeaways

The European Union (EU) is facing a shifting geopolitical landscape, requiring a new economic foreign policy. A growing number of global conflicts, trade disruptions, cyber threats, and economic dependencies challenge the EU's resilience. This study explores the evolving risk landscape, the EU's trade policy transformation, and strategic responses. It advocates strengthening EU competitiveness, the careful application of trade defense tools, and global partnerships to secure Europe's economic and geopolitical standing in a volatile world.

A Changing Global Landscape

The EU is navigating a rapidly evolving geopolitical and economic environment. Trade disruptions, cyber threats, supply chain vulnerabilities, and an increasing number of global conflicts pose significant challenges to its economic security and prosperity. The reliance on critical materials from a few suppliers heightens vulnerabilities. These factors necessitate a recalibration of the EU's foreign economic policy to ensure resilience, competitiveness, and prosperity. Addressing these challenges requires a proactive approach to trade policy and strategic economic planning.

Importance of Open and Stable Markets

Trade is central to the EU's economic growth and prosperity. With its member states collectively forming one of the world's largest trading blocs, the EU relies on exports and imports to sustain industrial output, create jobs and competitiveness, and maintain high living standards. Open trade policies enable European businesses to access global markets, secure investment, and benefit from economies of scale. Moreover, trade fosters innovation by facilitating the exchange of knowledge, technology, and expertise across borders.

Dependencies and Vulnerabilities

The EU is highly vulnerable to geo-economic and geopolitical shocks due to its deep integration into global markets as well as reliance on external suppliers and export markets. As a block of interconnected economies, the EU depends on stable trade relations for access to critical raw materials and goods, energy supplies, and advanced technologies. Supply chain disruptions, trade conflicts, and economic crises in key partner countries can quickly impact production, employment, and overall economic stability within the EU.

The EU's Evolving Trade Strategy

In response to these challenges, the EU is redefining its trade strategy to enhance resilience and reduce dependencies. Key elements of this evolving strategy include:

- Strengthening trade defense instruments to protect European industries from unfair competition and market distortions.
- Promoting sustainable and fair trade agreements that align with EU values and economic interests.
- Fostering strategic autonomy in key sectors by securing access to critical raw materials, products, and technologies.

While these measures signal a shift toward a more robust economic policy, significant deficits remain. The EU still faces slow decision-making processes due to the complexity of its institutional framework, often making it less agile compared to major global players like the United States and China. Additionally, while trade agreements have been concluded, implementation gaps and prolonged negotiations often weaken their effectiveness.

To bridge these gaps, the EU must accelerate decision-making, bolster trade enforcement, and invest in long-term strategies for reducing external dependencies. Without these improvements, the EU's economic resilience and global competitiveness will remain vulnerable to geopolitical and market shifts.

Recommendations

- **Accelerate Decision-Making and Ensuring EU Unity** – Streamlining bureaucratic processes and improving coordination among EU institutions and member states will enable faster and more effective responses to geoeconomic shocks and trade challenges.
- **Strengthen Trade Defense Mechanisms** – Carefully enhancing the EU's ability to counter unfair trade practices, including stricter enforcement of anti-dumping measures and subsidies regulations, will better protect European industries.
- **Diversify Supply Chains** – Reducing reliance on a few external suppliers, especially for critical raw materials, semiconductors, and energy, will improve economic resilience and mitigate risks from geopolitical disruptions. The EU has to invest in domestic production capabilities for key technologies, strengthen research and innovation, and promote industrial policies that reduce dependencies on third countries.
- **Expand and Deepen Global Trade Partnerships** – Strengthening alliances with like-minded countries, securing new trade agreements, and reinforcing multilateral trade cooperation will help maintain the EU's economic influence and market access.
- **Reform of the Multilateral Trading System** – Modernizing the World Trade Organization (WTO), advocating for clearer trade rules, stronger dispute resolution mechanisms, and fairer global trade practices, will ensure that the rules-based trading system remains effective. The EU needs to play a leading role in this regard.

Table of Contents

Key Takeaways	3
Recommendations	4
Introduction	6
The Evolving Risk Landscape and Economic Implications for the EU	9
Wars, Crises, and Conflicts	9
Trade Routes and Chokepoints	13
Trade Growth and Geo-Economic Fragmentation	15
Hybrid Threats: Cyber Attacks and Information Manipulation	17
Tensions in the Transatlantic Partnership	20
Systemic Competition with China	23
Climate Change and Natural Disasters	27
Populism and Far-Right Parties in an Uncertain Environment	29
Erosion of the Rules-Based Global Economic Order	30
An Economic Security Paradigm: On the Way towards a New EU Trade Policy	33
Trade Strategy: Open, Sustainable and Assertive Trade Policy	34
The Strategy in Detail	34
The Strategy in Implementation: Strengthening the Unilateral Toolbox	35
A Strong Focus on Bilateral Trade Agreements is the Right Way Forward	41
The Reform of the Multilateral Level (WTO)	44
Recent Developments	45
Recommendations	46

Introduction

The political mood in the European Union (EU) is changing. For decades, commercial interests have taken precedence over a broader foreign policy strategy. These times seem to be over. The EU has to maneuver increasingly rough international waters. It thus does not come as a surprise that Ursula von der Leyen, President of the European Commission, emphasized in her political guidelines for 2024-2029 in mid-July 2024: “We need a new economic foreign policy for today’s realities.”¹ In doing so, she went one step further than in 2019, when she presented her vision for “a more strategic, more assertive and more united Europe in the world”, and called for a geopolitical commission.²

Under the heading of “economic foreign policy”, von der Leyen wants to interlink trade policy, economic security, and international partnerships more closely in the future. She also aspires to better protect the EU economy against security risks. In addition, trade relations should be further expanded, with a greater attention to “reciprocity and a level playing field”. Lastly, the Global Gateway investment initiative should be used more intensively to promote long-term partnerships.³

With this, von der Leyen is reacting to a changing geopolitical and geo-economic environment. Shortly after the third anniversary of Russia’s invasion of Ukraine, the outlook for Ukraine remains dire. It is the most serious war on the European continent since the end of World War II. Since the inauguration of Donald Trump as 47th President of the United States, new and deep rifts have emerged in

the transatlantic relationship. President Trump and Russian President Vladimir Putin are negotiating about peace in Ukraine without the EU being included in the talks. U.S. Vice President J.D. Vance deeply irritated Europeans when he warned of “threat from within” to Europe’s democratic values at the Munich Security Conference in mid-February 2025, attacking Europe on the matter of free speech.⁴ The Europeans are struggling to find an adequate answer, questioning whether the United States – or at least the Trump administration – is still sharing the same values as the EU.

This is, however, not the only crisis the EU has to tackle. The rivalries between Western democracies and autocratic regimes, above all China, are intensifying. In October and November 2024, two submarine cables in the Baltic Sea were damaged – China was suspected to be behind these incidents.⁵ At the beginning of January 2025, a data cable connecting Taiwan to the international telecommunications network was destroyed – here too, China was under suspicion.⁶ In addition, the number and severity of cyber-attacks on critical infrastructure within the EU as well as information manipulation campaigns are increasing. The hybrid threat landscape for the EU is continuously worsening.

At the same time, the war between Hamas and Israel, triggered by Hamas’ terrorist attack on Israel on October 7, 2023, has severe impacts on the entire Middle East. While the ceasefire was temporarily cause for hope, Donald Trump’s announcement that the United States would “take over” the Gaza Strip

1 Ursula von der Leyen, Europe’s Choice. Political Guidelines for the Next European Commission 2024-2029, European Commission, July 18, 2024, https://commission.europa.eu/document/download/e6cd4328-673c-4e7a-8683-f63ffb2cf648_en?filename=Political%20Guidelines%202024-2029_EN.pdf (accessed January 6, 2025).

2 Ursula von der Leyen, Mission Letter: High Representative of the Union for Foreign Affairs and Security Policy/Vice-President of the European Commission, European Commission, December 1, 2019, https://commissioners.ec.europa.eu/system/files/2022-11/mision-letter-josep-borrell-2019_en.pdf (accessed January 6, 2025); Ursula von der Leyen, Speech by President-Elect von der Leyen in the European Parliament on the Occasion of the Debate on the Presentation of the College of Commissioners and Their Programme, European Commission, November 27, 2019, https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_19_6408 (accessed January 6, 2025).

3 Von der Leyen, 2024.

4 The White House, Vice President JD Vance Delivers Remarks at the Munich Security Conference, April 14, 2025, <https://www.youtube.com/watch?v=pCOsgfINdKg> (accessed February 19, 2025).

5 Sophia Besch and Erik Brown, A Chinese-Flagged Ship Cut Baltic Sea Internet Cables. This Time, Europe Was More Prepared, Carnegie Endowment for International Peace, December 3, 2024, <https://carnegieendowment.org/emissary/2024/12/baltic-sea-internet-cable-cut-europe-nato-security?lang=en> (accessed March 25, 2025).

6 Gahon Chiang, Countering China’s Subsea Cable Sabotage, Global Taiwan Institute, March 19, 2025, <https://globaltaiwan.org/2025/03/countering-chinas-subsea-cable-sabotage/> (accessed March 25, 2025).

and its economic development sparked an outcry not only in the region, leading to new uncertainties.⁷ The geopolitical risk index skyrocketed in 2022 following Russia's invasion of Ukraine. Caldara and Iacoviello's index measures geopolitical events and associated risks on the basis of media reports. According to the indicator, the average level of geopolitical risk has risen noticeably in recent years.⁸

The European economy is highly exposed to these risks due to its strong integration into the global economy. The first time, these vulnerabilities became evident was during the Covid-19 pandemic. Over the past decades, businesses had primarily focused on increasing efficiency and cost cutting; redundancies in supply chains had been reduced, as had stockpiling. Security risks were hardly factored into cost calculations. As a result, dependency on individual supplier countries and individual suppliers had risen sharply. Just how costly this can be became clear after Russia's invasion of Ukraine; the German economy, in particular, was hit hard with high energy costs as a result. This has led to a change in awareness in the EU; international dependencies are now assessed differently, with the goal of reducing risks ("de-risking") and building resilience.

At the same time, this poses difficult questions for the EU, as de-risking comes with costs. It must find the right balance: between reducing vulnerabilities and the immense benefits of international trade; between promoting domestic production and deepening trade relations; between free market forces and state intervention ("industrial policy")⁹; between protecting and protectionism.

This is anything but easy, because as a large, diverse and open economy, the EU is heavily dependent on global markets. Trade and investment are important pillars for economic growth and prosperity in the EU. According to Macrotrends, trade accounted for 97.17 percent of the EU's GDP in 2023.¹⁰ This makes the EU more internationally-oriented than China or the United States.¹¹ According to the European Commission, 38 million jobs in the EU depend on exports.¹² EU member states still trade more among themselves than with third countries. In 2023, the share of EU goods exports to intra-EU partners in total exports was 61.77 percent.¹³ However, the major growth centers and future markets are not located within the EU, but outside it. The EU is also dependent on numerous raw materials and intermediate products from abroad. Many of these are indispensable for the digital and green transformation.

The IMF has analyzed extra-EU trade in terms of dependencies on countries that are not geopolitically like-minded. The vote in the UN on the Ukraine Resolution 2022 served as a proxy for geopolitical "proximity". In terms of both direct exports and imports, the share of extra-EU trade with countries that are not geopolitically like-minded is lower than with countries that are geopolitically close to the EU. The share in terms of GDP is small. The situation is different when indirect imports and exports are taken into account, i.e. the longer value chains. This shows a significantly greater dependence on countries that are not geopolitically like-minded, although the share of trade with like-minded countries is still higher.

7 The White House, President Trump Holds a Press Conference with Prime Minister Netanyahu of Israel, February 4, 2025, <https://www.youtube.com/watch?v=MvheR2KJYyY&t=2s> (accessed March 25, 2025).

8 Dario Caldara and Matteo Iacoviello, Geopolitical Risk Index, <https://www.matteoiacoviello.com/gpr.htm> (accessed January 6, 2025); Max Hanisch, Iran, Russland, Hongkong: Geopolitische Risiken belasten deutsche Wirtschaft, DIW Wochenbericht 6, 2020, https://www.diw.de/de/di-w_01.c.704374.de/publikationen/wochenberichte/2020_06_1/iran_russland_hongkong_geopolitische_risiken_belasten_deutsche_wirtschaft.html (accessed January 6, 2025).

9 European Council and Council of the European Union, EU Industrial Policy, December 9, 2024 <https://www.consilium.europa.eu/en/policies/eu-industrial-policy/> (accessed March 31, 2025).

10 Macrotrends, European Union Trade to GDP Ratio 1970-2025, 2025, <https://www.macrotrends.net/global-metrics/countries/EUU/european-union/trade-gdp-ratio> (accessed January 6, 2025).

11 Chikako Baba, Ting Lan, Aiko Mineshima, Florian Misch, Magali Pinat, Asghar Shahmoradi, Jiaxiong Yao, and Rachel van Elkan, Geoeconomic Fragmentation: What's at Stake for the EU?, IMF Working Papers, International Monetary Fund, November 30, 2023, <https://www.elibrary.imf.org/view/journals/001/2023/245/article-A001-en.xml> (accessed January 6, 2025).

12 European Commission, EU Exports Support 38 Million Jobs in the EU According to a Report on Jobs and Trade, November 12, 2021, https://ec.europa.eu/commission/presscorner/detail/en/ip_21_5904 (accessed January 6, 2025).

13 Statista, Annual Share of Goods Exports from the European Union Going to Intra-EU and Extra-EU Trade Partners from 2002 to 2023, <https://www.statista.com/statistics/1384742/eu-international-trade-share-exports-intra-extra-goods/> (accessed January 6, 2025).

The vulnerabilities become clearer when so-called “fragile supply products” are considered. A product is considered “fragile”, if it is supplied by only a few producers, which cannot easily be substituted. A significant proportion of extra-EU imports, including those from geopolitically non-aligned countries, fall into this category. On average, they account for about 40 percent of the value of extra-EU imports, of which about half is supplied by geopolitically non-aligned countries.¹⁴

The EU is ill-equipped to survive in a world where transactional power politics based on zero-sum thinking are increasingly undermining international rules and institutions. The EU is traditionally a strong economic player, but a weak geopolitical actor. With its 27 member states it often lacks the agility and geostrategic coherence to react quickly to geopolitical risks.

In addition, it has to overcome numerous other challenges: the green and digital transformation as well as socio-political adjustment processes. In its autumn forecast (2024), the European Commission expects real GDP growth of 0.9 percent in the EU in 2024 and growth of 1.5 percent in 2025. Germany, in particular, continues to stutter as an important engine of growth.¹⁵

How should the EU adapt to maneuver these increasingly rough international waters? The following analysis will give an overview of selected risks and threats, before presenting the evolution of EU trade policy and proposing a policy mix for the way forward.

¹⁴ Baba et al., 2023, p. 13.

¹⁵ European Commission, Autumn 2024 Economic Forecast: A Gradual Rebound in an Adverse Environment, November 15, 2024, https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/autumn-2024-economic-forecast-gradual-rebound-adverse-environment_en#:~:text=Growth%20in%20the%20EU%20is,from%20the%20contraction%20of%202024 (accessed January 7, 2025).

The Evolving Risk Landscape and Economic Implications for the EU

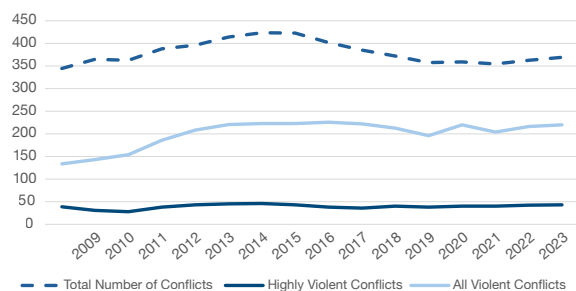
Wars, Crises, and Conflicts

The number of global conflicts has almost doubled since 2020.¹⁶ The past two years have been particularly unstable, with the Heidelberg Institute for International Conflict Research documenting a total of 220 violent and 149 non-violent conflicts worldwide in 2023, ten more than in 2022,¹⁷ while the Armed Conflict Location and Event Data Project (ACLED) conflict index recorded nearly 200,000 conflict events in 2024.¹⁸ This trend is expected to continue in 2025, with poor prospects for peace in other major hotspots. The conflict in the Democratic Republic of Congo (DRC) has rapidly escalated in the beginning of 2025 with the capture of Goma, a major city in the east of the country.¹⁹ In nearby Sudan, multiple attempts at mediation have failed to stop the civil war that has been raging since 2023, causing one of the worst humanitarian crises in recent memory.²⁰

Along with the heavy human cost (which estimates put at around 233,00 fatalities for 2024),²¹ this lasting insecurity represents severe risks for the EU. The conflicts and wars have a dampening effect on the economy, particularly for open economies such as the EU that are closely intertwined with global markets and depend on international, highly complex supply chains. The associated supply risks, particularly for raw materials and intermediate goods, cause higher transaction costs for companies and price increases, which in turn have an impact

on consumption.²² In addition, the crises, conflicts, and wars lead to trade restrictions and reinforce geopolitical bloc formations.

Figure 1: Global Conflicts in Numbers, 2008-2023



Source: Prepared on the basis of Heidelberg Institute for International Conflict Research (HIK), Conflict Barometer 2008-2023, <https://hiik.de/conflict-barometer/bisherige-ausgaben/?lang=en> (accessed March 19, 2025).

The EU's economic vulnerability to exterior conflicts is particularly strong in the area of energy security. According to the 2023 EU energy dependency index, 58.27 percent of the EU's energy needs were met by imports from extra-EU countries,²³ while the ECFR's Energy Sovereignty Index shows continued dependence in 2024.²⁴ This weakness was made apparent at the beginning of the war in Ukraine, prompting the European Commission to adopt the 2022 REPowerEU plan for the reduction of its dependency on Russian fossil fuels and the diversification of its energy supply.²⁵ However, the EU remains dependent on gas im-

16 ACLED, Conflict Index, December 2024, <https://acleddata.com/conflict-index/> (accessed January 9, 2025).

17 Heidelberg Institute for International Conflict Research, Conflict Barometer 2023, https://hiik.de/wp-content/uploads/2024/12/coba23_v3.pdf (accessed January 7, 2025).

18 ACLED, 2024.

19 Center for Preventive Action, Conflict in the Democratic Republic of Congo, Council on Foreign Relations Global Conflict Tracker, February 11, 2025, <https://www.cfr.org/global-conflict-tracker/conflict/violence-democratic-republic-congo> (accessed February 19, 2025).

20 International Crisis Group, Crisis Watch Sudan, 2025, <https://www.crisisgroup.org/africa/horn-africa/sudan> (accessed February 19, 2025).

21 ACLED, 2024.

22 Michael Grömling, Wirtschaftliche Auswirkungen der Krisen in Deutschland, IW-Report 111/2024, Institut der Deutschen Wirtschaft, February 22, 2024, https://www.iwkoeln.de/fileadmin/user_upload/Studien/Report/PDF/2024/IW-Report_2024-Kosten-der-Krisen.pdf (accessed January 7, 2025).

23 Eurostat, Energy Import Dependency by Products, December 19, 2024, https://ec.europa.eu/eurostat/databrowser/view/sdg_07_50/default/table?lang=en (accessed January 7, 2025).

24 Szymon Kardaś, Energy Sovereignty Index: Gains, Gaps, and the Road Ahead, European Council on Foreign Relations, November 2024, <https://ecfr.eu/special/energy-sovereignty-index-2024/> (accessed January 7, 2025).

25 European Commission, REPowerEU: Affordable, Secure and Sustainable Energy for Europe, https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/repowereu-affordable-secure-and-sustainable-energy-europe_en (accessed January 7, 2025).

ports from Russia, with liquefied natural gas (LNG) imports from the country increasing by 18 percent in 2024, and imports of natural gas in gaseous state from Russia still making up 17.6 percent of the total trade in 2024 (a mere 1 percent decrease from 2023).²⁶ Moreover, efforts to divert energy supplies away from Russia have in turn made the block more vulnerable to tensions in the Middle East and the Persian Gulf. Between 2021 and 2023, EU crude oil imports from Middle East countries increased by 400,000 barrels per day, with the main suppliers being Saudi Arabia and Iraq.²⁷ While tensions in the region have recently shown signs of easing, with the Iran-backed Houthis scaling down their attacks on maritime routes in the Red Sea, the situation remains highly volatile.²⁸

The escalation in the DRC has also highlighted the vulnerability of the global critical minerals (CM) supply chains, on which several strategic European sectors, such as the defence, tech and clean energy industries, rely.²⁹ The country, which accounts for 73 percent of global cobalt outputs, is also rich in coltan, lithium, nickel, and rare earths.³⁰ The EU's efforts to diversify its supply of CM and reduce its dependency on China has led to growing engagement in the region. Along with signing three Memoranda of Understanding with the DRC, Rwanda, and Zambia to develop cooperation in the extraction and production of CM, the

EU has also been supporting projects aiming to facilitate its imports of critical minerals from the region.³¹ As the conflict threatens regional stability, it could also increasingly jeopardize the EU's strategic interests.

The lasting crises and conflicts also pose a challenge to the political stability of the EU by intensifying migration pressures. The number of arrivals to Europe has decreased in 2024 for the first time since the Covid-19 pandemic, with a 38 percent decrease in irregular crossings at the external borders and a 9.6 percent decrease in asylum applications compared to the previous year.³² However, the root causes of migration to the EU, chief among them political instability, state fragility, and violent conflicts, are set to persist and potentially worsen in many regions the next year.³³ The issue has become highly politicised, stoked by the wave of terrorist attacks in Austria and Germany. Anti-immigration parties are currently in power in seven EU countries, and several member states have reintroduced border controls, including Germany.³⁴ Despite efforts to coordinate and harmonize EU member states' management of irregular arrival with the EU Pact on Migration and Asylum in 2024, several countries feel unfairly burdened or have chosen to pursue their national interests.³⁵ As the numbers of forcibly displaced people are set to increase in the coming year,³⁶ the continued pressure on the EU will likely enhance the risk of growing fragmentation.

26 Eurostat, EU Imports of Energy Products: Latest Developments, December 20, 2024, <https://ec.europa.eu/eurostat/statistics-explained/SEPDF/cache/46126.pdf> (accessed January 7, 2025).

27 Bassam Fattouh and Andreas Economou, Evolution of the Middle East Oil Scene: Transformations in Refining and Oil Flows, The Oxford Institute for Energy Studies, June 2024, <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2024/06/OIES-Presentation-Evolution-of-the-Middle-East-oil-scene-June24.pdf> (accessed January 9, 2025).

28 International Crisis Group, CrisisWatch, January 2025, <https://www.crisisgroup.org/crisiswatch> (accessed February 19, 2025).

29 European Commission, Critical Raw Materials, https://single-market-economy.ec.europa.eu/sectors/raw-materials/areas-specific-interest/critical-raw-materials_en (accessed February 19, 2025).

30 Center for Preventive Action, 2025; Government of Canada, Cobalt Facts, <https://natural-resources.canada.ca/minerals-mining/mining-data-statistics-analysis/minerals-metals-facts/cobalt-facts> (accessed March 26, 2025).

31 Christian Géraud Neema, Navigating Critical Mineral Supply Chains: The EU's Partnerships with the DRC and Zambia, Africa Policy Research Institute, March 6, 2024, <https://africapi.org/navigating-critical-mineral-supply-chains-the-eus-partnerships-with-the-drc-and-zambia> (accessed February 19, 2025).

32 International Centre for Migration Policy Development, ICMPD Migration Outlook 2025, January 20, 2025, <https://www.icmpd.org/file/download/63373/file/ICMPD%2520Migration%2520Outlook%25202025.pdf> (accessed February 19, 2025).

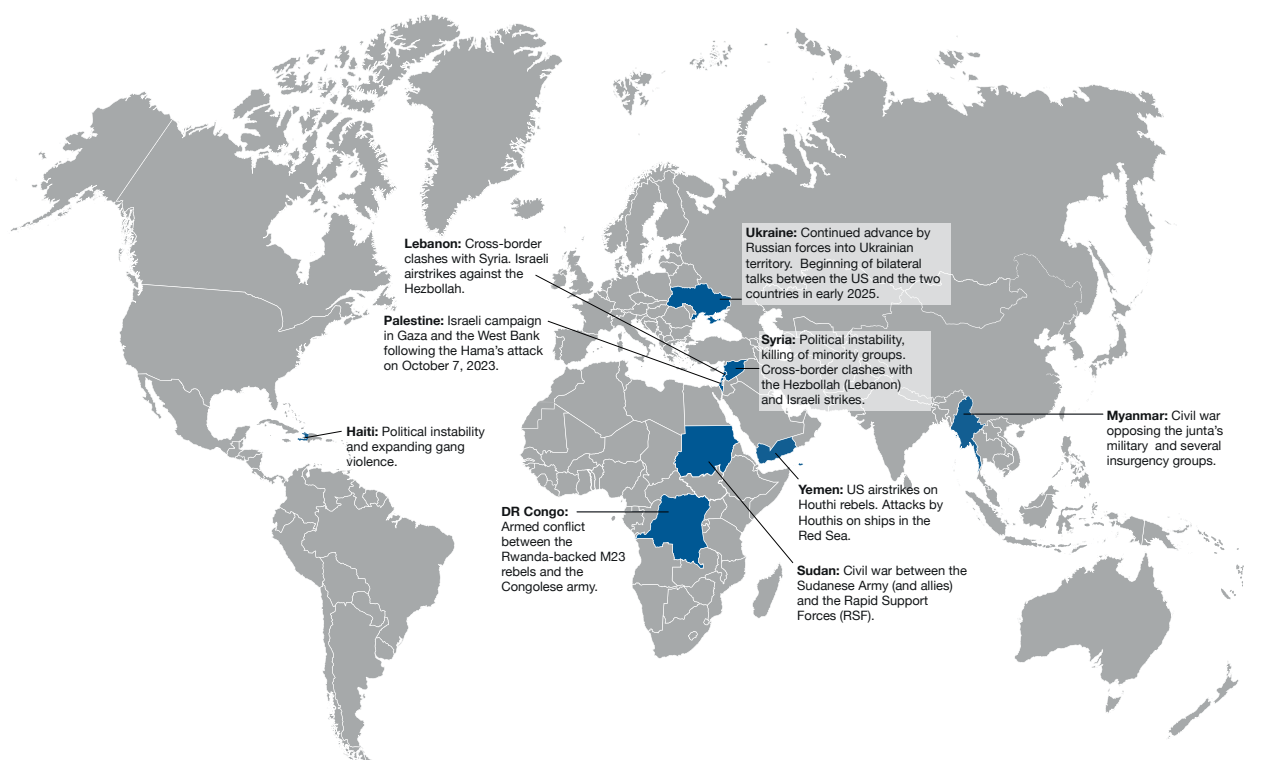
33 International Crisis Group, On the Horizon: March-August 2025, <https://www.crisisgroup.org/haiti-iran-somalia-syria/horizon-march-august-2025> (accessed February 19, 2025); International Crisis Group, CrisisWatch, https://www.crisisgroup.org/crisiswatch?utm_campaign=cw_menu_link (accessed February 19, 2025).

34 European Commission, Temporary Reintroduction of Border Control, 2025, https://home-affairs.ec.europa.eu/policies/schengen/schengen-area/temporary-reintroduction-border-control_en (accessed March 25, 2025); Ruth Green, The Year of Elections: The Rise of Europe's Far Right, International Bar Association, September 20, 2024, <https://www.ibanet.org/The-year-of-elections-The-rise-of-Europes-far-right> (accessed February 19, 2024).

35 Carmen González Enríquez, The EU Pact on Migration and Asylum: Context, Challenges and Limitations, Elcano Institute, May 28, 2024, <https://www.realinstitutoelcano.org/en/analyses/the-eu-pact-on-migration-and-asylum-context-challenges-and-limitations/> (accessed February 19, 2025).

36 International Centre for Migration Policy Development, 2025.

Figure 2: Main Armed Conflict Points: Ongoing Conflicts



Source: Prepared on the basis of International Crisis Group, *CrisisWatch: Tracking Conflict Worldwide*, March 2025, https://www.crisisgroup.org/crisiswatch?utm_campaign=cw_menu_link (accessed March 18, 2025).

This new, rapidly changing security landscape is also marked by increasing unpredictability. The U.S. elections and the Trump administration's transactional handling of Russia's war against Ukraine have upended existing international dynamics and acted as a brutal turning point in the transatlantic defence and security partnership. Vice-President J. D. Vance's much-commented speech at the 2025 Munich Security Conference has laid bare growing differences between Brussels' and Washington's conception of European security.³⁷ U.S. policy towards Ukraine has also undergone a radical turn-around since the beginning of the new presidential term. The EU has, so far, been excluded from direct discussions between the United States and Russia as well as be-

tween the United States and Ukraine. This has led to irritation in the EU as the Trump administration has signalled that the burden of providing potential security guarantees would fall on "European and non-European" countries – with no support from U.S. troops.³⁸ Eroding U.S. support for Kiev also became clear on February 24, 2025, as U.S. representatives voted against EU member states and with Russia on two separate UN resolutions.³⁹ A few days later, the public altercation between Donald Trump, U.S. Vice President J.D. Vance, and President of Ukraine Volodymyr Zelenskyy, followed by a temporary suspension of U.S. aid to Kiev on the 3rd of March,⁴⁰ sent shock waves through the Union and beyond. Since then, negotiations between Washington and Kiev have

37 The White House, 2025.

38 Pete Hegseth, Opening Remarks by Secretary of Defense Pete Hegseth at Ukraine Defense Contact Group (As Delivered), U.S. Department of Defense, February 12, 2025, <https://www.defense.gov/News/Speeches/Speech/Article/4064113/opening-remarks-by-secretary-of-defense-pete-hegseth-at-ukraine-defense-contact/> (accessed February 26, 2025).

39 United Nations, At Three-Year Mark of Russian Federation's Invasion, General Assembly Upholds Ukraine's Territorial Integrity, Adopting Two Resolutions, February 24, 2025, <https://press.un.org/en/2025/ga12675.doc.htm> (accessed February 26, 2025).

40 U.S. Department of State, U.S. Security Cooperation with Ukraine, March 4, 2025, <https://www.state.gov/bureau-of-political-military-affairs/releases/2025/01/u-s-security-cooperation-with-ukraine> (accessed March 5, 2025).

recommended, with Volodymyr Zelenskyy agreeing to a U.S.-proposed 30-day ceasefire, contingent upon Russia's reciprocal commitment on March 11, 2025. Subsequently, on March 13, 2025, Putin expressed his agreement in principle to the ceasefire proposal, indicating a willingness to engage in further discussions to finalize the terms. As of April 3, 2025, President Putin has yet to agree to the ceasefire and potential steps toward ending the war in Ukraine. The situation is evolving quickly, and predictions about upcoming developments may become obsolete in a matter of days. However, one fact remains clear: the long-standing assumption that the United States will reliably guarantee the Union's defence no longer stands. Whether the new administration chooses to further pivot to Asia or withdraws from international theatres to focus on protecting its own territory, its representatives have made clear that European security is no longer a priority.⁴¹

Faced with a highly uncertain future for transatlantic defence cooperation, the EU will be forced to reassess its security strategy and take stock of its own capabilities. Years of insufficient spending and outsourcing of strategic capabilities have shrunk and fragmented the EU's defence technological industrial base, reducing member states' ability to meaningfully – and quickly – defend themselves and support allies.⁴²

The past five years saw a marked increase in member states' defence spending, which reached a com-

bined €326 billion, or 1.9 percent of EU GDP in 2024.⁴³ However, the numbers are far from the five percent of GDP demanded by the United States, with seven member states still below the NATO guideline of 2 percent of GDP as of 2024.⁴⁴ According to estimates, an increase in European spending from 1.9 percent to 3.5 percent of European GDP would cost around €300 billion per year.⁴⁵ Although it has not directly been tied to NATO commitments, the European Commission's ReArm Europe Plan, which seeks to boost member states' short- and long-term defence expenditures, could facilitate the process. Along with €150 billion of loans for joint defence procurement, the newly announced scheme would allow member states to increase public defence spending over four years without triggering the Excessive Deficit Procedure. Together with a series of yet to be detailed instruments and initiatives, including mobilising private capital through the European Investment Bank and the Savings and Investment Union Plan, ReArm Europe aims at mobilising around €800 billion over an unspecified timeframe.⁴⁶ The scheme falls within a broader effort towards a common defence industrial policy, which also saw the creation of a dedicated position, the new European Commissioner for Defence and Space, as well as the introduction of a European Defence Industrial Strategy (EDIS) in March 2024.⁴⁷

While the new plan represents a major paradigm shift in European defence, its potential effectiveness remains cause for debate, as shown by the European Council's call for additional funding

41 Hegseth, 2025.

42 Daniel Fiott, "The Challenges of Defence Spending in Europe," in: *Intereconomics Review of European Economic Policy*, vol. 59, no. 4, 2024, 189-192 <https://www.intereconomics.eu/contents/year/2024/number/4/article/the-challenges-of-defence-spending-in-europe.html> (accessed February 26, 2025); European Economic and Social Committee, No More 'National Preference': Fragmentation Is Threat to Security, EDA Tells EESC Forum, February 12, 2025, <https://www.eesc.europa.eu/en/news-media/news/no-more-national-preference-fragmentation-threat-security-eda-tells-eesc-forum> (accessed February 26, 2025).

43 European Council and Council of the European Union, EU Defence in Numbers, January 28, 2025, <https://www.consilium.europa.eu/en/policies/defence-numbers/> (accessed February 26, 2025).

44 North Atlantic Treaty Organisation, Defence Expenditure of NATO Countries (2014-2024), June 12, 2024, https://www.nato.int/nato_static_fl2014/assets/pdf/2024/6/pdf/240617-def-exp-2024-en.pdf (accessed February 26, 2025); Hegseth, 2025.

45 Ethan Ilzetzki, Guns and Growth: The Economic Consequences of Surging Defense Spending, Kiel Reports, Kiel Institute for the World Economy, February 14, 2025, https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/fis-import/7afb0d80-68d0-49ae-8cae-1decc74fd972-Kiel_Report_Ethan.pdf (accessed February 26, 2025).

46 Ursula von der Leyen, Press Statement by President von der Leyen on the Defence Package, European Commission, March 4, 2025, https://ec.europa.eu/commission/presscorner/detail/sv/statement_25_673 (accessed March 5, 2025).

47 European Commission, A New European Defence Industrial Strategy: Achieving EU Readiness Through a Responsive and Resilient European Defence Industry, JOIN(2024) 10 Final, March 5, 2024, https://defence-industry-space.ec.europa.eu/document/download/643c4a00-0da9-4768-83cd-a5628f5c3063_en?filename=EDIS%20Joint%20Communication.pdf (accessed March 5, 2025).

sources beyond ReArm Europe.⁴⁸ Even without the threat of an EU deficit procedure, several of the more indebted EU countries might balk at the prospect of using debt to finance their defence spending. Concerns also remain about the shape such a hike in investments would take and its implication for strategic autonomy. Between 2022 and March 2024, 80 percent of member states' defence investments went to extra-European suppliers, with U.S. companies receiving up to 63 percent of all third-country investments.⁴⁹ Despite last year's announcement of a future European Defence Industry Programme (EDIP), which would aim at promoting European preference for defence investments, member states are still highly divided on the issue, with some countries defending continued third-party procurement.⁵⁰

Between the logistics of a potential defence build-up and the pressure posed by the U.S. disengagement, the EU needs more cohesion than ever. The scale of the challenge requires unprecedented political will and common action across the bloc on highly polarizing issues, at a time when internal economic and political crises focus several member states' attention on domestic developments. Unless member states overcome their differences to agree on common strategies and objectives, the EU will struggle to develop and retain credibility in defence matters.

Trade Routes and Chokepoints

Despite recent initiatives to increase security of supply in key economic sectors, the EU is still heavily integrated into global markets and remains highly dependent on the reliability and stability of international trade routes.⁵¹ This is particularly true for maritime shipping routes, as the value and volume of extra-EU maritime trade has risen steadily, accounting for 47 percent of the value and 74.1 percent of the volume of EU external trade in 2023.⁵² This dependency on sea shipping is set to represent a growing source of concern for the Union, as maritime shipping lanes are particularly vulnerable to external threats. Among these, extreme weather events linked to climate change pose an increasingly important and unpredictable risk: Panama Canal traffic, which facilitates U.S. and Asian exports to Europe, was disrupted by a severe drought in 2023 and early 2024, with transit down by as much as 24.4 percent.⁵³

Shipping routes are also experiencing major disruptions because of geopolitical upheavals. Most recently, Donald Trump's threat to "take back" the Panama Canal led to considerable irritation.⁵⁴ Escalating tensions around the channel could have a major impact on the EU, which imported 13.96 million tons and exported 12.50 million tons of goods through the passage last year.⁵⁵

Among the other chokepoints that could be affected by the ongoing tensions in 2025 are the Strait of Hormuz, the Suez Canal, and the Strait of Malacca. As the only route leading out of the Persian Gulf,

48 European Council, European Council Conclusions on European Defence, 6 March 2025, <https://www.consilium.europa.eu/en/press/press-releases/2025/03/06/european-council-conclusions-on-european-defence/> (accessed March 11, 2025).

49 High Representative of the Union for Foreign Affairs and Security Policy, A New European Defence Industrial Strategy: Achieving EU Readiness Through a Responsive and Resilient European Defence Industry, JOIN(2024) 10 Final, European Commission, March 5, 2024, [https://defence-industry-space.ec.europa.eu/document/download/643c4a00-0da9-4768-83cd-a5628f5c3063_en?filename=EDIS percent20Joint percent20Communication.pdf](https://defence-industry-space.ec.europa.eu/document/download/643c4a00-0da9-4768-83cd-a5628f5c3063_en?filename=EDIS%20percent20Joint%20percent20Communication.pdf) (accessed March 5, 2025).

50 Nicolas-Jean Brehon, European Support to the Defence Industry – Mid-Term Review of the European Defence Fund, Foundation Robert Schuman, February 11, 2025, <https://www.robert-schuman.eu/en/european-issues/779-european-support-to-the-defence-industry-mid-term-review-of-the-european-defence-fund> (accessed March 5, 2025).

51 Andrew Glencross, "The Geopolitics of Supply Chains: EU Efforts to Ensure Security of Supply," in: Global Policy Journal, no. 4, May 7, 2024, 729-739, <https://onlinelibrary.wiley.com/doi/10.1111/1758-5899.13388> (accessed January 9, 2025).

52 Eurostat, International Trade in Goods by Mode of Transport, June 2024, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=International_trade_in_goods_by_mode_of_transport (accessed January 8, 2025).

53 United Nations Conference on Trade and Development, 2024 Review of Maritime Transport: Navigating Maritime Chokepoints, 2024, https://unctad.org/system/files/official-document/rmt2024_en.pdf (accessed January 8, 2025).

54 Donald Trump, Inaugural Address, The American Presidency Project, January 20, 2025, <https://www.presidency.ucsb.edu/documents/inaugural-address-54> (accessed February 19, 2025).

55 Panama Canal Authority, Statistics: Cargo Movement by Origin and Destination FY-2024, 2024, <https://pancanal.com/en/statistics/> (accessed February 19, 2025).

the Strait of Hormuz is a crucial pathway for oil exports.⁵⁶ According to estimates, 20 percent of global liquefied natural gas and around 20 percent of the world's oil consumption pass through the chokepoint every year.⁵⁷ The Strait of Hormuz has long been a flashpoint for tensions between Saudi Arabia, the United States, and Iran, with the countries maintaining permanent military presence around and (in Iran's case) on islands within the Strait.⁵⁸ Although the share of EU oil imports passing through the Strait is not high enough to significantly impact European energy supplies, the importance of the route for other markets would create major price volatility.⁵⁹ In recognition of the Strait's strategic importance for the Union, several member states have been maintaining a European-led maritime surveillance mission in the Strait of Hormuz (EMASOH) since 2020.⁶⁰ As tensions with Iran are expected to increase under the new Trump administration,⁶¹ the passage will continue to be a cause of concern for the EU.

The EU also operates a maritime security operation on the other side of the Arabian Peninsula, where the Iran-backed Houthi militia has been conducting regular attacks on commercial shipping in the Red Sea since 2023. The Red Sea is an important shipping route for oil and LNG and carried around 60

percent of China's exports to Europe before the crisis, making it an essential component of EU member states' supply chains.⁶² The crisis has forced container ships to avoid the Suez Canal, leading to an increase in shipping costs and delays in supply patterns. In spite of the recent ceasefire between the Houthis and the United States, the situation remains highly unstable, and several shipping companies still choose to avoid the route.⁶³

Finally, the Strait of Malacca should also be mentioned through which around 40 percent of the EU's foreign trade passes.⁶⁴ Due to its geographical location at the interface between the South China Sea (SCS) and the Indian Ocean, the passage is particularly vulnerable to the growing risk of congestion or blockade as a result of a conflict. The Strait of Malacca itself is the focus of a struggle for control between India and China among others, with both powers bulking their military capabilities to protect their access to the chokepoint.⁶⁵ Its proximity to the SCS also exposes it to a potential escalation of the territorial dispute between the neighboring states. China claims sovereignty over a major portion of the waters against other claimant states, among which are several U.S. allies. Past confrontations between Filipino and Chinese vessels have shown that tensions in

56 Malcom H. Kerr, *Why China Is Emerging as a Main Promoter of Stability in the Strait of Hormuz*, Carnegie Middle East Center, May 24, 2023, <https://carnegieendowment.org/research/2023/05/why-china-is-emerging-as-a-main-promoter-of-stability-in-the-strait-of-hormuz?lang=en¢er=middle-east> (accessed January 8, 2025).

57 Spencer Feingold and Andrea Willige, *These Are the World's Most Vital Waterways for Global Trade*, February 15, 2024, World Economic Forum, <https://www.weforum.org/stories/2024/02/worlds-busiest-ocean-shipping-routes-trade/> (accessed January 8, 2025).

58 Strauss Center for International Security and Law, *Strait of Hormuz*, <https://www.strausscenter.org/strait-of-hormuz-geography/> (accessed February 19, 2025).

59 Candace Dunn and Justine Barden, *The Strait of Hormuz Is the World's Most Important Oil Transit Chokepoint*, U.S. Energy Information Administration, November 21, 2023, <https://www.eia.gov/todayinenergy/detail.php?id=61002> (accessed February 19, 2025).

60 French Embassy in Germany, *Strait of Hormuz: European Maritime Awareness in the Strait of Hormuz (EMASOH)*, January 20, 2020, <https://de.ambafrance.org/Strait-of-Hormuz-European-Maritime-Awareness-in-the-Strait-of-Hormuz-EMASOH> (accessed February 19, 2025).

61 James M. Lindsay, *Transition 2025: What Will Donald Trump Do About Iran?*, Council on Foreign Relations, <https://www.cfr.org/blog/transition-2025-what-will-donald-trump-do-about-iran> (accessed January 8, 2025).

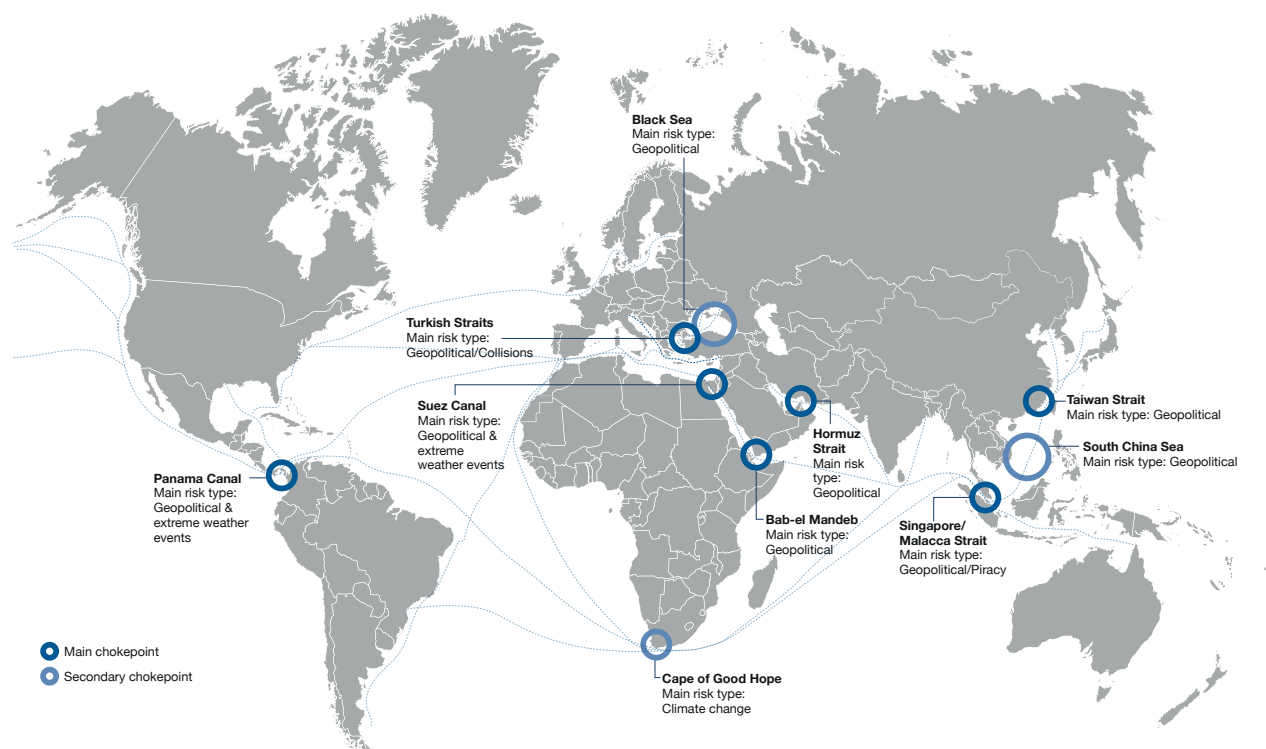
62 U.S. Energy Information Administration, *Fewer Tankers Transit the Red Sea in 2024*, <https://www.eia.gov/todayinenergy/detail.php?id=63446> (accessed January 8, 2025); The European Institute for International Law and International Relations, *What Is Behind China's Timid Approach to the Conflict in the Red Sea*, February 26, 2024, <https://www.eiir.eu/international-relations/what-is-behind-chinas-timid-approach-to-the-conflict-in-the-red-sea/> (accessed April 11, 2024); Fu Cong, *Ambassador Fu Cong: Belt and Road Cooperation: A Smart "De-risking" Option for Europe*, Mission of the People's Republic of China to the European Union, March 13, 2024, http://eu.china-mission.gov.cn/eng/mh/202403/t20240313_11259797.htm (accessed March 25, 2025).

63 Noam Raydan and Farzin Nadimi, *Despite the Houthi Pledge to Limit Attacks, the Red Sea Remains Highly Volatile*, The Washington Institute for Near East Policy, January 27, 2025, <https://www.washingtoninstitute.org/policy-analysis/despite-houthi-pledge-limit-attacks-red-sea-remains-highly-volatile> (accessed February 19, 2025).

64 Josep Borrell, *The EU Approach to the Indo-Pacific: Speech by High Representative/Vice-President Josep Borrell at the Centre for Strategic and International Studies (CSIS)*, European Union External Action Service, June 3, 2021, https://www.eeas.europa.eu/eeas/eu-approach-indo-pacific-speech-high-representativevice-president-josep-borrell-centre-strategic-and_en (accessed January 8, 2025).

65 Alejandro Puigrefagut, *China and India Fight for the Gates of the Strait of Malacca*, University of Navarra Global Affairs, <https://www.unav.edu/web/global-affairs/detalle/-/blogs/china-and-india-fight-for-the-gates-of-the-strait-of-malacca#> (accessed February 19, 2025).

Figure 3: Global Trade Routes and Chokepoints: Key Risk Areas



Source: Prepared on the basis of: Diego A. Cerdeiro, Andras Komaromi, Yang Liu, Mamoon Saeed, IMF's World Seaborne Trade monitoring system, 2020, <https://datacatalog.worldbank.org/search/dataset/0037580/Global-Shipping-Traffic-Density> (accessed March 19, 2025); UNCTAD, 2024; RiskIntelligence, Maritime Threats and Security Trends: Annual Incident Figures 2024, 2024, <https://www.riskintelligence.eu/annual-maritime-figures-2024> (accessed March 19, 2025); Feingold and Willige, 2024.

the sea can escalate quickly, potentially disrupting global supply chains.⁶⁶

These increasing vulnerabilities in maritime trade routes have the potential to disrupt key sectors of the EU economy, particularly the semiconductor industry, where demand is expected to double by 2030.⁶⁷ Despite initiatives such as the Chips Act to reduce dependence on external suppliers, the EU's efforts to achieve strategic autonomy are slow due to the high concentration and specialization of global semiconductor production.⁶⁸

Trade Growth and Geo-Economic Fragmentation

After global trade (trade in goods) slumped sharply during the Covid-19 pandemic in 2020 (-5.3 percent) and recovered significantly in 2021 (9.0 percent), the above-described shocks dampened global trade growth in the following years: while growth of 2.2 percent was recorded in 2022, global trade fell by 1.1 percent in 2023 as a result of high inflation and interest rates. The WTO expects growth of 2.7 percent for 2024 and 3.0 percent for 2025.⁶⁹ However, in April 2025, WTO Director-General,

66 Carlyle Thayer, Chippy Waters Continue in the South China Sea, East Asia Forum, February 19, 2025, <https://eastasiaforum.org/2025/02/19/chippy-waters-continue-in-the-south-china-sea/> (accessed February 19, 2025).

67 European Commission, European Chips Report, 2022, https://single-market-economy.ec.europa.eu/industry/strategy/digital-transformation/european-chips-report_en (accessed March 25, 2025).

68 Antonio Varas, Raj Varadarajan, Jimmy Goodrich, and Falan Yinug, Strengthening the Global Semiconductor Supply Chain in an Uncertain Era, Boston Consulting Group and Semiconductor Industry Association, April 2021, https://www.semiconductors.org/wp-content/uploads/2021/05/BCG-x-SIA-Strengthening-the-Global-Semiconductor-Value-Chain-April-2021_1.pdf (accessed January 8, 2025).

69 World Trade Organization, Global Goods Trade on Track for Gradual Recovery Despite Lingering Downside Risks, October 10, 2024, https://www.wto.org/english/news_e/news24_e/stat_10oct24_e.htm (accessed January 7, 2025).

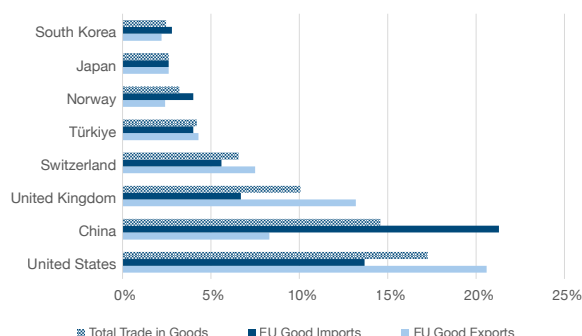
Ngozi Okonjo Iweala, stressed that global merchandise trade could even contract by 1 percent in 2025 as a consequence of the so-called U.S. reciprocal tariffs.

The aggregated trade and investment data do not yet point to de-globalization. Nevertheless, there are growing signs of a slowdown and fragmentation in both trade in goods and foreign direct investment (FDI), as shown by various analyses by the International Monetary Fund (IMF) and others.⁷⁰ Although not to the same extent as during the Cold War, trade and investment flows are increasingly being realigned along geopolitical lines (nearshoring and friendshoring). This geo-economic fragmentation began well before the coronavirus pandemic: the UK's withdrawal from the EU, the trade war between the United States and China during the first Trump administration, and stricter export controls and investment screening in many industrialized countries, particularly with regard to China, were the first signs of this. The Covid-19 pandemic and Russia's war against Ukraine gave a further strong boost to fragmentation trends.

In its analyses of aggregated import data, the European Central Bank finds little evidence of near-shoring or friendshoring in the EU. However, the result is different when strategic goods are taken into account. These are, among others, military equipment, certain metals and minerals, batteries, and pharmaceutical products. They make up approximately nine percent of total extra-EU imports. Accordingly, the EU appears to be selectively de-risking in strategic sectors by reducing its dependence on countries with which it has a greater geopolitical distance.⁷¹

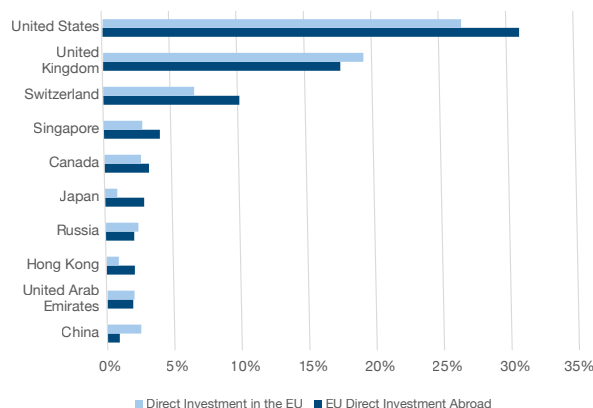
The efforts of governments and companies worldwide to reduce vulnerabilities in trade will lead to further restructuring of production and supply relationships. Added to this is the risk of supply disruptions as a result of natural disasters and extreme weather phenomena, which are increasing in fre-

Figure 4: Share of EU Trade by Partner, 2024
Extra-EU Trade in Goods



Source: Prepared on the basis of Eurostat, Extra-EU Trade by Partner, March 18, 2025, https://ec.europa.eu/eurostat/databrowser/view/ext_it_maineu/default/table?lang=en (accessed March 24, 2025); Eurostat, EU Trade Since 1988 by HS2-4-6 and CN8, March 18, 2025, https://ec.europa.eu/eurostat/databrowser/view/ds-045409_custom_15657165/bookmark/table?lang=en&bookmarkId=2bba357c-238f-4ff5-89fa-a38d5d7fc062 (accessed March 24, 2025).

Figure 5: Main Investment Partners of the EU, 2023
Foreign Direct Investment Stocks



Source: Prepared on the basis of Eurostat, EU Direct Investment Positions by Country, Ultimate and Immediate Counterpart and Economic Activity, March 20, 2025, https://ec.europa.eu/eurostat/databrowser/view/bop_fdi6_pos_custom_15910667/default/table?lang=en&page=time:2023 (accessed March 24, 2025).

quency and intensity. Finally, cyberattacks also pose a significant risk to trade. The associated supply risks, particularly for raw materials and intermediate goods, cause higher transaction costs for companies and price increases, which in turn affect consumption.⁷² Geopolitical tensions will therefore

⁷⁰ Gita Gopinath, Pierre-Olivier Gourinchas, Andrea F. Presbitero, and Petia Topalova, Changing Global Linkages: A New Cold War?, IMF Working Papers, International Monetary Fund, 2024, <https://www.imf.org/-/media/Files/Publications/WP/2024/English/wpica2024076-print-pdf.ashx> (accessed January 7, 2025).

⁷¹ Costanza Bosone, Ernest Dautović, Michael Fidora, and Giovanni Stamato, How Geopolitics Is Changing Trade, ECB Economic Bulletin, European Central Bank, 2024, https://www.ecb.europa.eu/press/economic-bulletin/focus/2024/html/ecb.ebbbox202402_02~c81f58179e.en.html (accessed January 7, 2025).

⁷² Grömling, 2024.

Figure 6: Outbound EU Direct Investment Flows, 2023

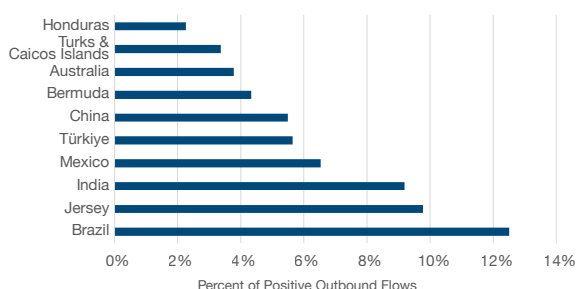
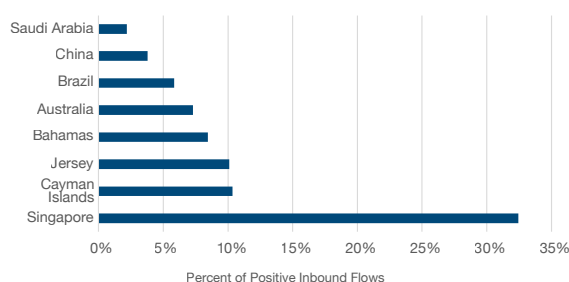


Figure 7: Inbound EU Direct Investment Flows, 2023



Source: Prepared on the basis of Eurostat, *EU Direct Investment Positions, Flows and Income, by Countries, March 20, 2025*, https://ec.europa.eu/eurostat/databrowser/view/bop_fdi6_geo_custom_15911140/default/table?lang=en&page=time:2023 (accessed March 24, 2025).

have a dampening effect on the economy, particularly for open economies that are closely intertwined with the global economy, such as the EU.

There are numerous studies that analyze the economic costs of global geopolitical fragmentation. The estimates vary greatly depending on the model and assumptions on which they are based. At the beginning of 2023, the IMF came to the conclusion that in a scenario with limited fragmentation and low adjustment costs, the losses would amount to up to 0.2 percent of global GDP, while in a scenario with extreme trade fragmentation and limited adaptability of the economies, the losses could amount to up to 7 percent of global GDP over the long term.⁷³

The IMF identified a number of channels through which fragmentation would affect the EU: exports and imports of goods and services, production networks, financial flows, as well as research cooperations and innovation. According to the IMF, the sectors that would be particularly affected include the energy sector, certain metals and minerals, as well as semiconductors, which in turn have an impact on downstream production along the value chains. Fragmentation of the energy and raw materials markets would significantly increase the costs of the green and digital transformation in the EU.⁷⁴

Hybrid Threats: Cyber Attacks and Information Manipulation

With the return of war to Europe, discussions about defence and security strategies have been highly focused on so-called “traditional” or external military threats.⁷⁵ However, European member states must also increasingly contend with another type of threat, more insidious and particularly difficult to counter: These hybrid threats have become an increasingly important component of geopolitical confrontation in the past decade,⁷⁶ with autocratic regimes such as Russia, China, and Iran, as well as their non-state proxies actively exploiting the systemic vulnerabilities of Western powers to destabilize, harm, and isolate democratic governments. Along with more classic strategic gains, hybrid activities increasingly aim at securing support for authoritarian regimes, values and worldviews, while undermining political stability, social cohesion, and public trust in democratic processes and institutions.⁷⁷ Hybrid threats affect European countries differently, with the biggest European member states, such as France and Germany, as well as states located closer to the Russian border being disproportionately affected. Hostile actors have a

73 Shekhar Aiyar, Jiaqian Chen, Christian H Ebeke, Roberto Garcia-Saltos, Tryggvi Gudmundsson, Anna Ilyina, Alvar Kangur, Tansaya Kunaratkul, Sergio L. Rodriguez, Michele Ruta, Tatjana Schulze, Gabriel Soderberg, and Juan P Trevino, *Geoeconomic Fragmentation and the Future of Multilateralism*, IMF Staff Discussion Notes, International Monetary Fund, January 15, 2023, <https://www.imf.org/-/media/Files/Publications/SDN/2023/English/SDNEA2023001.ashx> (accessed January 7, 2025).

74 Baba et al., 2023.

75 Fulvio Attinà, “Traditional Security Issues,” in: Jianwei Wang and Weiqing Song, eds., *China, the European Union, and the International Politics of Global Governance*, New York: Palgrave Macmillan, 2016, 175-193.

76 European Centre of Excellence for Countering Hybrid Threats, *Hybrid Threats as a Concept*, <https://www.hybridcoe.fi/hybrid-threats-as-a-phenomenon/> (accessed February 27, 2025).

77 Georgios Giannopoulos, *The Landscape of Hybrid Threats: A Conceptual Model*, Joint Research Centre and European Centre of Excellence for Countering Hybrid Threats, 2021, https://www.hybridcoe.fi/wp-content/uploads/2021/02/conceptual_framework-reference-version-shortened-good_cover_-_publication_office.pdf (accessed February 27, 2025).

growing range of means at their disposal, including leveraging many of the vulnerabilities covered in the present article. Trade dependencies leave member states open to economic coercion tactics, such as trade restrictions or energy blackmail.⁷⁸ Migration pressures at the Eastern EU borders have also become increasingly instrumentalised, with arrivals through Belarus increasing by 236 percent between 2022 and 2023, and by 192 percent in 2024.⁷⁹

Since the 2019 pandemic, two of the most widespread tactics across the block have remained disinformation and influence operations. These seek to manipulate public opinion and intensify the polarization in European societies through a variety of channels, including foreign state-funded media, social media, populist political actors, and fringe activist groups.⁸⁰ Periods of heightened social and political tensions, such as electoral campaigns, represent a particularly fertile ground for the spread of mis- and disinformation and the promotion of destabilizing narratives. Throughout the 2024 election year, elections at all levels have been targeted by a series of influence operations spanning a broad range of tools and platforms. The campaign preceding the June 2024 European election is a striking example, with far-right or pro-Russian political groupings and networks using social media plat-

forms and alternative news outlets to propagate baseless claims around the war in Ukraine and European institutions and politics, often trying to cast doubt about electoral integrity.⁸¹ According to the European Digital Media Observatory, EU-related disinformation reached the highest recorded level in a year the month before the elections, amounting to 15 percent of all detected disinformation.⁸² Most recently, the Romanian elections stoked concerns about foreign influence by becoming the first elections in an EU member country to be cancelled over suspicions of information manipulation through a massive campaign on TikTok.⁸³

The EU has developed a comprehensive framework to regulate the spread of information, including the Digital Service Act and the AI Act, which aim at making online platforms accountable, or targeted initiatives such as the 2015 EUvsDisinfo or the Code of Practice on Disinformation.⁸⁴ However, the fragmented and simultaneous nature of this threat makes it particularly difficult to counter. As trust in media is decreasing in many EU countries,⁸⁵ alternative and social media represent an increasingly important source of information for many citizens.⁸⁶ With fact-checking measures being rolled back across major platforms such as X and Facebook,⁸⁷ and the advent of content-generative AI

78 Veronika Slakaityte and Izabela Surwillo, *Energy as a Weapon. Decoding Blackmail Tactics in Europe*, Danish Institute for International Studies, January 9, 2024, <https://www.diiis.dk/en/research/energy-as-a-weapon-decoding-blackmail-tactics-in-europe> (accessed February 27, 2025); Marcin Szczepański, *China's Economic Coercion: Evolution, Characteristics and Countermeasures*, European Parliamentary Research Service, November 2022, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/738219/EPRS_BRI\(2022\)738219_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/738219/EPRS_BRI(2022)738219_EN.pdf) (accessed February 26, 2025).

79 Frontex, *Irregular Border Crossings into EU Drop Sharply in 2024*, January 14, 2025, <https://www.frontex.europa.eu/media-centre/news/news-release/irregular-border-crossings-into-eu-drop-sharply-in-2024-oqpweX> (accessed February 27, 2025); European Council and Council of the European Union, *Belarus*, October 28, 2024, <https://www.consilium.europa.eu/en/policies/belarus/#borders> (accessed February 28, 2025).

80 Henrik Praks, *Russia's Hybrid Threat Tactics Against the Baltic Sea Region: From Disinformation to Sabotage*, Hybrid CoE Working Paper, European Centre of Excellence for Countering Hybrid Threats, May 2024, <https://www.hybridcoe.fi/wp-content/uploads/2024/05/20240530-Hybrid-CoE-Working-Paper-32-Russias-hybrid-threat-tactics-WEB.pdf> (accessed February 27, 2025).

81 Klitos Philippides, *European Union: Case of Influence Operations Series*, London Politica, 2024, <https://static1.squarespace.com/static/5ef-b88803e2328745c7b3c39/t/66c1ee4dcbe22d68affbce95/1723985494917/4.+EU+.+Case+of+Influence+Operations.docx.pdf> (accessed February 27, 2025).

82 European Digital Media Observatory, *EU-Related Disinformation Keeps Growing Before the EU Parliament Elections*, June 2024, <https://edmo.eu/wp-content/uploads/2024/06/EDMO-36-Horizontal.pdf> (accessed February 28, 2025).

83 Richard Nash, *The Romanian 2024 Election Annulment: Addressing Emerging Threats to Electoral Integrity*, International Foundation for Election Integrity, December 20, 2024, <https://www.ifes.org/publications/romanian-2024-election-annulment-addressing-emerging-threats-electoral-integrity> (accessed February 27, 2025).

84 European Commission, *Strategic Communication and Countering Information Manipulation*, 2024, https://commission.europa.eu/topics/countering-information-manipulation_en (accessed February 27, 2025).

85 Nic Newman, Richard Fletcher, Craig T. Robertson, Amy Ross Arguedas, and Rasmus Kleis Nielsen, *Digital News Report 2024*, Reuters Institute for the Study of Journalism, 2024, https://reutersinstitute.politics.ox.ac.uk/sites/default/files/2024-06/RISJ_DNR_2024_Digital_v10%20lr.pdf (accessed February 27, 2025).

86 Kelsey Bjornsgaard and Simeon Dukić, *The Media and Polarisation in Europe: Strategies for Local Practitioners to Address Problematic Reporting*, European Commission, 2023, https://home-affairs.ec.europa.eu/system/files/2023-05/ran_the_media_and_polarisation_052023_en.pdf (accessed February 27, 2025).

87 Ned Watt, Michelle Riedlinger, and Silivia Montaña-Niño, *"Meta Is Abandoning Fact Checking. This Doesn't Bode Well for the Fight Against Misinformation,"* in: *The Conversation*, January 8, 2025, <https://theconversation.com/meta-is-abandoning-fact-checking-this-doesnt-bode-well-for-the-fight-against-misinformation-246878> (accessed February 27, 2025).

tools, hostile actors and populist politicians are now able to disseminate fake information at an unprecedented scale and speed.

Since 2022, hybrid warfare tactics on European soil also increasingly include sabotage, physical attacks, and assassinations. Recent research has shown that such operations from Russia alone have drastically escalated in intensity, frequency, and scope over the past three years, from six identified incidents in 2022 to 44 in 2024. Targets have become more and more diverse, ranging from public transportation systems to military and industrial sites, arms deliveries, water treatment facilities, and high-profile politicians.⁸⁸ Critical communication and energy infrastructure, such as the Nord Stream pipelines, have also proven highly vulnerable to attacks.⁸⁹

Along with these physical threats, cyberattacks and cyberespionage also represent a growing share of malicious foreign activity, with cyberattacks targeting Europe and Central Asia accounting for respectively 68 percent and 39 percent of all identified cyberattacks from Russia and China in 2024.⁹⁰ According to the European Union Agency for Cybersecurity's (ENISA) 2024 report, the Union experienced unprecedented levels of cybersecurity threats from a growing number of actors, with 11,079 major incidents recorded between July 2023 and June 2024,⁹¹ including 4,618 cyberattacks in 2023 alone.⁹² These attacks target a wide range of essential sectors, from public administration (near-

ly 20 percent of recorded attacks) to the transportation (11 percent), finance (9 percent), digital infrastructure (9 percent) and manufacturing (6 percent) sectors.⁹³ New areas, such as supply chains or civil society, also face ever-increasing threat levels.⁹⁴ With the ever-stronger dependence of states and non-state institutions on new technologies set to intensify cybersecurity threats on the long-term, the need to quickly address these emerging threats has drastically risen.

Nowhere is the impact of digitalisation on exposure to cyberattacks more apparent than across the critical infrastructure (CI) sectors vital for national and EU-wide security. CI in the EU has been the target of 448 incidents between January 2023 and February 2025, with the top targeted areas being the health sector with 72 incidents, followed by the finance sector (67), transportation (66), telecommunication (52), research (42), and the energy industry (39). Data theft remains the most common type of attack, making up respectively 77.78 percent and 64.10 percent of recorded cyberattacks against the European defence and energy industries, followed by ransomware and DDoS attacks.⁹⁵ While most attacks come from non-state groups motivated by financial gain, geopolitical conflicts remain a strong driver in the cyber threat landscape, and collusion between state and non-state actors has become increasingly common.⁹⁶ According to the European Repository of Cyber Incidents, since 2022, 84.8 percent of all geopolitically motivated cyberattacks against CI in the EU have come from Russian ac-

- 88 Bart Schuurman, Russian Operations against Europe Dataset, Harvard Dataverse 2024, <https://dataverse.harvard.edu/file.xhtml?fileId=10798959&version=3.0> (accessed February 27, 2025); Bart Schuurman, Russian Operations Against Europe Since the 2022 Invasion of Ukraine, The Hague Leiden University, January 13, 2025, <https://www.universiteitleiden.nl/binaries/content/assets/governance-and-global-affairs/isga/infographic-russian-operations-against-europe.pdf> (accessed February 27, 2025).
- 89 Daniel Voelsen, Maritime kritische Infrastrukturen: Strategische Bedeutung und geeignete Schutzmaßnahmen, Stiftung Wissenschaft und Politik, February 24, 2025, https://www.swp-berlin.org/publications/products/studien/2024S03_KritischeMaritimeInfrastrukturen.pdf (accessed February 27, 2025).
- 90 Statista, Ziele von Cyberangriffen nach Regionen durch Russland, China, Iran & Nordkorea, October 30, 2024, <https://de.statista.com/statistik/daten/studie/1498884/umfrage/ziele-von-cyberangriffen-durch-russland-china-iran-nordkorea/> (accessed February 27, 2025).
- 91 European Union Agency for Cybersecurity, ENISA Threat Landscape 2024, September 2024, https://www.enisa.europa.eu/sites/default/files/2024-11/ENISA%20Threat%20Landscape%202024_0.pdf (accessed February 28, 2025).
- 92 Veronika Slakaityte and Izabela Surwillo, Protecting EU's Critical Infrastructure: The Fight Intensifies in the Cyber Realm, Danish Institute for International Studies, October 23, 2024, <https://www.diiis.dk/en/research/protecting-eus-critical-infrastructure-the-fight-intensifies-in-the-cyber-realm> (accessed March 6, 2025).
- 93 European Council and Council of the European Union, What Are the Top Cyber Threats in the EU?, February 21, 2025, <https://www.consilium.europa.eu/en/policies/top-cyber-threats/> (accessed March 6, 2025).
- 94 ENISA, 2024.
- 95 European Repository of Cyber Incidents, Critical Infrastructure Tracker, 2025, <https://cit.eurepoc.eu/> (accessed March 6, 2025).
- 96 European Commission, Communication from the Commission to the European Parliament and the Council on the Seventh Progress Report on the Implementation of the EU Security Union Strategy, COM(2024) 198 Final, May 15, 2024, https://commission.europa.eu/document/download/88809590-6f2b-4ea9-a1f0-32d9ddf02540_en?filename=COM_2024_198_1_EN.pdf (accessed March 6, 2025).

tors.⁹⁷ This evolution is made all the more threatening by the growing instability of the international security landscape, which extends into the digital realm. The latest example to date was the rumoured pausing of U.S. Cyber Command cyberoperations against Russia.⁹⁸ Although the pause was later denied by the U.S. Cyber Security and Infrastructure Security Agency,⁹⁹ the trepidation caused by the news highlighted the fragility of international defensive cyber cooperation ties and the ever-present potential for a surge in threat levels.

Since launching its overarching Cybersecurity Strategy in 2020, Brussels has also introduced a series of policy tools focused on promoting EU-level CI resilience, chief among them the NIS2 Directive, which provides a Union-wide legal framework for CI cybersecurity while imposing risk management requirements for networks and entities operating in 18 critical sectors.¹⁰⁰ Recent initiatives have also responded to pressing threats at the sectoral level, such as the 2025 Action Plan on the cybersecurity of hospitals and healthcare providers, which was singled out as a key priority during the second von der Leyen Commission.¹⁰¹ Recognizing the increasingly geopolitical dimension of attacks, these initiatives are also particularly focused on surveillance and deterrence, with the 2024 Joint Communication to strengthen the security and resilience of submarine cables also supporting the development of a civil-military approach to CI protection.¹⁰² Nonetheless, member states' national strategies are still

highly fragmented, owing to divergent threat perceptions and the absence of a standardized framework for the identification and protection of CI. Systematic cross-border cooperation on CI cybersecurity has yet to be achieved, rendering individual member states more vulnerable.¹⁰³ Despite growing awareness of the role of cyber skill gaps in vulnerability to cyberattacks, the EU has been facing a protracted shortage of skilled cybersecurity professionals, which a series of dedicated initiatives has yet to effectively counter.¹⁰⁴

Tensions in the Transatlantic Partnership

The return of Donald Trump as the 47th President of the United States, starting his second term with a clear mandate, has already led to significant tensions in the transatlantic partnership. Trade policy, and the introduction of tariffs, is seen by Trump as a key tool to achieve a range of economic and political goals for the United States. In addition to balancing bilateral trade, this also includes government revenues, (security) policy issues such as the level of security spending within NATO, illegal immigration and the opioid crisis (drug smuggling via Mexico and Canada), and even expansional aspirations such as the takeover of Greenland.

What are Trump's plans? During the election campaign, he had announced basic tariffs of ten to twenty percent on all U.S. imports. This was to af-

97 European Repository of Cyber Incidents, How Do Cyberattacks Against Critical Infrastructure Fit into the Broader Geopolitical Context? in: Critical Infrastructure Tracker, 2025, <https://cit.eurepoc.eu/> (accessed March 6, 2025).

98 Lolita C. Baldor and David Keppler, "Hegseth Orders Suspension of Pentagon's Offensive Cyberoperations Against Russia", in: Associated Press, March 4, 2025, <https://apnews.com/article/cyber-command-russia-putin-trump-hegseth-c46ef1396e3980071cab81c27e0c0236> (accessed March 6, 2025).

99 Cyber Security and Infrastructure Security Agency, X, March 3, 2025, <https://x.com/cisagov/status/1896360034160017551?ref=zetter-zeroday.com> (accessed March 6, 2025).

100 European Commission, NIS2 Directive: New Rules on Cybersecurity of Network and Information Systems, January 15, 2025, <https://digital-strategy.ec.europa.eu/en/policies/nis2-directive> (accessed March 6, 2025); European Commission, Communication from the Commission to the European Parliament and the Council on the Seventh Progress Report on the Implementation of the EU Security Union Strategy, COM(2024) 198 Final, May 5, 2024, https://commission.europa.eu/document/download/88809590-6f2b-4ea9-a1f0-32d9ddf02540_en?filename=COM_2024_198_1_EN.pdf (accessed March 25, 2025).

101 European Commission, European Action Plan on the Cybersecurity of Hospitals and Healthcare Providers, January 15, 2025, https://health.ec.europa.eu/ehealth-digital-health-and-care/digital-health-and-care/european-action-plan-cybersecurity-hospitals-and-healthcare-providers_en (accessed March 6, 2025).

102 High Representative of the Union for Foreign Affairs and Security Policy, Joint Communication to the European Parliament and the Council: EU Action Plan on Cable Security, JOIN(2025) 9 Final, European Commission, February 21, 2025, <https://ec.europa.eu/newsroom/dae/redirection/document/113049> (accessed March 6, 2025).

103 Slakaityte and Surwillo, 2024.

104 European Commission, Communication from the Commission to the European Parliament and the Council on the Seventh Progress Report on the Implementation of the EU Security Union Strategy, COM(2024) 198 Final, May 15, 2024, https://commission.europa.eu/document/download/88809590-6f2b-4ea9-a1f0-32d9ddf02540_en?filename=COM_2024_198_1_EN.pdf (accessed March 6, 2025).

fect all countries, including U.S. allies such as the EU, Canada, Mexico, Japan, and South Korea. He also threatened to impose a 60 percent tariff on imports from China. Trump went into more detail in his America First Trade Policy Memorandum, signed on the first day of his presidency.¹⁰⁵

The first weeks of the Trump administration have been marked by unprecedented policy volatility. On February 1, 2025, President Trump partially implemented his threats, issuing three executive orders directing the United States to impose new tariffs on imports from Canada (25 percent), Mexico (25 percent), and China (10 percent).¹⁰⁶ As legal basis, the Trump administration used the International Emergency Economic Powers Act (IEEPA), declaring a national emergencies at the border related to fentanyl, drug trafficking, and illegal immigration. The tariffs were to take effect on February 4, 2025.¹⁰⁷ Pursuant to a one-month suspension of the duties against Mexico and Canada following negotiations, the announced tariffs were implemented on March 3 after the Trump administration claimed both countries had failed to stem the flow of illegal drugs and migrants to the United States.¹⁰⁸ Canada immediately retaliated in

kind with 25 percent tariffs on a variety of U.S. imports worth C\$30 billion.¹⁰⁹ Following negotiations, U.S. tariffs on auto imports were granted a one-month exemption on March 5, later accompanied by a further one-month delay on products from Mexico and Canada covered by the trilateral USMCA free-trade agreement.¹¹⁰

The tariffs on Chinese products, on the other hand, went into effect already on February 4, with China responding with 10 percent and 15 percent retaliatory tariffs on select U.S. natural resources and machinery.¹¹¹

On February 11, 2025, Donald Trump also revisited the steel and aluminum tariffs which he had originally imposed in 2018 under Section 232 of the Trade Expansion Act of 1962. Issuing two proclamations, the Trump administration modified these tariffs, which had been temporarily suspended during the Biden Administration. As such, all country exemptions were ended, the aluminum tariffs were raised from 10 percent to 25 percent, and more downstream steel and aluminum products were added to the tariffs coverage.¹¹² This also hit the EU: the United States is the second-biggest export

105 The White House, America First Trade Policy Memorandum, January 20, 2025,

<https://www.whitehouse.gov/presidential-actions/2025/01/america-first-trade-policy/> (accessed February 19, 2025).

106 The White House, Imposing Duties to Address the Synthetic Opioid Supply Chain in the People's Republic of China, February 1, 2025, <https://www.whitehouse.gov/presidential-actions/2025/02/imposing-duties-to-address-the-synthetic-opioid-supply-chain-in-the-peoples-republic-of-china/> (accessed February 19, 2025); The White House, Imposing Duties to Address the Situation at Our Southern Border, February 1, 2025, <https://www.whitehouse.gov/presidential-actions/2025/02/imposing-duties-to-address-the-situation-at-our-southern-border/> (accessed February 19, 2025); The White House, Imposing Duties to Address the Flow of Illicit Drugs Across Our Northern Border, February 1, 2025, <https://www.whitehouse.gov/presidential-actions/2025/02/imposing-duties-to-address-the-flow-of-illicit-drugs-across-our-national-border/> (accessed February 19, 2025).

107 Christopher Casey, The International Emergency Economic Powers Act (IEEPA), the National Emergencies Act (NEA), and Tariffs: Historical Background and Key Issues, Congressional Research Service, February 3, 2025, <https://www.congress.gov/crs-product/IN11129> (accessed February 19, 2025).

108 The White House, Fact Sheet: President Donald J. Trump Proceeds with Tariffs on Imports from Canada and Mexico, March 3, 2025, <https://www.whitehouse.gov/fact-sheets/2025/03/fact-sheet-president-donald-j-trump-proceeds-with-tariffs-on-imports-from-canada-and-mexico/> (accessed March 5, 2025).

109 Department of Finance Canada, List of Products from the United States Subject to 25 per Cent Tariffs Effective March 4, 2025, <https://www.canada.ca/en/department-finance/news/2025/03/list-of-products-from-the-united-states-subject-to-25-per-cent-tariffs-effective-march-4-2025.html> (accessed March 5, 2025).

110 The White House, Press Secretary Karoline Leavitt Briefs Members of the Media, Mar. 5, 2025, <https://www.youtube.com/live/mQMKP2cS-dlk?t=527s> (accessed March 25, 2025); Brenda C. Swick, Orlando E. Silva, Aditi Mallavarapu and Pasha Mabanza, Another Temporary Reprieve: No Tariffs on USMCA-Compliant Goods Until April 2, 2025, Cassel Law Firm, March 11, 2025, <https://cassels.com/insights/another-temporary-reprieve-no-tariffs-on-usmca-compliant-goods-until-april-2-2025/> (accessed March 25, 2025).

111 The White House, Imposing Duties to Address the Synthetic Opioid Supply Chain in the People's Republic of China, February 1, 2025, <https://www.whitehouse.gov/presidential-actions/2025/02/imposing-duties-to-address-the-synthetic-opioid-supply-chain-in-the-peoples-republic-of-china/> (accessed March 25, 2025); Chinese Ministry of Foreign Affairs, 国务院关税税则委员会关于对原产于美国的部分进口商品加征关税的公告, February 4, 2025, https://www.mof.gov.cn/zhengwuxinxi/caizhengxinwen/202502/t20250204_3955222.htm (accessed March 25, 2025).

112 The White House, Adjusting Imports of Aluminum into the United States, February 11, 2025, <https://www.whitehouse.gov/presidential-actions/2025/02/adjusting-imports-of-aluminum-into-the-united-states/> (accessed February 19, 2025); The White House, Adjusting Imports of Steel into the United States, February 10, 2025, <https://www.whitehouse.gov/presidential-actions/2025/02/adjusting-imports-of-steel-into-the-united-states/> (accessed February 19, 2025); The White House, Fact Sheet: President Donald J. Trump Restores Section 232 Tariffs, February 11, 2025, <https://www.whitehouse.gov/fact-sheets/2025/02/fact-sheet-president-donald-j-trump-restores-section-232-tariffs/> (accessed March 25, 2025).

market for the European steel industry, accounting for 16 percent of all steel exports in 2024.¹¹³

In mid-February 2025, Trump also announced the “Fair and Reciprocal Plan”, ordering the Office of the U.S. Trade Representative (USTR) and the Department of Commerce to investigate “harmful” nonreciprocal trade arrangements by foreign trading partners.¹¹⁴ Countries on the list, which were deemed to pursue unfair trade policies, were India, Brazil, the EU, and Canada.¹¹⁵ The Plan also touched on nontariff policies and measures, as the Trump administration is of the opinion that the EU’s Value Added Tax (VAT) is an “unfair” and “discriminatory” measure comparable to a tariff. A week later, an additional Memorandum also identified four EU member states’ Digital Service Tax as discriminatory practices deserving retaliation.¹¹⁶

As of April 3, 2025, the United States has implemented a 25 percent tariff on all imported cars and light trucks, including those from major suppliers such as the EU. This measure aims to bolster domestic manufacturing by discouraging reliance on foreign vehicle imports. Tariffs on certain auto parts, including engines and transmissions, are scheduled to take effect no later than May 3, 2025.

On April 2, 2025, President Trump proclaimed a “Liberation Day,” introducing comprehensive tariffs aimed at addressing trade imbalances. This included a universal 10 percent tariff on imports from nearly all countries, effective April 5, 2025. Starting April 9, 2025, additional tariffs – the so-called reciprocal tariffs – ranging from 10 percent to nearly 50 percent were to be levied on approximately 60 countries, based on perceived unfair trade prac-

tices. The EU faces a 20 percent tariff. After the price of U.S. Treasury bonds plunged, President Trump announced a 90-day pause on the “reciprocal” tariffs, with the exception of China, on April 9, 2025. The 10 percent baseline tariffs stayed in place.

President Trump’s tariffs are hitting the EU hard. In 2024, the United States was the EU’s most important trading partner, according to Destatis, ahead of China (trade in goods). This accounted for about 17 percent of the EU’s total trade with third countries. China was the most important source of EU imports, followed by the United States; the United States was the most important export market, ahead of Great Britain and China. According to various calculations, Trump’s tariffs affect about 70 percent of EU exports to the United States.¹¹⁷

For years, the EU’s trade position has been a thorn in Trump’s side. In 2023, the EU had a surplus in trade in goods with the United States of €157 billion. On the other hand, the EU had a deficit in trade in services amounting to €109 billion in 2023. The total deficit in trade in goods and services between the EU and the United States amounted to €48 billion in 2023, which accounted for around 3 percent of total trade between the EU and the United States.¹¹⁸ Trump also criticizes the EU for being more protectionist than the United States. Overall, the effective applied tariff rates between the two countries do not differ that much: The simple average of applied most favorite nation (MFN) tariffs (all products) (this is the tariff bound at the WTO) is 3.3 percent for the United States and 5.0 for the EU; the difference in the trade-weighted average is even smaller at 2.2 for the United States and 2.7 for the EU. However, the difference is much clearer in individual sectors. For ex-

113 Annalisa Villa, EU Could Lose up to 3.7 Mil Mt of Steel Exports to US as It Imposes Blanket Tariffs, Eurometal, February 12, 2025, <https://eurometal.net/eu-could-lose-up-to-3-7-mil-mt-of-steel-exports-to-us-as-it-imposes-blanket-tariffs/> (accessed March 14, 2025).

114 The White House, Reciprocal Trade and Tariffs, February 13, 2025, <https://www.whitehouse.gov/articles/2025/02/reciprocal-trade-and-tariffs/> (accessed February 19, 2025).

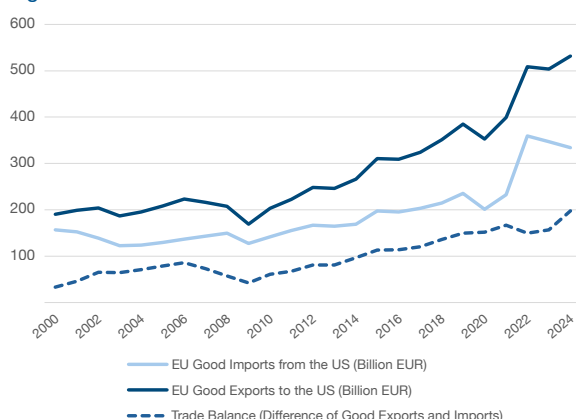
115 The White House, Fact Sheet: President Donald J. Trump Announces “Fair and Reciprocal Plan” on Trade, February 13, 2025, <https://www.whitehouse.gov/fact-sheets/2025/02/fact-sheet-president-donald-j-trump-announces-fair-and-reciprocal-plan-on-trade/> (accessed February 19, 2025).

116 The White House, Defending American Companies and Innovators from Overseas Extortion and Unfair Fines and Penalties, February 21, 2025, <https://www.whitehouse.gov/presidential-actions/2025/02/defending-american-companies-and-innovators-from-overseas-extortion-and-unfair-fines-and-penalties/> (accessed March 14, 2025).

117 DeStatis, Vereinigte Staaten größter EU-Handelspartner, 2025, <https://www.destatis.de/Europa/DE/Thema/Aussenhandel/EU-Handelspartner.html> (accessed April 12, 2025).

118 European Commission, United States, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/unit-ed-states_en (accessed September 13, 2024).

Figure 8: EU Trade in Goods with the United States



Source: Prepared on the basis of Eurostat, *EU Trade Since 1988 by HS2-4-6 and CN8*, March 18, 2025, https://ec.europa.eu/eurostat/databrowser/view/ds-045409_cus-tom_15657165/bookmark/table?lang=en&bookmarkId=2b-ba357c-238f-4ff5-89fa-a38d5d7fc062 (accessed March 24, 2025).

Methodological note: The numbers (originally in millions) have been converted into billions then rounded off to the first decimal place.

ample, the average MFN tariff applied to agricultural products is 10.8 percent in the EU and only 5 percent in the United States.¹¹⁹

Old and new U.S. tariffs will continue to weigh on the weak growth prospects of the EU economy. While the consequences are difficult to quantify, a ten percent drop in EU exports to the United States as a result of tariff increases is forecasted to lead to a loss of up to \$408 billion over a four-year period.¹²⁰

Given its dependence on international trade, the EU has to walk a fine line between retaliatory measures and keeping its markets open. On April 9, the EU member states agreed to apply countermeasures in

three rounds to steel and aluminum tariffs. Measures covering €3.9 billion in trade were supposed to go into effect mid-April; a second round of tariffs targeting imports worth €13.5 billion is to apply from mid-May, and a final round of €3.5 billion is to follow in December. After the Trump administration announced the 90-days tariff pause, the EU also paused the implementation of its counter tariffs on steel and aluminum. The EU has yet to respond to Trump's latest 25 percent tariff on cars.

Systemic Competition with China

From proactive engagement at the turn of the century to pragmatic cooperation motivated by political interests in the early 2010s, the relationship between the EU and China has known a series of evolutions since Beijing became a member of the WTO in 2001.¹²¹ As Chinese output progressively shifted away from low-wage manufacturing towards high-tech industries, the country's export-based production model also started to increasingly compete with European economies.¹²² Recognizing the multifaceted threats and opportunities posed by China, the EU officially recalibrated its stance towards the Asian power, designating it as "negotiating partner (...) economic competitor (...) and systematic rival" in its 2019 Strategic Outlook.¹²³ Since then, the bilateral relationship has considerably soured. Tensions have flared up around political issues, such as Chinese support for Russia and human right violations in Xinjiang,¹²⁴ which prompted, among others, the suspension of the EU-China Comprehensive Agreement on Investment (CAI) in May 2021 as well as additional sanc-

119 World Trade Organization, *Tariff Profiles: EU*, https://www.wto.org/english/res_e/statis_e/daily_update_e/tariff_profiles/CE_e.pdf (accessed March 25, 2025); World Trade Organization, *Tariff Profiles: United States*, https://www.wto.org/english/res_e/statis_e/daily_update_e/tariff_profiles/US_e.pdf (accessed March 25, 2025); European Commission, *Questions and Answers on the US Reciprocal Tariff Policy*, February 18, 2025, https://ec.europa.eu/commission/presscorner/detail/en/qanda_25_541 (accessed March 25, 2025).

120 World Economic Forum, *Economic Growth: 4 Ways to Build a Strong, Sovereign Europe in a Shifting World*, January 6, 2025, <https://www.weforum.org/stories/2025/01/sovereign-europe-economy-geopolitics/> (accessed January 8, 2025).

121 Nicola Casarini, *The EU-China Partnership: 10 Years on*, European Union Institute for Security Studies, October 2013, https://www.iss.europa.eu/sites/default/files/EUISSFiles/Brief_35_EU-China_relations.pdf (accessed February 21, 2025).

122 Andreea Brinza, Una Aleksandra Bērziņa-Čerenkova, Philippe Le Corre, John Seaman, Richard Turcsányi and Stefan Vladisavljev, *EU-China Relations: De-Risking or De-Coupling – the Future of the EU Strategy Towards China*, European Parliament, March 26, 2024, [https://www.europarl.europa.eu/RegData/etudes/STUD/2024/754446/EXPO_STU\(2024\)754446_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2024/754446/EXPO_STU(2024)754446_EN.pdf) (accessed February 24, 2025); James McBride and Andrew Chatzky, *Is 'Made in China 2025' a Threat to Global Trade?*, Council on Foreign Relations, May 13, 2019, <https://www.cfr.org/background/made-china-2025-threat-global-trade> (accessed February 24, 2025).

123 European Commission, *EU-China. A Strategic Outlook*, JOIN(2019) 5 Final, p. 1, March 12, 2019, <https://commission.europa.eu/system/files/2019-03/communication-eu-china-a-strategic-outlook.pdf> (accessed February 21, 2025).

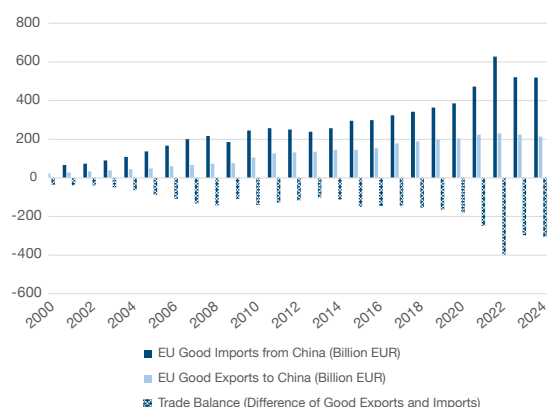
124 Ulrich Jochheim, *EU-China Trade Relations*, European Parliamentary Research Service, October 2023, [https://www.europarl.europa.eu/RegData/etudes/ATAG/2023/753952/EPRS_ATA\(2023\)753952_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2023/753952/EPRS_ATA(2023)753952_EN.pdf) (accessed February 21, 2025).

tions – later followed by countersanctions from China.¹²⁵

The biggest irritant in the relationship remains the increasing asymmetry in the EU and China's trade ties. Over the past two decades, trade between the two powers has deepened significantly. In 2023, EU exports to China reached €223.6 billion, while imports from China totalled €515.9 billion,¹²⁶ accounting for 15 percent of all EU trade in goods.¹²⁷ This increase has been accompanied by a significant deterioration of the EU's trade balance, which reached €292 billion in 2023, with a record deficit of €397.4 billion in 2022.¹²⁸ The imbalance also extends to unequal market access, with European companies in strategic industries confronted with discriminatory practices in the Chinese procurement market.¹²⁹

More concerning, while China has successfully contained – and even halved – its dependencies on the EU, the block's reliance on Beijing has steadily grown across multiple sectors. According to the Mercator Institute's Dependency index, the EU relies on China for 421 out of 5,000 product categories.¹³⁰ Following the COVID-19 pandemic and Russia's war against Ukraine, growing awareness about the vulnerability of global supply chains to external shocks has highlighted the need to secure and “de-risk” critical sectors through diversification of suppliers or relocation of supply sources.¹³¹ Trade dependencies on China are particularly wor-

Figure 9: EU Trade in Goods with China



Source: Prepared on the basis of Eurostat, Extra-EU27 (from 2020) Trade by Product Group, March 18, 2025, https://ec.europa.eu/eurostat/databrowser/view/tet00013/default/table?lang=en&category=t_ext_go_lti.t_ext_go_lti_ext1 (accessed March 24, 2025).

risome because of the quality of goods concerned, which has increasingly shifted towards critical products, such as pharmaceutical ingredients and electronics.¹³² Between 2001 and 2022, the EU's share of dependencies from China has jumped from around 25 percent to 65 percent for machinery and electrical goods, and from around 40 percent to 65 percent for base metals and related goods.¹³³ The EU is also particularly reliant on China for the technologies and raw materials necessary for its green and digital transition. According to research from Bruegel and the Danish Institute for International Studies, over 90 percent of the solar panels deployed in the EU come from China as well as 90 percent of the rare-earth permanent magnets neces-

125 Center for Strategic and International Studies, The Rise and Demise of the EU-China Investment Agreement: Takeaways for the Future of German Debate on China, March 20, 2023, <https://www.csis.org/analysis/rise-and-demise-eu-china-investment-agreement-takeaways-future-german-debate-china> (accessed February 21, 2025).

126 European Commission, China, 2025, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/china_en (accessed February 21, 2025).

127 Statistisches Bundesamt, Europe: Trade with China Increasingly Important, https://www.destatis.de/Europa/EN/Topic/Foreign-trade/EU_tradingPartner.html (accessed February 21, 2025).

128 Eurostats, EU Trade in Goods with China: Less Deficit in 2023, March 4, 2024, <https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20240304-2> (accessed February 21, 2025); Eurostat, Extra-EU27 (from 2020) Trade by Product Group, March 18, 2025, https://ec.europa.eu/eurostat/databrowser/view/tet00013/default/table?lang=en&category=t_ext_go_lti.t_ext_go_lti_ext1 (accessed March 24, 2025).

129 European Commission, Discrimination in China's Medical Devices Procurement Market, January 14, 2025, https://ec.europa.eu/commission/presscorner/detail/en/ip_25_252 (accessed February 21, 2025).

130 Mercator Institute for China Studies, Growing Asymmetry: Mapping the Import Dependencies in EU and US Trade with China, October 01, 2024, <https://merics.org/en/report/growing-asymmetry-mapping-import-dependencies-eu-and-us-trade-china> (accessed February 21, 2025).

131 Ursula von der Leyen, Speech by President von der Leyen on EU-China Relations to the Mercator Institute for China Studies and the European Policy Centre, European Commission, March 20, 2023, https://ec.europa.eu/commission/presscorner/detail/en/speech_23_2063 (accessed February 21, 2025).

132 Frank Vandermeeren, Understanding EU-China Economic Exposure, Economics Brief, European Commission, 2024, https://single-market-economy.ec.europa.eu/system/files/2024-01/EconomicBrief_4_ETBD_23_004ENN_V2.pdf (accessed February 21, 2025); Eurostat, EU Imports in Green Energy Products Higher than Exports, October 14, 2024, <https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20241014-1> (accessed February 21, 2025).

133 Mercator Institute for China Studies, 2024.

sary for electric motors and generators.¹³⁴ The country also has a commanding hold over a large share of so-called “critical raw materials” (CRM), many of which are indispensable for key aspects of the green transition (such as renewable and clean technologies or e-mobility) as well as digital and defence technologies. In 2024, out of 34 CRM, China was the sole or major supplier (above 85 percent of total supply) of 15 types of CRM as well as a significant supplier (above 40 percent of total supply) of seven additional CRM.¹³⁵

China’s leadership under Xi Jinping has also proven ready to leverage partners’ trade dependencies for geopolitical gains in the past. This tactic has mainly taken the form of export restrictions or bans, usually affecting raw materials: in 2024, restrictions on exports of antimony to the United States drove prices up by 200 percent, before the exports were banned entirely. Announced in February 2025, the newest controls to date target global exports of five critical minerals, including three CRM, as well as a ban on the technology necessary to process and refine these materials. The restriction is expected to cause a surge in prices and aggravate bottlenecks in crucial supply chains.¹³⁶ This followed a proposal by the Chinese Ministry of Commerce to restrict exports for key battery technologies needed to produce EVs.¹³⁷ While this second scheme has not yet been implemented, it highlights the pressing risk posed by European reliance on Beijing.

In response to this threat, the EU has developed a comprehensive de-risking strategy since 2019, accompanied by a series of measures aiming at strengthening resilience in target areas, such as the Acts on Chips and the Critical Raw Material Act of 2023.¹³⁸ However, cohesive EU action has been hindered by disagreements among member states over the bloc’s policies toward China. A 2024 EU-wide study on national de-risking approaches revealed significant discrepancies at the national level. Leaders in some countries, such as Slovakia, Ireland, and Greece, have largely avoided the topic to prevent straining relations with China. In contrast, others, like Finland and Sweden, have closely aligned their national strategies with the EU’s approach of de-risking.¹³⁹

The past year has seen the issue of the trade imbalance take on renewed importance, as criticism mounts around China’s production-intensive, export-driven economic model, as well as the widespread use of subsidies to bolster the sluggish manufacturing sector. A 2024 report by the Kiel Institute for the World Economy found that government subsidies are between three to nine times higher than in large EU and OECD countries, with government support for Chinese companies reaching an estimated €221.3 billion in 2019. While more than 99 percent of listed Chinese companies received direct government subsidies, these have been particularly high in selected strategic sectors, chief among them green- and clean-technology industries.¹⁴⁰ By 2022,

134 Luke Patey, *The European Union Can Go Green and Lower Dependencies on China*, Danish Institute for International Studies, February 21, 2024, <https://www.diiis.dk/en/research/the-european-union-can-go-green-and-lower-dependencies-on-china> (accessed February 25, 2025); European Commission, *Rare Earth Elements, Permanent Magnets, and Motors*, https://single-market-economy.ec.europa.eu/sectors/raw-materials/areas-specific-interest/rare-earth-elements-permanent-magnets-and-motors_en (accessed February 25, 2025); Ben McWilliams, Simone Tagliapietra and Cecilia Trasi, *Smarter European Union Industrial Policy for Solar Panels*, Policy Brief, Bruegel, February 8, 2024, <https://www.bruegel.org/policy-brief/smarter-european-union-industrial-policy-solar-panels> (accessed April 1, 2025).

135 European Council and Council of the European Union, *An EU Critical Raw Materials Act for the Future of EU Supply Chains*, 2024, <https://www.consilium.europa.eu/en/infographics/critical-raw-materials/> (accessed February 24, 2025).

136 Exiger, *China Announces Export Controls on Five Critical Minerals*, February 12, 2025, <https://www.exiger.com/perspectives/critical-minerals-export-controls/> (accessed February 24, 2025).

137 “China Proposes Further Export Curbs on Battery, Critical Minerals Tech”, in: Reuters, January 2, 2025, <https://www.reuters.com/technology/china-proposes-further-export-curbs-battery-critical-minerals-tech-2025-01-02/> (accessed February 24, 2025).

138 Secretary General of the European Commission, *Joint Communication to the European Parliament, the European Council and the Council on “European Economic Security Strategy”*, European Commission, JOIN(2023) 20 Final, June 20, 2023, <https://data.consilium.europa.eu/doc/document/ST-10919-2023-INIT/en/pdf> (accessed February 21, 2025).

139 Patrik Andersson and Frida Lindberg, ed., *National Perspectives on Europe’s De-Risking from China*, European Think-tank Network on China, June 2024, https://www.clingendael.org/sites/default/files/2024-07/ETNC2024_National_Perspectives_on_Europes_De-risking_from_China.pdf (accessed February 21, 2025).

140 Frank Bickenbach, Dirk Dohse, Rolf J. Langhammer, and Wan-Hsin Liu, *Foul Play? On the Scale and Scope of Industrial Subsidies in China*, Kiel Policy Brief, Kiel Institute for the World Economy, April 2024, https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/fis-import/bc6aff38-abfc-424a-b631-6d789e992cf9-KPB173_en.pdf (accessed February 25, 2024).

subsidies in the sector had nearly quadrupled compared to 2015.¹⁴¹ This surge is part of the Xi government's 'Made in 2025' strategy, a ten-year plan aiming at securing China's dominance in high-tech manufacturing through industrial policy support.¹⁴² Government support for companies include a wide range of instruments beyond direct subsidies, including sales tax exemptions, government-supported R&D, below-market credit for state-owned enterprises, and preferential public procurement. These are often coupled with consumer-side subsidies (such as rebates) to foster demand of Chinese-manufactured products, effectively disincentivizing consumption of EU and other global imports.¹⁴³

According to the IMF, these subsidies have had a significant impact on trade flows, depressing Chinese imports of targeted foreign products (including EU goods) and enabling Chinese industries to expand domestically and increasingly replace foreign imports.¹⁴⁴ Coupled with stagnant domestic demand, the expanding production has also led to increasing competition between Chinese firms, many of which have turned to foreign markets.¹⁴⁵ The resulting surge in exports has been compounded by the country's recurring industrial overcapacity: between 2019 and 2023, China's manufacturing trade surplus increased by \$775 billion.¹⁴⁶ While European export volumes

rose by 1.1 percent in 2024,¹⁴⁷ Chinese exports were up by 13 percent.¹⁴⁸

The change in trade flows represents a double threat for the EU. From 2019 to 2022, the Union lost 1.9 percent of its manufacturing export market share to China, making it the most affected economic region globally.¹⁴⁹ However, discussions about Chinese overcapacity have been mainly focused on its impact on European domestic manufacturers, as well as the ability of European markets to absorb the surplus of goods. Clean technologies, chief among which EVs, have been at the centre of the debate for several years. Between 2009 and 2023, estimated Chinese government support for the EV industry totalled \$230.9 billion, making motor vehicles the fastest growing commodity group from 2019 to 2023.¹⁵⁰ With domestic sales of passenger cars in 2024 reaching an estimated 26.8 million while sales targets from manufacturers reached 30 million units, the country's 200 EV manufacturers have turned to exports.¹⁵¹ Chinese EV exports surged to \$34.1 billion by 2023, with EU imports from China accounting for \$11.5 billion, an almost tenfold increase from 2020 numbers.¹⁵² The pressure on EU markets prompted the bloc to impose tariffs ranging from 17 percent to 35.5 percent on Chinese EV producers in October 2024, fuelling the trade dispute with Beijing, which retaliated with tariffs on alcohol

141 Lorenzo Rotunno and Michele Ruta, Trade Implications of China's Subsidies, IMF Working Papers, International Monetary Fund, August 23, <https://www.elibrary.imf.org/downloadpdf/view/journals/001/2024/180/article-A001-en.pdf> (accessed February 21, 2025).

142 Institute for Security and Development Policy, Made in China 2025, June 2018, <https://www.isdp.eu/wp-content/uploads/2018/06/Made-in-China-Backgrounder.pdf> (accessed February 25, 2025).

143 Bickenbach et al., 2024; Scott Kennedy, The Chinese EV Dilemma: Subsidized yet Striking, Center for Strategic and International Studies, June 28, 2024, <https://www.csis.org/blogs/trustee-china-hand/chinese-ev-dilemma-subsidized-yet-striking> (accessed February 21, 2025).

144 Rotunno and Ruta, 2024.

145 Kennedy, 2024.

146 Camille Boullenois and Charles Austin Jordan, How China's Overcapacity Holds Back Emerging Economies, Rhodium Group, June 18, 2024, <https://rhg.com/research/how-chinas-overcapacity-holds-back-emerging-economies/> (accessed February 25, 2025).

147 Eurostat, Euro Area International Trade in Goods Surplus €15.5 bn, February 17, 2025, <https://ec.europa.eu/eurostat/web/products-euro-indicators/w/6-17022025-ap> (accessed February 21, 2025).

148 Brad W. Setser and Michael Weilandt, China's Stunning 2024 Export Growth, Council on Foreign Relations, December 17, 2024, <https://www.cfr.org/blog/chinas-stunning-2024-export-growth> (accessed February 21, 2025).

149 Boullenois and Jordan, 2024.

150 Kennedy, 2024; Michael Wolf, Global Ups and Downs Amid Chinese Excess Capacity, September 27, 2024, <https://www2.deloitte.com/us/en/insights/economy/global-impacts-of-chinese-overcapacity.html> (accessed February 21, 2025).

151 Laura He, "A Brutal Elimination Round Is Reshaping the World's Biggest Market for Electric Cars", in: CNN, April 24, 2024, <https://edition.cnn.com/2024/04/24/business/china-ev-industry-competition-analysis-intl-hnk/index.html> (accessed February 21, 2025).

152 Gregor Sebastian, Noah Barkin and Agatha Kratz, Ain't No Duty High Enough, Rhodium Group, April 29, 2024, <https://rhg.com/research/aint-no-duty-high-enough/> (accessed February 25, 2025); Joseph Webster, China Has Become an Electric Vehicle Export Behemoth. How Should the US and EU Respond?, Atlantic Council, February 29, 2024, <https://www.atlanticcouncil.org/blogs/new-atlanticist/china-has-become-an-electric-vehicle-export-behemoth-how-should-the-us-and-eu-respond> (accessed February 25, 2025).

imports.¹⁵³ With Chinese growth and domestic demand expected to remain sluggish in the coming year,¹⁵⁴ the pressure of Beijing's exports is set to remain a source of friction between the two powers.

The Trump administration is expected to further add to existing tensions surrounding tariffs and barriers to export. Trump's trade policy has raised concerns that Chinese manufacturers could offload their production surplus on EU markets, with the steel and automobile markets being particularly vulnerable.¹⁵⁵ During the first Trump administration, U.S. tariffs on steel had depressed U.S. imports of steel from the EU by 40 percent.¹⁵⁶ This time, the EU will have to contend with additional competition abroad and increased pressure on its markets from Chinese steel exports, which are expected to remain at around 90 to 100 million tons in 2025,¹⁵⁷ a roughly 43 million tons increase from 2018 numbers.¹⁵⁸

Here as well, EU member states are divided on the course of action: several countries, including Germany, have already manifested their opposition to tariffs on specific Chinese goods.¹⁵⁹ The EU could attempt to curry favour with the United States by aligning with Washington on trade barriers and joint deterrence measures, as proposed in the "welcome package" of the Union for the Trump admin-

istration.¹⁶⁰ Alternatively, Brussels could accept recent calls from Chinese officials to "deepen (...) mutually beneficial cooperation."¹⁶¹ Whatever option it chooses, the EU runs the risk of hurting individual member states' economies, while aggravating one of its two most important economic partners.

Climate Change and Natural Disasters

Climate change and the associated natural disasters represent one of the most pressing challenges for the EU. The risks they bring about are manifold, ranging from major migration crises to ever-increasing human and economic costs. Between 1980 and 2023, climate-related extreme events cost EU member states a staggering €738 billion and claimed between almost 250,000 lives in Europe alone until 2020.¹⁶² Since 2010, extreme weather has also forcibly displaced around 21.5 million people a year; these numbers are expected to increase exponentially in the next decades, to reach a total of 216 millions of internally displaced individuals by 2050 – including 5 million in Eastern Europe and Central Asia.¹⁶³ According to several estimates, migration flows will also rise dramatically, reaching over 50 million climate mi-

153 European Commission, EU Imposes Duties on Unfairly Subsidised Electric Vehicles from China While Discussions on Price Undertakings Continue, October 29, 2024, https://ec.europa.eu/commission/presscorner/detail/en/ip_24_5589 (accessed February 21, 2025); Anton Spisak, The EU's Drive on China: What EV Tariffs Mean for Europe, Centre for European Reform, October 31, 2024, <https://www.cer.eu/insights/eus-drive-china-what-ev-tariffs-mean-europe> (accessed February 25, 2025).

154 International Monetary Fund, Transcript of World Economic Outlook (WEO) Update, January 2025, <https://www.imf.org/en/News/Articles/2025/01/17/tr011725-january-2025-world-economic-outlook-update> (accessed February 21, 2025).

155 Henrik Adam, Statement on U.S. Steel Tariffs by EUROFER President, Dr. Henrik Adam, European Steel Association, February 11, 2025, <https://www.eurofer.eu/press-releases/statement-on-u-s-steel-tariffs-by-eurofer-president-dr-henrik-adam> (accessed February 24, 2025).

156 Chad Bown and Kathryn Russ, Biden and Europe Remove Trump's Steel and Aluminum Tariffs, but It's Not Free Trade, Peterson Institute for International Economics, November 11, 2021, <https://www.piie.com/blogs/trade-and-investment-policy-watch/2021/biden-and-europe-remove-trumps-steel-and-aluminum> (accessed February 25, 2025).

157 South East Asia Iron and Steel Institute, China's Steel Output, Demand to Fall Again in 2025, December 18, 2024, <https://www.seaisi.org/details/25925?type=news-rooms> (accessed February 25, 2025); Amy Lv and Tony Munroe, "Elevated China Steel Exports Set to Persist, Threaten to Worsen Trade Friction", in: Reuters, October 21, 2024 (accessed February 25, 2025).

158 International Trade Administration, Steel Exports Report: China, 2018, <https://legacy.trade.gov/steel/countries/pdfs/2018/annual/exports-china.pdf> (accessed February 25, 2025).

159 Agathe Demarais, Divided We Stand: The EU Votes on Chinese Electric Vehicle Tariffs, European Council on Foreign Relations, October 9, 2024, <https://ecfr.eu/article/divided-we-stand-the-eu-votes-on-chinese-electric-vehicle-tariffs/> (accessed February 25, 2025).

160 Noah Barkin and Agatha Kratz, Trump and the Europe-US-China Triangle, Rhodium Group, January 16, 2025, <https://rhg.com/research/trump-and-the-europe-us-china-triangle/> (accessed February 25, 2025).

161 Wang Yi, A Steadfast Constructive Force in a Changing World, Ministry of Foreign Affairs, The People's Republic of China, February 15, 2025, https://www.fmprc.gov.cn/eng/wjzbhd/202502/t20250215_11555665.html (accessed February 25, 2025).

162 European Environment Agency, Economic Losses from Weather and Climate-Related Extremes in Europe, October 14, 2024, <https://www.eea.europa.eu/en/analysis/indicators/economic-losses-from-climate-related> (accessed February 20, 2025).

163 Viviane Clement, Kanta Kumari Rigaud, Alex de Sherbinin, Bryan Jones, Susana Adamo, Jacob Schewe, Nian Sadiq and Elham Shabahat, Groundswell Part 2: Acting on Internal Climate Migration, World Bank Group, 2021, <https://openknowledge.worldbank.org/bitstreams/158b2f56-a4db-5a2d-93b9-0070068fa084/download> (accessed February 20, 2025); United Nations, Climate Change Link to Displacement of Most Vulnerable is Clear: UNHCR, April 22, 2021, <https://news.un.org/en/story/2021/04/1090432> (accessed February 20, 2021).

grants. Many of these are expected to head towards Europe, generating a 28 percent increase in climate-related asylum applications to member states.¹⁶⁴

Recognizing the urgency of this crisis, the Union has been at the forefront of the global fight against climate change. Under the framework of the von der Leyen Commission's flagship Green Deal strategy, initiatives and instruments have grown substantially in number, such as the Fit for 55 package, which aims at reducing member states' emissions by 55 percent by 2030, or the RePowerEU Plan for the diversification of the Union's energy supplies.¹⁶⁵ But the effectiveness of these strategies is subject to ongoing debates. Recent assessments have shown that despite achieving a 30 percent decrease in emissions by 2020,¹⁶⁶ the EU is unlikely to reach climate neutrality by 2050 or even to build enough resilience to mitigate the ever-increasing economic costs of climate change unless it makes major changes to its current approach.¹⁶⁷ The inherent challenges of climate action are compounded by major discrepancies between member states: some countries, such as France, Germany, and Italy, are disproportionately affected by extreme weather events and have to bear the brunt of the costs.¹⁶⁸ In spite of efforts to coordinate and harmonize national climate strategies, member states also continue to enjoy a high degree of autonomy in their implementation, and the absence of strict monitoring and

compliance mechanisms has enabled several countries to prioritize domestic economic interests over the climate transition.¹⁶⁹

A growing number of political actors have also been questioning the relevance of climate-focused European strategies. While this critical stance had long remained the prerogative of populist parties, the changing international environment has prompted government- and EU-level calls for a shift away from solely climate-centric strategies to a greater focus on competitiveness.¹⁷⁰ Faced with the return to an adversarial global order, the EU will have to reconcile its climate objectives with concerns of industrial competitiveness and strategic autonomy if it wants to catch up with China and the United States. Both countries have already secured a major advantage through initiatives combining climate action with investments in strategic industrial areas, such as the \$437 billion Inflation Reduction Act and the Made in China 2025 strategy.¹⁷¹ The European answer has taken the form of numerous initiatives, chief among which the 2022 REPowerEU Plan, which sets out a roadmap towards greater energy independence while facilitating reduced fossil fuel consumption, or the 2023 Green Deal Industrial Plan, which aims at simplifying the regulatory framework and fostering clean energy technologies.¹⁷² But between increased Chinese competition and limited opportunities for green

164 Anouch Missirian and Wolfram Schlenker, "Asylum Applications Respond to Temperature Fluctuations", in: *Science*, vol. 358, no. 6370, December 22, 2017, 1610-1614, <https://www.science.org/doi/full/10.1126/science.aao0432#> (accessed February 20, 2025); Michał Burzyńska, Christoph Deuster, Frédéric Docquier and Jaime de Melo, *Climate Change, Inequality, and Human Migration*, Discussion Papers Series, IZA Institute of Labor Economics, September 2019, <https://docs.iza.org/dp12623.pdf> (accessed February 20, 2025).

165 European Commission, *Energy, Climate Change, Environment: EU Action*, https://climate.ec.europa.eu/eu-action_en (accessed February 20, 2025).

166 European Council and Council of the European Union, *Climate Change: What the EU Is Doing*, 2025, <https://www.consilium.europa.eu/en/policies/climate-change/> (accessed February 20, 2025).

167 European Environment Agency, 2024; European Scientific Advisory Board on Climate Change, *Towards Climate-Neutral and Resilient Energy Networks Across Europe*, June 2024, https://climate-advisory-board.europa.eu/reports-and-publications/towards-climate-neutral-and-resilient-energy-networks-across-europe-advice-on-draft-scenarios-under-the-eu-regulation-on-trans-european-energy-networks/20240627advice-on-draft-scenarios-under-ten-e-regulation_for-publication.pdf/@download/file (accessed February 20, 2025).

168 European Environment Agency, 2024.

169 Heather Grabbe and Stefan Lehne, *Climate Politics in a Fragmented Europe*, Carnegie Europe, 2019, https://carnegie-production-assets.s3.amazonaws.com/static/files/Lehne_Grabbe_Climate_v2.pdf (accessed February 20, 2025); European Parliament, *What Progress Has the EU Made Against Climate Change?*, November 20, 2024, <https://www.europarl.europa.eu/topics/en/article/20180706STO07407/what-progress-has-the-eu-made-against-climate-change-infographics> (accessed February 20, 2025).

170 Mario Draghi, *The Future of European Competitiveness*, European Commission, September 9, 2024, https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en?filename=The%20future%20of%20European%20competitiveness%20_%20A%20competitiveness%20strategy%20for%20Europe.pdf (accessed February 20, 2025).

171 Norbert Templ, *Zwischen Klimaschutz und Umbruch in der Weltwirtschaft: Der US Inflation Reduction Act und die Antwort der EU*, Vienna Chamber of Commerce, 2023, https://wien.arbeiterkammer.at/interessenvertretung/eu/infobrief/Templ_InflationReductionAct_AKInfo1_23_S13-18.pdf (accessed February 20, 2025).

172 European Commission, *The Green Deal Industrial Plan*, https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/europe-an-green-deal/green-deal-industrial-plan_en (accessed February 20, 2025).

technology exports under the Trump administration, coupled with the rise of climate sceptics and far-right movements across the block, external and internal pressure on the Union is steadily rising, and the future effectiveness of the EU's climate action remains uncertain.

Populism and Far-Right Parties in an Uncertain Environment

In addition to these external challenges, the EU is also facing increasing internal pressure, which is threatening its political cohesion and hindering decision-making processes. Along with growing political fragmentation, the EU is struggling with sluggish economic growth, which according to official forecasts of late 2024 will be 1.5 percent in 2025.¹⁷³ In the light of U.S. tariffs, this forecast is likely to be corrected downwards. France and Germany, the bloc's two largest economies, are struggling with political instability and economic crises, adding to the bloc's vulnerability. France's budget deficit is estimated at 6.1 percent of GDP in 2025, an increase of 1.9 percent on previous official forecasts.¹⁷⁴ According to the German Bundesbank, the stagnating German economy is expected to grow by only 0.2 percent in 2025.¹⁷⁵ Taking into consideration the U.S. tariffs and possible EU retaliatory measures, this number is also likely to be corrected downwards.

On the political side, the public's growing dissatisfaction with the EU and the way individual member states deal with key issues such as security, migra-

tion, and inflation has led to a rise in populist sentiment. These distortions were evident in the 2024 European elections, in which 60 populist parties from across the political spectrum won 36 percent of the seats in the European Parliament,¹⁷⁶ with significant gains for far-right parties.¹⁷⁷ The trend was reinforced by a similar dynamic at the national level. In the 2025 German federal election, the Alternative for Germany (AfD) party experienced a significant surge in support, with pronounced regional variations highlighting a deepening political divide between Eastern and Western federal states. The AfD achieved remarkable success in the Eastern federal states, securing over 30 percent of the vote in each.¹⁷⁸ Overall, the far-right party obtained 20.8 percent of the vote and 152 seats in the "Bundestag", an increase of 10.4 percentage points and 69 seats compared to the last federal election.¹⁷⁹ In 2025, there will also be important elections in Poland.

The right-wing parties, now a major political force across the EU, share a common distrust of traditional institutions, often expressed in Eurosceptic attitudes ranging from reformist positions to rejection of the Union and calls for a Brexit-like exit of their country.¹⁸⁰

This phenomenon is occurring at a time when the structural adjustment processes associated with major initiatives such as the green and digital transitions require Union-wide political cohesion and increased collective action. The changing political landscape will likely have an impact on the EU's priorities in the coming years. As the European

173 European Commission, Autumn Forecast 2024: A Gradual Recovery in an Unfavorable Environment, November 15, 2024, https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/autumn-2024-economic-forecast-gradual-rebound-adverse-environment_en (accessed January 10, 2025).

174 French Ministry of Economy, Finance, Health and Industrial and Digital Sovereignty, *Projet de loi de finances de gestion pour 2024 (PLFG 2024)*, November 5, 2024, <https://www.budget.gouv.fr/documentation/file-download/28523> (accessed January 10, 2025); French Ministry of Economy, Finance, Health and Industrial and Digital Sovereignty, *Projet de loi de finances 2024 (PLF 2024)*, September 27, 2023, https://www.budget.gouv.fr/reperes/loi_de_finances/articles/projet-loi-finances-2024 (accessed January 10, 2025).

175 Deutsche Bundesbank, *Die Prognose der Bundesbank für Deutschland: Wirtschaft kämpft mit anhaltendem Gegenwind*, December 13, 2024, <https://www.bundesbank.de/en/press/press-releases/the-bundesbank-s-forecast-for-germany-economy-struggling-with-persistent-headwinds-947562> (accessed January 10, 2025).

176 Gilles Ivaldi and Emilia Zankin, ed., *2024 EP Elections under the Shadow of Rising Populism*, European Center for Populism Studies, 2024, <https://www.populismstudies.org/wp-content/uploads/2024/10/DOWNLOAD-REPORT.pdf> (accessed January 10, 2025).

177 Armida van Rij, Tim Benton, Creon Butler and Patrick Schröder, *How Will Gains by the Far Right Affect the European Parliament and EU?*, Chatham House, June 11, 2024, <https://www.chathamhouse.org/2024/06/how-will-gains-far-right-affect-european-parliament-and-eu> (accessed January 10, 2025).

178 Die Bundeswahlleiterin, *Bundestagswahl 2025: Ergebnisse*, 2025, <https://bundeswahlleiterin.de/bundestagswahlen/2025/ergebnisse.html> (accessed March 28, 2025).

179 Die Bundeswahlleiterin, *Bundestagswahl 2025*, <https://www.bundeswahlleiterin.de/bundestagswahlen/2025/ergebnisse/bund-99.html> (accessed March 10, 2025).

180 Ivaldi and Zankina, 2024.

Commission's new political guidelines show, which include the "Clean Industrial Deal"¹⁸¹ in particular, issues of sustainability and climate neutrality are likely to take a back seat to concerns of competitiveness and energy security.¹⁸²

Erosion of the Rules-Based Global Economic Order

Eighty years after the end of World War II, the rules-based global order which underpins the EU's economic relations with other countries is under pressure. The dense net of principles, norms, and standards that govern international competition, trade, and finance are increasingly put into question. Multilateral institutions, which have long served as forums for discussion and rules-based dispute resolution, are struggling to retain relevance in the face of repeated violations by great powers, surging economic nationalism and calls for reform from dissatisfied countries.

Some of the most vocal criticism of the liberal economic order come from non-Western, emerging and developing countries. Formats such as the BRICS present both direct and indirect challenges to the multilateral system. The grouping has long advocated for the structural transformation of the international "financial and economic architecture", including changes to the international monetary system as well as the reform of organizations

like the WTO and the Bretton Woods institutions (i.e. the World Bank and the IMF) to ensure that they better represent the interests of developing economies.¹⁸³ Initiatives such as the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA), both established in 2015, aim at offering alternative financial solutions for both BRICS members and (in the case of the NDB) for interested countries of the Global South.¹⁸⁴ While internal divisions and a relative lack of economic and political convergence have thus far limited the transformative impact of the BRICS,¹⁸⁵ the group's challenge to the Western-led global economic system is increasingly attractive to developing countries. Following the admission of six new members in 2024 and 2025, the BRICS+ members now account for 32 percent of global outputs of natural gas and 43 percent of crude oil; together with their "partner countries" (i.e. states on the path to full membership) they also make up 46 percent of the world's GDP.¹⁸⁶ With over 30 countries on the waiting list for admission, the bloc's increasing economic weight might eventually bring on major changes to the existing system.¹⁸⁷ While such an evolution might greatly benefit some economies, it could also represent a threat to the EU and some of its allies if the more anti-Western BRICS states manage to retain their influence over the group.

The attempted replacement of existing liberal financial institutions by new multilateral alternatives

181 Marc Ringel and Sarah Thompson, Europe's Choice: The Next Phase of the European Green Deal, European Chair on Sustainable Development and Climate Change, July 22, 2024, <https://www.sciencespo.fr/psia/chair-sustainable-development/2024/07/22/europes-choice-the-next-phase-of-the-european-green-deal/> (accessed January 10, 2025).

182 Christian Rusche and Thilo Schaefer, Is the EU Fit for 55 and Beyond?, in: *Intereconomics Review of European Economic Policy*, vol. 59, no. 2, April 2024, 77-82, <https://www.intereconomics.eu/pdf-download/year/2024/number/2/article/is-the-eu-fit-for-55-and-beyond.html> (accessed January 10, 2025); Pierre Bocquillon, "Climate and Energy Transitions in Times of Environmental Backlash? The European Union "Green Deal" from Adoption to Implementation", in: *Journal of Common Market Studies*, 2024, 1-11, https://ueaeprints.uea.ac.uk/id/eprint/96106/3/J_of_Common_Market_Studies_2024_Bocquillon_Climate_and_Energy_Transitions_in_Times_of_Environmental_Backlash_The.pdf (accessed January 10, 2025).

183 BRICS Information Centre, Joint Statement of the BRIC Countries' Leaders, June 16, 2009, <http://brics.utoronto.ca/docs/090616-leaders.html> (accessed March 7, 2025); Rosaline Daniel and Kudrat Virk, The BRICS and the Reform of Institutions of Global Governance, Centre for Conflict Resolution, 2014, <http://www.jstor.com/stable/resrep05168.11> (accessed March 7, 2025).

184 Wilhelm Schöllmann, The BRICS Bank and Reserve Arrangement: Towards a New Global Financial Framework?, European Parliamentary Research Service, December 2024, [https://www.europarl.europa.eu/RegData/etudes/ATAG/2014/542178/EPRS_ATA\(2014\)542178_REV1_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2014/542178/EPRS_ATA(2014)542178_REV1_EN.pdf) (accessed March 6, 2025).

185 Stewart Patrick, BRICS Expansion, the G20, and the Future of World Order, Carnegie Endowment for International Peace, October 9, 2024, <https://carnegieendowment.org/research/2024/10/brics-summit-emerging-middle-powers-g7-g20?lang=en> (accessed March 7, 2025).

186 Hans-Dieter Holtzmann and Akim van der Voort, BRICS: What Are the Key Issues for 2025?, January 28, 2025, Friedrich Naumann Foundation for Freedom, <https://www.freiheit.org/brics-what-are-key-issues-2025> (accessed March 7, 2025); Daniel Azevedo, Saurabh Bakliwal, Cinthia Chen, Marc Gilbert, Jacob Koch-Weser, Nikolaus Lang, and Michael McAdoo, An Evolving BRICS and the Shifting World Order, BCG, April 29, 2024, <https://www.bcg.com/publications/2024/brics-enlargement-and-shifting-world-order> (accessed March 6, 2025).

187 Hans-Dieter Holtzmann and Akim van der Voort, BRICS Enlargement: A Strategic Move or a Wake-up Call for the West?, Friedrich Naumann Foundation for Freedom, November 2024, https://shop.freiheit.org/download/P2@1814/920164/Policy%20Paper_A4_BRICS_EN.pdf (accessed March 7, 2025).

is not limited to the BRICS. China has long been a proponent of the strategy: since 1990, Beijing has either participated in or initiated the creation of a series of such institutions, chief among them the Asian Infrastructure Investment Bank (AIIB).¹⁸⁸ Should this parallel institutionalization develop further, it could accelerate the fragmentation of the world order along geopolitical lines.

Multilateral economic institutions such as the WTO are also increasingly threatened from the inside. For decades, the WTO has supported open and rules-based trade. Today, however, the multilateral trade organization is under intense pressure. Donald Trump, who openly flouted WTO rules and threatened to exit the organization during his first mandate, is continuing this route of destruction.¹⁸⁹ His reciprocal tariffs signal an intent to shun multilateral frameworks in favor of a return to bilateral and reciprocal trade dynamics. This shift not only constitutes a clear disregard of the WTO's fundamental MFN principle – it also means that MFN-observant entities such as the EU must contend with a double threat. Indeed, under the MFN principle, the slashing of tariffs on any given good to placate the United States would also mean lowering tariffs for all exporting countries, including China and other export-focused countries, thus incentivizing dumping and further disrupting already vulnerable sectors such as the auto industry.¹⁹⁰ It is thus likely, that countries will make deals with the United States, lowering individual tariffs on a purely bilateral basis and thus disregarding the MFN principle.

This sudden turnabout comes as the organization has been struggling to retain relevance. With the exception of the Agreement on Trade Facilitation and a few other agreements, WTO members have been unable to agree on ambitious multilateral trade agreements.¹⁹¹ As a result, the rules of the multilateral trade organization date back to 1995 and no longer fully reflect the realities of trade in the 21st century.¹⁹² At the last Ministerial Conference (MC13), successes were achieved in some areas.¹⁹³ On the dispute settlement process, however, there has been no progress to date. The second instance of dispute settlement, the Appellate Body, has been blocked since 2019.¹⁹⁴ A breakthrough and serious reforms are not in sight. At the same time, the number of bilateral agreements will continue to grow. Many of these will not correspond to classic free trade agreements but will be looser agreements without a binding character under international law in selected subject areas, further impacting trade relations and flows.

Beyond its impact on international institutions, the gradual decline of the liberal world order has also affected the fundamental economic dynamics between countries. Russia's war against Ukraine and the pandemic have eroded mutual trust, prompting many countries to view interdependence and free-market policies as vulnerabilities and intensifying geoeconomic fragmentation. The growing use of tariffs as a tool for market protection marks a turn towards a more protectionist conception of foreign trade. Despite remaining a steadfast supporter of the multilateral trading system, the EU is not exempt from these develop-

188 Matthew D. Stephen, "China's New Multilateral Institutions: A Framework and Research Agenda", in: *International Studies Review*, vol. 23, no. 3, October 20, 2021, 807-834, <https://academic.oup.com/isr/article/23/3/807/5919604> (accessed March 7, 2025).

189 Ben Horton and Kristen Hopewell, *Lessons from Trump's Assault on the World Trade Organization*, Chatham House, August 10, 2021, <https://www.chathamhouse.org/2021/08/lessons-trumps-assault-world-trade-organization> (accessed March 7, 2025).

190 White House, Fact Sheet: President Donald J. Trump Announces "Fair and Reciprocal Plan" on Trade, February 13, 2025, <https://www.whitehouse.gov/fact-sheets/2025/02/fact-sheet-president-donald-j-trump-announces-fair-and-reciprocal-plan-on-trade/> (accessed March 14, 2025); Daniel Mullaney, This Could Be a Game-changer for How the US Imposes tariffs, in: *Experts React: What Does Trump's Reciprocal Tariff Announcement Mean for Global Trade?*, Atlantic Council, February 13, 2025, <https://www.atlanticcouncil.org/blogs/new-atlanticist/experts-react-what-does-trumps-reciprocal-tariff-announcement-mean-for-global-trade/#mullaney> (accessed March 14, 2025).

191 Gisela Grieger, *The WTO's Negotiating Function: Towards Plurilaterals and New Trade Challenges*, European Parliamentary Research Service, April 2024, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/760443/EPRS_BRI\(2024\)760443_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/760443/EPRS_BRI(2024)760443_EN.pdf) (accessed March 31, 2025).

192 Claudia Schmucker and Stormy-Annika Mildner, *EU Trade Policy Reform: Levelling the Playing Field in a New Geo-Economic Environment*, German Council on Foreign Relations, October 2020, https://dgap.org/sites/default/files/article_pdfs/dgap-analysis-2020-07-en_0.pdf (accessed April 1, 2025).

193 World Trade Organization, *Twelfth WTO Ministerial Conference*, 2022, https://www.wto.org/english/thewto_e/minist_e/mc12_e/mc12_e.htm (accessed March 31, 2025).

194 Gisela Grieger, *International Trade Dispute Settlement: World Trade Organisation Appellate Body Crisis and the Multi-party Interim Appeal Arbitration Arrangement*, European Parliament Research Service, June 2024, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/762342/EPRS_BRI\(2024\)762342_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/762342/EPRS_BRI(2024)762342_EN.pdf) (accessed March 31, 2025).

ments, and strategic and economic security concerns have taken on an unprecedented importance in the Union's policies.¹⁹⁵ However, with extra-European foreign trade steadily rising to account for 22.4 percent of the Union's GDP in 2023 (as opposed to 18.6 percent for China and 12.7 percent for the United States), the EU itself is also particularly vulnerable to trade restrictions.¹⁹⁶ On

the other hand, a reactive shift towards insularity would potentially bring a host of adverse effects, including reducing domestic demand, slowing growth and increasing production costs, further impacting member states' already fragile economies.¹⁹⁷ The Union will have to walk a fine line between openness and strategic considerations.

195 Anna Herranz-Surrallés, Chad Damro and Sandra Eckert, "The Geoeconomic Turn of the Single European Market? Conceptual Challenges and Empirical Trends", in: *Journal of Common Market Studies*, vol. 23, no. 3, April 14, 2024, 807-834, <https://onlinelibrary.wiley.com/doi/10.1111/jcms.13591> (accessed March 6, 2025).

196 European Commission, *World Trade in Goods and Services. An Overview*, July 2024, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=World_trade_in_goods_and_services_-_an_overview (accessed March 6, 2025).

197 Deutsche Bundesbank, *Consequences of Increasing Protectionism*, Monthly Report, January 2020, <https://www.bundesbank.de/resource/blob/822438/306c76bad7214946ac90075a442691ad/472B63F073F071307366337C94F8C870/2020-01-protektionismus-data.pdf> (accessed March 6, 2025).

An Economic Security Paradigm: On the Way towards a New EU Trade Policy

It is not the first time that the EU has revised its trade policy. Over the last decade, EU trade policy has faced several inflection points. The first were the negotiations for the Transatlantic Trade and Investment Partnership (TTIP), which began in 2013 and clearly showed that the domestic consensus for trade liberalization was severely eroding, making international negotiations considerably more difficult. With the election of Donald Trump as 45th U.S. President in 2016, the negotiations were put on ice. While criticism of trade agreements among the EU public has quieted down since then, it has not fully gone away as demonstrated by the opposition to the agreement with the Mercosur states. The current tendency towards fragmentation of the world economy and securitization of economic issues make the development of new partnerships more urgent than ever, and the free trade negotiations of the EU are the most important way to achieve this. But not everybody in the EU supports this strategy.

Beyond the TTIP negotiations, the first Trump presidency (2016-2020) represents a further inflection point. Washington increasingly used its economic weight to achieve foreign policy goals – also against allies such as the EU. During this period, a lot of trust was lost in the transatlantic partnership. Accordingly, a discourse on dependencies and vulnerabilities emerged in EU capitals – in politics, the business community, and civil society –, taking an increasingly critical view on the EU's trade policy toolbox. As a consequence, the EU also initiated discussions on the Anti Coercion Instrument to be better prepared in cases of future incidents of coercion.

At the beginning of 2020, the COVID-19 pandemic triggered a severe economic crisis – another important inflection point. Economic growth and trade plummeted; there were serious disruptions in supply chains, particularly for medical products. To stabilize the economy, the European Commission took extensive measures, and the member

states repeatedly launched major economic stimulus packages. In addition, the EU – as other countries – imposed export restrictions on critical products such as masks.

Another powerful inflection point was Russia's invasion of Ukraine. The high dependence of many EU member states on Russian oil and gas and the associated high economic and political costs have led to a new awareness of the problems of dependencies and vulnerabilities. Furthermore, Russia's war against Ukraine exemplifies that interdependencies do not always prevent crises and wars and do not automatically lead to the democratization of partner countries. Developments in China are also increasingly calling the dogma "change through trade" into question. As a result, international trade is increasingly seen through a security lens: as a source of national vulnerabilities on the one hand and as a strategic instrument of coercion on the other.

The most recent inflection point is the second election of Donald Trump as 47th President of the United States. Even though the first presidency had already eroded trust in the transatlantic relationship, the second presidency risks a major confrontation and trade war between the two partners. The United States is increasingly perceived as an adversary, which could lead to the application of European trade instruments (such as the anti-coercion instrument) against its most important trading – and, at least in the past, also value-partner. This rift will not easily be closed in the future.

Trade Strategy: Open, Sustainable and Assertive Trade Policy

The Strategy in Detail

These developments and inflection points are mirrored in the recent evolution of the EU's trade strategies. In late November 2019, Ursula von der Leyen underlined in her speech to the European Parliament: "We will invest in alliances and coalitions to advance our values. We will promote and protect Europe's interests through open and fair trade. We will strengthen our partners through cooperation, because strong partners make Europe strong too. My Commission will not be afraid to speak the language of confidence. But it will be our way, the European way. This is the geopolitical Commission that I have in mind, and that Europe urgently needs."¹⁹⁸ In 2021, the Commission presented its new trade strategy "Open, Sustainable and Assertive Trade Policy".¹⁹⁹ Not all topics were new – there was also a lot of continuity with its predecessor "Trade for All. Towards a More Responsible Trade and Investment Policy", which the Commission had presented in 2015.²⁰⁰ However, the new strategy had a different tone to it.

Three aspects can be highlighted: (1) Resilience and competitiveness, to strengthen the EU economy; (2) sustainability and fairness, reflecting the need for the EU to act responsibly and fairly; and (3) assertiveness and rules-based cooperation.²⁰¹

The trade strategy underlined that openness and integration in global value chains are essential for growth, prosperity, and jobs in the EU. Nevertheless, according to the Commission, global value chains also entail risks. The EU therefore wanted to

identify strategic dependencies (e.g. for healthcare) in order to establish a solid basis for policy responses and for cooperation with industry. Another priority for EU trade policy was the digital agenda. The aim was to secure a leading position for the EU in digital trade and technology and to strengthen its pioneering role in digital standards and regulatory approaches, particularly in the area of data protection. The trade strategy related to both the ongoing e-commerce negotiations at the WTO and the EU's free trade agreements and digital agreements.²⁰²

The Commission's priorities also included mitigating climate change and promoting biodiversity. Among other things, the EU wanted to promote a green agenda in the WTO, including the liberalization of environmental goods and linking aid for trade to sustainability goals. The EU's free trade agreements were also seen as a way to help promote labor and environmental standards in partner countries, which were to be monitored by the newly created Chief Trade Enforcement Officer (CTFO).

The trade strategy also emphasized the importance of the multilateral trading system and placed a focus on reforming the WTO. A second priority was to strengthen trade relations with the United States. It is hardly surprising that China was another priority. The Commission called on China to take greater responsibility in the global trading system and to contain the negative effects of its state-capitalist economic system. The Commission also wanted to conclude more trade agreements to better represent its interests internationally. Furthermore, the Commission addressed the EU's unilateral toolbox, including the revised regulation for the enforcement of international trade rules. Trade defense instruments were to continue to be used to ensure fair

198 Ursula von der Leyen, Speech by President-Elect von der Leyen in the European Parliament Plenary on the Occasion of the Presentation of Her College of Commissioners and Their Programme, September 27, 2019, https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_19_6408 (accessed January 7, 2025).

199 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, March 2021, https://eur-lex.europa.eu/resource.html?uri=cellar:5bf4e9d0-71d2-11eb-9ac9-01aa75ed71a1.0001.02/DOC_1&format=PDF (accessed March 28, 2025).

200 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 for All: Towards a More Responsible Trade and Investment Policy, COM(2015) 497 Final, October 14, 2015, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52015DC0497> (accessed March 28, 2025).

201 Stormy-Annika Mildner and Claudia Schmucker, The EU, the United States, and China: On the Brink of a New Global Industrial Policy and Trade War?, in: Alessandro Gili and Davide Tentori, ed., *Industrial Policy's Comeback. The Next Geopolitical Great Game*, 2023, 91-102.

202 World Trade Organization, Joint Statement Initiative on E-Commerce, 2024 https://www.wto.org/english/tratop_e/ecom_e/joint_statement_e.htm (accessed March 28, 2025).

competition. In addition, the Commission announced a new instrument that would enable the EU to defend itself against coercive economic measures abroad (such as extraterritorial sanctions).

The Strategy in Implementation: Strengthening the Unilateral Toolbox

Since the presentation of the “Open, Sustainable and Assertive Trade Policy” strategy, the EU has significantly sharpened its defensive toolbox in trade and investment policy.²⁰³

This included creating a mechanism for investment screening in the spring of 2019. The new EU framework enables the systematic exchange of information between member states and the EU Commission and facilitates a joint external presence.²⁰⁴ In October 2024, the European Commission published its fourth Annual Report on the screening of foreign direct investments (FDI) into the EU. According to the Report, the overall number of notifications has increased by 18 percent since 2020. In 2023, 488 cases were notified: 92 percent were closed by the European Commission within 15 days, while eight percent led to the second phase of a deeper security assessment.²⁰⁵ The Commission has evaluated the present cooperation mechanism and addressed current shortcomings in its Economic Security Strategy from January 2024: It proposes to make FDI screening mandatory for all 27 EU Member States.²⁰⁶ The remaining three countries

(Croatia, Cyprus, and Greece) have already taken steps to implement this. The proposal would also require a minimum level of harmonization of national screening laws as well as improved procedures for cooperation. The proposed improvements now need to be considered by EU member states and the European Parliament.²⁰⁷

In addition, the EU introduced an international procurement instrument in August 2022. With the aim of establishing an international level playing field, the EU can restrict access to the EU public procurement markets, if European companies do not have comparable access in the respective third countries.²⁰⁸ Since its inception in 2022, the European Commission has initiated only one investigation on April 24, 2024, regarding practices and measures of the Chinese public procurement market for medical devices. The findings of the investigation were published in January 2025 and concluded that China had treated the EU unfairly in the public procurement of medical devices. China pointed out in response that it had not signed up to any international commitments and offered to join the WTO public procurement agreement in the future.²⁰⁹ The question is now how the Commission will react with regard to the findings. This will be the first test of the IPI mechanism, which makes it too early to make an overall assessment.

Furthermore, the Foreign Subsidies Regulation started to apply mid-July 2023. Again, the goal is to

203 Mildner and Schmucker, 2023, 91-102.

204 European Parliament and Council of the European Union, Regulation (EU) 2019/452 of the European Parliament and of the Council of 19 March 2019 Establishing a Framework for the Screening of Foreign Direct Investments into the Union, Official Journal of the European Union, March 21, 2019, <https://eur-lex.europa.eu/eli/reg/2019/452/oj> (accessed March 28, 2025).

205 European Commission, Report from the Commission to the European Parliament and the Council. Fourth Annual Report on the Screening of Foreign Direct Investments into the Union, COM(2024) 464 Final, October 17, 2024, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2024:464:FIN> (accessed March 28, 2025).

206 European Commission, Communication from the Commission to the European Parliament and the Council. Advancing European Economic Security: an Introduction to Five New Initiatives, COM(2024) 22 Final, January 24, 2024, <https://commission.europa.eu/system/files/2024-01/Communication%20on%20European%20economic%20security.pdf> (accessed March 28, 2025).

207 European Commission, Cooperation on Screening of Foreign Direct Investments Strengthens EU Security, October 10, 2024, https://ec.europa.eu/commission/presscorner/detail/en/ip_24_5327 (accessed March 17, 2025); European Parliament, Revision of the Foreign Direct Investment (FDI) Screening Regulation In “a New Plan for Europe’s Sustainable Prosperity and Competitiveness”, Legislative Train Schedule, February 20, 2025, <https://www.europarl.europa.eu/legislative-train/theme-a-new-plan-for-europe-s-sustainable-prosperity-and-competitiveness/file-revision-of-the-fdi-screening-regulation> (accessed March 28, 2025).

208 EUR-Lex, The EU’s International Procurement Instrument – IPI, November 9, 2022, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=legisum:4610567> (accessed March 28, 2025).

209 European Commission, Report from the Commission Pursuant to Article 5(4) of Regulation (EU) 2022/1031 on the Investigation Under the International Procurement Instrument Concerning Measures and Practices of the People’s Republic of China in the Public Procurement Market for Medical Devices COM(2025) 5 Final, January 14, 2025, [https://ec.europa.eu/transparency/documents-register/api/files/COM\(2025\)5_0/090166e5172ed5bd?rendition=false](https://ec.europa.eu/transparency/documents-register/api/files/COM(2025)5_0/090166e5172ed5bd?rendition=false) (accessed March 14, 2025); James Killick and Jia Liu, First International Procurement Instrument Case Relating to EU Medical Devices in China’s Public Procurement Market. The Key Question is What Comes Next?, White & Case, January 22, 2025, <https://www.whitecase.com/insight-alert/first-international-procurement-instrument-case-relating-eu-medical-devices-chinas> (accessed March 14, 2025).

establish a level playing field, this time with an eye on the internal market. The regulation allows countermeasures if foreign subsidies create market distortions in the EU market. In October 2024, the EU received around 100 notifications for M&As and 1,300 for the area of public procurement. Many of these cases were easy to solve. However, in the case of tenders for electric trains in Bulgaria and photovoltaic parks in Romania, the FSR investigation led to strong concerns regarding foreign subsidies, leading in the end to the withdrawal of the foreign investors. There were also some strong concerns in the M&A field, leading to additional conditions for the foreign investor.²¹⁰ There are many open questions regarding the FSR, despite further clarifications by the European Commission. Therefore, the Commission intends to issue additional guidance on market distortions under the FSR in January 2026. The aim is to increase legal certainty and predictability.²¹¹ The FSR is important to fight distortions, but it needs to be predictable and transparent to avoid any negative consequences. The guidelines from January 2026 will hopefully address these concerns.

Furthermore, the Anti-Coercion Instrument (ACI) entered into force in December 2023, with the goal of protecting the Union and its member states from economic coercion. The ACI is the first instrument

which combines trade policy, led by the Commission, with Foreign and Security Policy (CFSP), handled by EU member states in the Council. As such, it expands the competency of the Commission into the field of foreign policy and security. The primary objective of the ACI is deterrence, which has been repeatedly underscored by EU policy makers.²¹² This means that the instrument will be successful, if it does not need to be applied. This has been the case so far. But the likelihood that the instrument will be used in the near future, potentially also against the United States, has increased substantially. It remains to be seen whether the complicated procedure between the Commission and European member states will pass the reality test.

While these instruments are important additions to the EU's toolbox, they also come with risks as the EU's economic growth and prosperity depend on the bloc's integration into world markets and openness. Therefore, the EU should apply these measures carefully and strategically, in a rules-based and transparent manner. As such, the EU needs to ask the following questions: Is there unfair behavior abroad? Is the implementation of these measures indispensable for the competitiveness of European industry?²¹³

210 Simmons+Simmons, A Year in Review: The Impact of the New FSR on Dealmaking in Europe, December 12, 2024, <https://www.simmons-simmons.com/en/publications/cm4mfvnua0582tr0kqr5nyc8a/a-year-in-review-the-impact-of-the-new-fsr-on-dealmaking-in-europe> (accessed March 16, 2025).

211 European Commission, Published Initiatives: Foreign Subsidies Guidelines, https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/14516-Foreign-Subsidies-Guidelines_en (accessed March 28, 2025).

212 European Parliament and Council of the European Union, Regulation (EU) 2023/2675 of the European Parliament and of the Council of 22 November 2023 on the Protection of the Union and Its Member States from Economic Coercion by Third Countries, Official Journal of the European Union, December 12, 2023, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L_202302675 (accessed March 28, 2025).

213 Claudia Schmucker, EU Trade Policy Must Focus on Market Openness and New Partnership, German Council on Foreign Relations, October 2024, https://dgap.org/system/files/article_pdfs/DGAP_percent20Analysis_No-9_October-2024_18pp_0.pdf (accessed April 1, 2025).

Table 1: The EU's Unilateral Toolbox

Measure	Description	Example
Trade Defense Instruments (TDIs)		
Anti-Dumping Measures (ADMs)	<p>ADM are used to counter dumping practices, i.e. when non-EU manufacturers “sell their goods in the EU below the normal value (usually the sales price) on their domestic market”. Further conditions for the usage of ADM are:</p> <ol style="list-style-type: none"> 1. “the European industry concerned suffers ‘material injury’; 2. ‘there is a causal link between dumping and injury’; 3. the measures in place are not ‘against the European interest.’”²¹⁴ 	<ul style="list-style-type: none"> • Example: In 2016, the European Commission imposed anti-dumping duties on Chinese steel products.²¹⁵ The measures were renewed in 2024.²¹⁶ • Example: In 2019, the European Commission introduced anti-dumping duties on e-bikes from China to “help mitigate the injurious effect of unfairly subsidized and dumped Chinese imports”. The measures were renewed in 2025.²¹⁷
Anti-Subsidy (Countervailing) Measures	<p>Countervailing measures are to “offset the effects of an unfair subsidy from a trading partner”.²¹⁸ Conditions for the usage are:</p> <ol style="list-style-type: none"> “1. the imports benefit from countervailable subsidies (...) 2. the EU industry suffers material injury; 3. there is a causal link between the injury and the subsidized imports; 4. the measures are in the European interest.”²¹⁹ 	<ul style="list-style-type: none"> • Example: After an anti-subsidy investigation, the European Commission hit stainless-steel cold-rolled flat products originating in Indonesia with countervailing duties in 2022.²²⁰ • Example: In 2024, the EU imposed countervailing duties on imports of battery electric vehicles (BEV) from China for a period of five years as “the BEV value chain in China benefits from unfair subsidization which is causing threat of economic injury to EU producers of BEVs”.²²¹
Safeguard Measures	<p>Temporary restrictions (e.g., quotas, tariffs) to protect EU industries from sudden import surges to “give the industry a temporary breathing space to make necessary adjustments”. Preconditions for the application are:</p> <ol style="list-style-type: none"> 1. a sharp increase in imports; 2. the increase was due to unforeseen developments; 3. it causes (or threatens to cause) serious injury to domestic industry; 4. safeguards are in the interest of the EU.²²² 	<ul style="list-style-type: none"> • Example: In 2018, the European Commission introduced a safeguard measure on imports of certain steel products, given the “risk of further import increases linked (...) to the introduction of trade restrictions by the United States on steel products”.²²³

214 European Commission, Anti-Dumping Measures, https://policy.trade.ec.europa.eu/enforcement-and-protection/trade-defence/anti-dumping-measures_en (accessed March 31, 2025).

215 European Commission, European Commission Imposes Anti-Dumping Duties on Chinese Steel Products, October 7, 2016, https://ec.europa.eu/commission/presscorner/detail/en/ip_16_3328 (accessed March 31, 2025).

216 European Commission, Commission Implementing Regulation (EU) 2024/819 of 8 March 2024 Imposing a Definitive Anti-Dumping Duty on Imports of Certain Corrosion Resistant Steels Originating in the People's Republic of China Following an Expiry Review Pursuant to Article 11(2) of Regulation (EU) 2016/1036 of the European Parliament and of the Council, Official Journal of the European Union, March 11, 2024, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L_202400819 (accessed March 31, 2024).

217 European Commission, EU Extends Duties on Electric Bicycles from China, January 24, 2025, https://policy.trade.ec.europa.eu/news/eu-extends-duties-electric-bicycles-china-2025-01-24_en (accessed March 31, 2025); European Commission, Commission Implementing Regulation (EU) 2019/73 of 17 January 2019 Imposing a Definitive Anti-Dumping Duty and Definitively Collecting the Provisional Duty Imposed On Imports of Electric Bicycles Originating in the People's Republic of China, January 18, 2019, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R0073&from=EN> (accessed March 31, 2025).

218 European Commission, Countervailing Duties on Subsidised Goods, Access2Markets, <https://trade.ec.europa.eu/access-to-markets/en/content/countervailing-duties-subsidised-goods> (accessed March 31, 2025).

219 European Commission, Anti-Subsidy Measures, https://policy.trade.ec.europa.eu/enforcement-and-protection/trade-defence/anti-subsidy-measures_en (accessed March 31, 2025).

220 European Commission, Commission Implementing Regulation (EU) 2024/1268 of 6 May 2024 Extending the Definitive Countervailing Duties Imposed by Implementing Regulation (EU) 2022/433 on Imports of Stainless Steel Cold-Rolled Flat Products Originating in Indonesia to Imports of Stainless Steel Cold-Rolled Flat Products Consigned from Taiwan, Türkiye and Vietnam, Whether Declared as Originating in Taiwan, Türkiye and Vietnam or Not, Official Journal of the European Union, March 16, 2024, https://eur-lex.europa.eu/eli/reg_impl/2022/433/oj/eng (accessed March 31, 2025).

221 European Commission, EU Imposes Duties on Unfairly Subsidised Electric Vehicles from China While Discussions on Price Undertakings Continue, October 29, 2024, https://ec.europa.eu/commission/presscorner/detail/en/ip_24_5589 (accessed March 31, 2025).

222 European Commission, Safeguards, https://policy.trade.ec.europa.eu/enforcement-and-protection/trade-defence/safeguards_en (accessed April 1, 2025).

223 European Commission, Commission Initiates Review of Steel Safeguard to Protect EU Steel Industry, December 17, 2024, https://policy.trade.ec.europa.eu/news/commission-initiates-review-steel-safeguard-protect-eu-steel-industry-2024-12-17_en (accessed April 1, 2025).

Measure	Description	Example
Economic Sanctions & Trade Restrictions		
Sanctions (Restrictive Measures)	Includes trade embargoes, asset freezes, and travel bans against specific countries, entities, or individuals (e.g., against Russia, Iran). ²²⁴	<ul style="list-style-type: none"> • Example: The EU imposed trade restrictions on Russia following its 2022 invasion of Ukraine, limiting EU exports of technology and luxury goods, among others.²²⁵ • Example: Since 2004, the EU has implemented a series of sanctions on Belarus due to “the 2020 fraudulent elections, the repression, human rights abuses, and the country’s complicity in Russia’s military aggression against Ukraine”.²²⁶
Dual-Use Export Controls	The goal is to “contribute to international peace and security and prevent the proliferation of Weapons of Mass Destruction (WMD)”. EU export controls are not fully harmonized – they fall under the competency of both the EU and the member states. While the EU provides a common legal basis and adopts a common list of dual-use items, based on international agreements, both the Union and member states can issue export licenses for dual-use and military items. This leads to differences in implementation. ²²⁷	<ul style="list-style-type: none"> • Example: Electronics & Semiconductors: <ul style="list-style-type: none"> – Microprocessors – High-performance digital-to-analog and analog-to-digital converters. Telecommunications & Information Security <ul style="list-style-type: none"> – Encryption software and hardware used for cybersecurity. – Telecommunications interception equipment. Aerospace & Navigation <ul style="list-style-type: none"> – Mobile telecommunication services jamming or anti-jamming equipment. – Avionics and flight control systems. Advanced Materials & Manufacturing <ul style="list-style-type: none"> – Structural materials and devices used to reduce the visibility of missiles or unmanned aircraft. Nuclear & Energy Technologies <ul style="list-style-type: none"> – Nuclear reactor components and materials (e.g., uranium enrichment equipment). Chemical & Biological Equipment <ul style="list-style-type: none"> – Protective and detection equipment for chemical and biological threats. Robotics & AI <ul style="list-style-type: none"> – Advanced robotics for automated production of military components. – Robots designed to handle high explosives.²²⁸

224 EUR-Lex, Sanctions (Restrictive Measures), <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=legisum:sanctions> (accessed April 1, 2025).

225 European Council and Council of the European Union, EU Sanctions Against Russia, <https://www.consilium.europa.eu/en/policies/sanctions-against-russia/> (accessed April 1, 2025).

226 European Council and Council of the European Union, EU Sanctions Against Belarus, February 24, 2025, <https://www.consilium.europa.eu/en/policies/sanctions-against-belarus/> (accessed April 1, 2025).

227 European Commission, White Paper on Export Controls, January 24, 2024, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52024DC0025> (accessed April 1, 2025); European Commission, Exporting Dual-Use Items, https://policy.trade.ec.europa.eu/help-exporters-and-importers/exporting-dual-use-items_en (accessed April 1, 2025).

228 European Parliament and Council of the 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, June 11, 2021, Official Journal of the European Union, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2021:206:FULL&from=EN> (accessed April 1, 2025); European Commission, Commission Delegated Regulation (EU) 2023/2616 of 15 September 2023 Amending Regulation (EU) 2021/821 of the European Parliament and of the Council as Regards the List of Dual-Use Items, Official Journal of the European Union, December 15, 2023, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ_percent3AL_202302616 (accessed April 1, 2025).

Measure	Description	Example
Market Access & Reciprocity Instruments		
International Procurement Instrument (IPI)	The IPI allows the Commission to impose measures to restrict access to companies from a non-EU country in EU public tenders. It aims to promote reciprocity in access to international public procurement markets. It can only apply to businesses, goods or services from non-EU countries that are not parties to the plurilateral WTO Agreement on Government Procurement. It also does not apply to countries which have concluded a bilateral or multilateral trade agreement with the EU, which includes commitments on access to public procurement markets. ²²⁹	Example: On April 24, 2024, the European Commission initiated its first IPI investigation. It targeted China's public procurement practices in the medical devices sector. The investigation found that China favored domestic suppliers, disadvantaging European manufacturers. The outcome is still pending, as China stressed that it had not agreed to any international commitments in this field. ²³⁰
Foreign Subsidies Regulation (FSR)	The EU can investigate and mitigate distortions caused by foreign government subsidies in the EU market. The FSR applies to foreign subsidies granted to companies active in the EU, regardless of their ownership, legal structure, or origin. It covers Merger and Acquisitions (M&A) as well as public procurement. ²³¹	<ul style="list-style-type: none"> • The EU's FSR has been actively enforced since its application on July 12, 2023. The notifications were much higher than expected: In October 2024, the EU counted around 100 notifications for M&As and 1,300 for public procurement. • Examples for public procurement cases: Tenders for electric trains in Bulgaria and photovoltaic parks in Romania. • In the case of Bulgaria, the Chinese rail company CRRC withdrew after the FSR probe by the EU. • In Romania, two Chinese companies (a subsidiary of LONGi Green Energy Technology and an association of two subsidiaries of the Shanghai Electric Group) withdrew after an FSR investigation. • There were also some strong concerns in the M&A field, leading to additional conditions for the foreign investors.²³²
Anti Coercion Instrument (ACI)	The ACI is designed to act as a deterrent against economic coercion, giving the EU a wide range of possible countermeasures, once member states and Commission agree that an act of coercion has taken place. These include, among others, tariffs, restrictions on trade in services and trade-related aspects of intellectual property rights, and restrictions on access to foreign direct investment and public procurement. ²³³	The instrument has not been used yet.

229 European Union, The EU's International Procurement Instrument – IPI, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=legisum:4610567> (accessed April 1, 2025).

230 European Commission, China: Medical Devices, https://policy.trade.ec.europa.eu/help-exporters-and-importers/accessing-markets/public-procurement/international-procurement-instrument/china-medical-devices_en (accessed April 1, 2025)

231 European Commission, The Foreign Subsidies Regulation in a Nutshell, https://competition-policy.ec.europa.eu/foreign-subsidies-regulation/about_en (accessed April 1, 2025); Simmons+Simmons, 2024.

232 Simmons+Simmons, 2024.

233 European Commission, Anti-Coercion Instrument, <https://trade.ec.europa.eu/access-to-markets/en/content/anti-coercion-instrument> (accessed April 1, 2025).

Measure	Description	Example
Trade-Related Investment Measures		
Foreign Direct Investment (FDI) Screening Mechanism	The EU FDI Screening Mechanism is a hybrid system, where both the EU and member states play distinct but interconnected roles. It sets minimum standards for national screening mechanisms and provides guidelines on which sectors are considered sensitive. If an investment affects multiple member states, the Commission may intervene and recommend scrutiny. However, member states retain full control over screening and decide whether to approve, block, or impose conditions on FDI, even if the EU Commission raises concerns. Each country determines which sectors are subject to screening and sets its own rules. ²³⁴	<ul style="list-style-type: none"> • Since 2020, the overall number of notifications has increased by 18 percent. • In 2023, 488 cases were notified: 92 percent were closed within 15 days, while 8 percent led to a deeper security assessment. • The Economic Security Strategy from January 2024 addresses present shortcomings of the mechanism, regarding mandatory FDI screening for all member states, a minimum level of harmonization as well as improved procedures for cooperation. • The proposed improvements now need to be considered by EU member states.²³⁵
Critical Raw Materials Act	The Act aims to strengthen all stages of the European critical raw materials (CRM) value chain, diversify the EU's imports to reduce strategic dependencies, improve EU capacity to monitor and mitigate risks of disruptions, and improve circularity and sustainability. The EU plans to pursue these objectives in cooperation with third countries through mutually beneficial partnerships. ²³⁶	<ul style="list-style-type: none"> • The CRMA entered into force in May 2024. • In 2026, the EU member states will submit annual reports on their stocks of strategic raw materials. • The Commission will then analyze supply risks and coordinate the establishment of a secure level of the strategic stocks.²³⁷

Sources: European Commission, *Sanctions (Restrictive Measures)*, https://finance.ec.europa.eu/eu-and-world/sanctions-restrictive-measures_en (accessed April 7, 2025); European Commission, *Trade and Economic Security*, <https://trade.ec.europa.eu/> (accessed April 7, 2025); European Commission, *Foreign Subsidies Regulation*, https://competition-policy.ec.europa.eu/foreign-subsidies-regulation_en (accessed April 7, 2025); Killick and Liu, 2025; Simmons+Simmons, 2024; European Commission, *Critical Raw Materials Act*, https://single-market-economy.ec.europa.eu/sectors/raw-materials/areas-specific-interest/critical-raw-materials/critical-raw-materials-act_en (accessed April 1, 2025).

234 European Commission, *Investment Screening*, https://policy.trade.ec.europa.eu/enforcement-and-protection/investment-screening_en (accessed April 1, 2025).

235 European Commission, *Factsheet Economic Security - Proposal for a New Regulation on the Screening of Foreign Investments*, January 24, 2024, <https://ec.europa.eu/commission/presscorner/api/files/attachment/877349/Factsheet%20Economic%20Security%20-%20FDI%20Screening.pdf> (accessed April 1, 2025).

236 European Commission, *Critical Raw Materials Act*, https://single-market-economy.ec.europa.eu/sectors/raw-materials/areas-specific-interest/critical-raw-materials/critical-raw-materials-act_en (accessed April 1, 2025).

237 Guillaume Ragonnaud, *Critical Raw Materials Act*, European Parliamentary Research Service, June 2024, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/747898/EPRS_BRI\(2023\)747898_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/747898/EPRS_BRI(2023)747898_EN.pdf) (accessed April 1, 2025).

A Strong Focus on Bilateral Trade Agreements is the Right Way Forward

European trade policy also has a strong bilateral and multilateral component. Both are important to maintain rules-based trade in the present geo-economic environment. On a bilateral level, the EU already has an (almost) global net of trade agreements in place with a variety of partner countries, ranging from Canada and Japan to Singapore and Vietnam. At the end of February 2025, the EU had 78 FTAs, Stabilization and Association Agreements, Economic Partnership Agreements, Custom Unions etc. in place worldwide. In addition, the EU is awaiting adoption/ratification of agreements with 27 countries, including the four Mercosur countries. It is also negotiating agreements with seven countries, including Australia, India, Indonesia, and the Philippines.²³⁸

The preservation of rules-based trade and the implementation of the de-risking strategy is key for Europe. Both can be achieved through bilateral and regional free trade agreements. They provide increased market access in partner regions and enable new partnerships in the increasingly conflictual geo-economic environment. Recently, there have been some positive developments: In December 2024, the agreement between the EU and Mercosur was concluded after 25 years of negotiations. Even if approval in the Council and ratification in the European Parliament are still pending, this is an important signal. In addition, in mid-January 2025, talks on the modernization of the agreement with Mexico were successfully concluded after just un-

der nine years of negotiations.²³⁹ Furthermore, negotiations with Malaysia were resumed in mid-January 2025.²⁴⁰

This progress is important, but there are still major negotiations going on, which should be finished soon: this includes the talks between the EU and Indonesia. Negotiations are progressing well and there is hope that they will be finished in 2025.²⁴¹ Contentious points are EU market access for government procurement and state-owned enterprises in Indonesia as well as sustainability standards. In addition, Indonesia has a discriminating export and import control system in place.²⁴² The EU is also pursuing negotiations with Australia – however, talks had collapsed in October 2023. Because access to Australian raw materials is important for the EU, talks should restart soon after the Australian elections in May 2025.²⁴³ Another important negotiation is with India. Trade talks started in 2007, stopped in 2013, and were restarted in 2022.²⁴⁴ Contentious points are sustainability issues, (subsidized) agriculture, intellectual property rights, and the fourth mode of the General Agreement on Trade in Services (GATS, services traded by individuals of one WTO member through their presence in the territory of another).²⁴⁵ However, in February 2025, Commission President von der Leyen and Indian President Narendra Modi decided to finish the FTA negotiations by the end of 2025. This has induced new momentum into the trade talks. Albeit, the conflictual points still remain; thus, the outcome of the negotiations remains unclear for now.

238 European Commission, Negotiations and Agreements, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/negotiations-and-agreements_en (accessed February 26, 2025). See also: Claudia Schmucker, The New Geo-Economic Environment and the EU's Capacity to Act, DGAP, June 2021, https://dgap.org/sites/default/files/article_pdfs/DGAP_Report-2021-09-EN.pdf (accessed April 1, 2025).

239 European Commission, Mexico, 2025 https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/mexico_en (accessed March 31, 2025).

240 European Commission, Malaysia, 2025, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/malaysia_en (accessed March 31, 2025).

241 Eline Blot, EU-Indonesia: Pre-FTA Briefing, Institute for European Environmental Policy, January 21, 2025, <https://ieep.eu/wp-content/uploads/2025/01/Pre-briefing-FTA-EU-Indonesia-IEEP-2025-1.pdf> (accessed March 31, 2025).

242 Fajar Hidayat, "How to Break the Deadlock in the Indonesia-EU Trade Talks", in: The Diplomat, January 16, 2024, <https://thediplomat.com/2024/01/how-to-break-the-deadlock-in-the-indonesia-eu-trade-talks/> (accessed March 31, 2025); Cláudia Azevedo and Simon Rühle, 2025: A Make-or-Break Moment for EU-Indonesia Relations, Europe Jacques Delors, January 2025, https://europejacquesdelors.cdn.prismic.io/europe-jacquesdelors/Z5C7xZbqstJ99uQ8_20250120_EU-Indonesiarelations_PB_EN.pdf (accessed March 31, 2025).

243 André Sapir, The Reason for the European Union-Australia Trade Negotiation Hiccup, Bruegel, November 2, 2023, <https://www.bruegel.org/analysis/reason-european-union-australia-trade-negotiation-hiccup> (accessed March 31, 2025).

244 European Commission, EU and India Kick-Start Ambitious Trade Agenda, June 17, 2022, https://policy.trade.ec.europa.eu/news/eu-and-india-kick-start-ambitious-trade-agenda-2022-06-17_en (accessed March 31, 2025).

245 Claudia Schmucker, EU Trade Policy Must Focus on Market Openness and New Partnerships, German Council on Foreign Relations, October 2024, https://dgap.org/system/files/article_pdfs/DGAP_percent20Analysis_No-9_October-2024_18pp_0.pdf (accessed April 1, 2025).

Table 2: Free Trade Agreements of the EU: Negotiations Overview

COUNTRY	Free-Trade Agreement Name (as of 2025)	2009	2010	2011	2012	2013	2014	2015	2016
Australia									
India						Suspension of negotiations			Despite new meetings
Chile	Interim Trade Agreement – ITA								
Indonesia									Joint scoping exercise; Launch of negotiations
Japan	Economic Partnership Agreement – EPA					Launch of negotiations			
Canada	Comprehensive Economic and Trade Agreement – CETA	Launch of negotiations							Signature of the agreement
Malaysia			Approval of negotiations by MS; Launch of negotiations		Negotiations put on hold				
Mercosur									Relaunch of negotiations
Mexico	Global Agreement								First round of negotiations for the modernisation of the FTA
New Zealand									
Philippines								Launch of negotiations	Negotiations put on hold
USA						Launch of negotiations for TTIP			Suspension of negotiations
Singapore	EUSFTA		Beginning of negotiations		Conclusion of good & services negotiations		Conclusion of investment protection negotiations (EUSIPA)		
Vietnam					Start of negotiations			Agreement in principle; End of negotiations	
Thailand						Launch of negotiations	Suspension of negotiations following military coup in Thailand		
ASEAN		Negotiations are suspended; replaced by bilateral formats							
Columbia-Peru-Ecuador	EU-Colombia-Ecuador-Peru Trade Agreement – TA				TA with Peru & Columbia signed	TA provisionally applied			
South Korea				FTA is provisionally applied				FTA is formally ratified	
United Kingdom	Trade and Cooperation Agreement – TCA								
South Africa	Trade Development and Co-operation Agreement – TDCA								EU, South Africa and five Southern African Economic agreement replaces the
Central America	EU-Central America Association Agreement – AA				AA is signed	Trade pillar of the AA is provisionally applied			

	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Launch of negotiations			Round 10-11		Suspension of talks		
between the negotiation teams, no reopening of negotiations in sight						Relaunch of negotiations		Round 10	
		EU confirmation of ambitions for a future FTA				R. 4, 5, 6			
	Launch of negotiations to modernize the EU-Chile Association Agreement (inc. FTA)					End of negotiations		European Parliament gives consent	
								ITA enters into force	
		R. 4, 5, 6				R. 12		R. 17-19	
	Letter of intent for the Agreement signed								
	FTA approved by the European Parliament; Japan-EU SPA signed								
	Negotiations continue for an Investment Agreement								
	EPA enters into force								
	EP approval; Provisional application of the SPA and CETA								CETA ratified by 17 EU member states
						Final report of the Sustainability & Impact Assessment			
						Stocktaking exercise		Resumption of negotiations	
			Preliminary agreement		EU Sustainability Impact Assessment			End of negotiations; political agreement with four Mercosur countries	
	Agreement in Principle								Conclusion of negotiations
	Launch of negotiations				R. 10, 11	Conclusion of negotiations	FTA signed	FTA enters into force	
due to human right situation in the Philippines							Technical stocktaking exercise		
							Relaunch of negotiations		
	Inauguration of Donald Trump as the 45 th president of the United States				Creation of the TTC				U.S. tariffs on steel and aluminum; U.S. reciprocal tariffs
					U.S. tariffs on steel and aluminum; EU-U.S. political agreement on industrial goods				
					FTA enters into force; EUSIPA still needs ratification by all MS.				
					EUSFTA & EUSIPA are signed; Beginning of ratification process		Launch of negotiations for a Digital Trade Agreement		
							Negotiations on the EUSDTA formally concluded		
					Both texts are signed				
					Text split into a FTA and an Investment Protection Agreement (IPA)				
					FTA comes into force				
	Council of the EU decides on gradual re-engagement with Thailand and invites Commission to explore possibility of FTA negotiation resumption						Relaunch of negotiations		
	Ecuador joins the agreement							TA enters into force	
						Agreement on Digital Trade Principles			
						Launch of negotiations for a digital trade agreement			
					UK exits the EU; Trade and Cooperation Agreement (TCA) is signed				
					TCA enters into force				
other African countries sign the Partnership Agreement. The trade-related provisions of the TDCA.									
								Ratification process concludes; Council greenlights AA	

Source: Prepared on the basis of Bundesverband der Deutschen Industrie (BDI), Langer Atem gefragt – Die Freihandelsabkommen der EU, September 10, 2024, <https://bdi.eu/themenfelder/aussenwirtschaft/praferenzielle-handelsabkommen/artikel/news/langer-atem-gefragt-die-freihandelsabkommen-der-eu> (accessed March 24, 2025); European Commission, Trade and Economic Security, <https://trade.ec.europa.eu/> (accessed March 24, 2025); European Parliament, Legislative Train Schedule, <https://www.europarl.europa.eu/legislative-train/schedule> (accessed March 24, 2025).

Note: As part of the EU accession process, Association Agreements, including so-called "Deep and Comprehensive Free Trade Areas" have been signed with Ukraine, Georgia and Moldova. The EU has also concluded Stabilisation and Association Agreements with several Western Balkans states, establishing a free trade area over a transitional period.

All of the ongoing trade negotiations relate to countries of the so-called Global South, with the exception of Australia.²⁴⁶ In order to accelerate these negotiations, the EU needs to consider the development concerns of the Global South. In addition, these agreements should also be connected to development aid (for trade) and capacity building to help the respective countries to adhere to high European standards. If the transatlantic relationship is becoming less reliable for the time being, these partner countries will be more important than ever to uphold rules-based trade and market integration.

The Reform of the Multilateral Level (WTO)

Apart from free trade agreements, the EU relies heavily on the multilateral trade rules of the WTO. However, after the failed Doha Round, the blocked Appellate Body, as well as a disappointing 13th Ministerial Conference in Abu Dhabi in February 2024 (MC13), the WTO is in dire straits.²⁴⁷ Major players like the United States turn away from the rules-based system, undermining its principles and relying heavily on their own market power as a lever to achieve economic and political goals. In this environment, it is easy to assume that national trade laws and policies are more effective than adhering to global rules. However, the EU as a strong trading region has profited from transparency, predictability, and rules in global trade, enabling the region to be heavily intertwined in global value chains. To give up global rules, despite the current deadlock, is not the right way forward

and would be detrimental to European growth and prosperity.

WTO reform is still a major focus of EU trade policy: The EU has already pushed for a stronger deliberations function at the WTO, which is the right way forward.²⁴⁸ In the present conflictual environment, the WTO can be an important (neutral) forum to establish trust between the diverse membership on contentious issues such as national security, industrial policies, as well as non-economic issues such as trade and the fight against climate change.

The EU also managed to establish a parallel dispute settlement system, designed after the WTO arbitration process, called the Multi-Party Interim Appeal Arbitration Arrangement (MPIA). Countries such as China, Japan, Australia, and Canada are already part of the arrangement, allowing for a rules-based approach to conflict solution.²⁴⁹ Finally, the EU is very constructive in promoting plurilateral agreements, so called “coalitions of the willing” to pursue modern day trade topics like for example e-commerce.²⁵⁰ Despite opposition by some countries, namely India and South Africa, the negotiations continue and will provide a rules-based foundation for digital trade in the future.²⁵¹

The WTO is blocked, but the EU continues to engage in a constructive way. This is also an integral part of the Trade Strategy for an “Open, Sustainable and Assertive Trade Policy”. The EU should advance multilateral trade reform together with other middle powers, including those from the

246 European Commission, Negotiations and Agreements, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/negotiations-and-agreements_en (accessed March 31, 2025).

247 Jagdish Bhagwati, The Broken Legs of Global Trade, World Trade Organization, https://www.wto.org/english/forums_e/public_forum12_e/art_pf12_e/art10.htm (accessed March 31, 2025); Gisela Grieger, International Trade Dispute Settlement: World Trade Organisation Appellate Body Crisis and the Multi-party Interim Appeal Arbitration Arrangement, European Parliament Research Service, June 2024, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/762342/EPRS_BRI\(2024\)762342_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/762342/EPRS_BRI(2024)762342_EN.pdf) (accessed March 31, 2025); Council on Foreign Relations, The WTO at a Crossroads: What the Failed Ministerial Conference Means, March 6, 2024, <https://www.cfr.org/councilofcouncils/global-memos/wto-crossroads-what-failed-ministerial-conference-means> (accessed March 31, 2025).

248 European Commission, EU Calls for WTO to Address Current Policy Challenges Through Focused Deliberation, February 22, 2023, https://policy.trade.ec.europa.eu/news/eu-calls-wto-address-current-policy-challenges-through-focused-deliberation-2023-02-22_en (accessed March 31, 2025).

249 Grieger, 2024; Geneva Trade Platform, Multi-Party Interim Appeal Arbitration Arrangement (MPIA), WTO Plurilaterals, https://wtoplurilaterals.info/plural_initiative/the-mpia/ (accessed March 31, 2025).

250 Olivier Blanchard and Jean Pisani-Ferry, Europe's Challenge and Opportunity: Building Coalitions of the Willing, Bruegel, February 13, 2025, <https://www.bruegel.org/analysis/europes-challenge-and-opportunity-building-coalitions-willing> (accessed March 31, 2025); Gisela Grieger, WTO Agreement on Electronic Commerce, European Parliament Research Service, September 2024, [https://www.europarl.europa.eu/RegData/etudes/ATAG/2024/762390/EPRS_ATA\(2024\)762390_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2024/762390/EPRS_ATA(2024)762390_EN.pdf) (accessed March 31, 2025).

251 Grieger, 2024; Government of India, Ministry of Commerce and Industry, India's Joint Submission with South Africa on 'E-Commerce Moratorium', March 10, 2020, <https://www.commerce.gov.in/international-trade/india-and-world-trade-organization-wto/e-commerce/indias-joint-submission-with-south-africa-on-e-commerce-moratorium/> (accessed March 31, 2025).

Global South. Here, the bilateral free trade agreements with Canada and Mexico, Latin American, ASEAN, and African countries could come in handy, as they provide the basis for a cooperative multilateral trade reform, under the leadership of the EU.

Recent Developments

In June 2023, the European Commission and the High Representative of the EU for Foreign Affairs and Security Policy presented the European Strategy for Economic Security, which includes many of the objectives from the trade strategy. The Commission made a clear commitment to multilateralism and international free trade. Nevertheless, it also recognized that the economic openness to date has also led to security risks. It explicitly mentions highly concentrated supply chains, economic dependencies in certain areas (e.g. energy), and the protection of key technologies and infrastructure.²⁵²

In early 2024, the Commission adopted five initiatives to strengthen the EU's economic security: improved screening of foreign investment in the EU;

stronger European coordination on export controls; identification of potential risks arising from outbound investment in a limited number of technologies; support for research and development related to dual-use technologies; improvement of research security at national and sectoral level.²⁵³

The European Commission's political guidelines for 2024-2029 then promised a "new economic foreign policy" based on the conviction that "in today's world geopolitics and geoeconomics go together. Europe's foreign and economic policy must do the same."²⁵⁴ The mandate of the new High Representative Kaja Kallas includes the instruction to "shape a new foreign economic policy that focuses on economic security and statecraft."²⁵⁵

These are important developments. But under the threat of a punitive United States and a more aggressive China, the necessary components of trade openness and economic security need to be calibrated anew. Both are under the responsibility of Commissioner Maroš Šefčovič, which makes it easier for the EU to find the right balance between the two.

252 European Commission, Joint Communication to the European Parliament, the European Council and the Council on a European Strategy for Economic Security, JOIN(2023) 20 Final, June 20, 2023, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52023JC0020> (accessed March 31, 2025).

253 European Commission, Commission Proposes New Initiatives to Strengthen Economic Security, January 24, 2024, https://ec.europa.eu/commission/presscorner/detail/en/ip_24_363 (accessed January 7, 2025).

254 Ursula von der Leyen, Political Guidelines for the Next European Commission 2024-2029, European Commission, July 18, 2024, https://commission.europa.eu/document/download/e6cd4328-673c-4e7a-8683-f63ffb2cf648_en?filename=Political%20Guidelines%202024-2029_EN.pdf (accessed January 7, 2025).

255 Giovanni Grevi and Richard Youngs, Economic Statecraft and EU Strategic Interests, in: Rosa Balfour and Sinan Ülgen, ed., *Geopolitics and Economic Statecraft in the European Union*, Carnegie Europe, 2024 <https://carnegie-production-assets.s3.amazonaws.com/static/files/Geopolitics%20and%20Economic%20Statecraft%20in%20the%20European%20Union-2.pdf> (accessed January 7, 2025).

Recommendations

The EU is not sufficiently equipped to survive in a world in which power politics increasingly undermine international rules and institutions. The EU has traditionally been a strong economic actor but a weak foreign policy player. It often lacks the agility and geostrategic coherence to react quickly to geopolitical risks. This needs to change.

- 1. Preserve Unity Within the EU:** The EU's greatest asset lies in its size and its shared values: it consists of 27 (democratic) member states and a common internal market of almost 450 million people.²⁵⁶ In order to remain competitive and to be able to act as a global player in a crisis-ridden geo-economic environment, the EU must speak with one voice. Given current elections of extreme and populist parties, centrist majorities must be strengthened that reflect European interests and values. In addition, the EU member states must not allow themselves to be played off against each other by external actors but should stand together and take a strong stance against third countries that violate EU trade law. This is the only way the EU can defend itself against coercive measures from countries such as China and the United States.
- 2. Strengthen European Competitiveness:** The best way to promote the EU's resilience is to invest in its own economic strength, economic competitiveness, and (open) strategic autonomy. There are several areas where significant growth potential could be realized by removing barriers. These include, above all, the completion of the single market, for example in the area of services and the digital economy. The completion of the banking and capital markets union is also of crucial importance for the stability of the financial markets and for growth within the EU. Building on the recently published Draghi report "The Future of European Competitiveness," which was commissioned by Ursula von der Leyen, the EU must focus on three areas: closing the innovation gap, harmonizing decarbonization with competitiveness, and improving economic security by reducing dependencies.²⁵⁷ This requires a unified approach by the EU member states. In order to reduce dependencies in strategic sectors, not only is greater investment in research and development necessary. Rather, the EU member states must pool competencies even more, promote European research clusters and jointly support the transfer of research into application. In addition, further fragmentation of the European market must be prevented. The EU member states have drastically increased their domestic industrial subsidies and economic interventions in recent years.²⁵⁸ This could jeopardize the single market, as the measures are often not aligned and do not offer a unified approach to Europe's strategic interests.
- 3. Careful Use of Trade Defense Instruments:** The EU has an effective arsenal of trade policy instruments: not only anti-dumping measures, countervailing measures for subsidies, and safeguard measures, but also new instruments that have been created in recent years. These include the Anti-Coercion Instrument against political coercion abroad, the International Procurement Instrument, and the Foreign Subsidies Regulation.²⁵⁹

256 Guillaume Ragonnaud, The Single Market at 30 (1993-2023), European Parliament Research Service, June 2023, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/749771/EPRS_BRI\(2023\)749771_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/749771/EPRS_BRI(2023)749771_EN.pdf) (accessed March 31, 2025).

257 Mario Draghi, The Draghi report: A Competitiveness Strategy for Europe (Part A), European Commission, September 9, 2024, https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en?filename=The%20future%20of%20European%20competitiveness%20-%20A%20competitiveness%20strategy%20for%20Europe.pdf (accessed March 31, 2025).

258 Polish Economic Institute, A Threefold Increase in the Role of State Aid to Companies Threatens the Cohesion of the Single Market, January 26, 2024, <https://pie.net.pl/en/a-threefold-increase-in-the-role-of-state-aid-to-companies-threatens-the-cohesion-of-the-single-market/> (accessed March 31, 2025).

259 Claudia Schmucker, EU Trade Policy Must Focus on Market Openness and New Partnerships, DGAP Analysis, German Council on Foreign Relations, October 2024, https://dgap.org/system/files/article_pdfs/DGAP%20Analysis_No-9_October-2024_18pp_0.pdf (accessed December 9, 2024).

In the event of unfair trade measures abroad, the EU should make use these instruments. As in the past, the EU needs to proceed in a rules-based and transparent manner and take into account the interests of both EU exporters and importers (Union interest). Trade defense instruments must also be used in such a way that they are not unilaterally detrimental to individual EU member states or sectors, as this would undermine coherence and the will to cooperate in the EU in the medium and long term.

- 4. Practice the Art of Deal-Making:** Trade policy will become more transactional. This was already evident during U.S. President Trump's first term in office. The EU must be prepared for the Trump administration to link trade with other policy areas, especially security and defense. The Commission must make offers to the new U.S. administration but also bring deal-making in line with its own strategic objectives. The art of deal-making will only work, however, if the United States is willing to make concessions as well.
- 5. Support for the Rules-Based International System:** Over the past decade, the WTO has been under severe pressure as member states have neither been able to agree on new trade liberalizations nor much-needed modern trade rules. In addition, the dispute settlement mechanism is severely limited as the Appellate Body continues to be blocked by the United States. Although there are several reform proposals on the table,²⁶⁰ it is unlikely that an agreement will be reached in the foreseeable future. Negotiations on plurilateral agreements within the WTO have also stalled.²⁶¹ Nevertheless, the WTO is still indispensable when it comes to ensuring a rules-based international trading system and a level playing field, especially for smaller countries. It is still the basis for about 74 percent of global trade. The EU should therefore step up its efforts to reform and conclude plurilateral agreements, in line with like-minded middle powers (Ottawa Group)²⁶² and developing and emerging countries interested in reform.
- 6. Expand Partnerships Worldwide:** The EU should also strengthen its influence in multilateral bodies and intensify the development of relationships with emerging middle powers such as Brazil, India, Indonesia, and South Africa (G20 presidency 2025). At a multilateral level, the EU should try to submit joint proposals with developing and emerging countries in the WTO when their interests overlap, as was the case for the recent Joint Proposal for Transparency in Applied Tariff Rate Changes, co-submitted by the EU with Australia, Brazil, Canada and Ukraine.²⁶³ At the bilateral level, the conclusion of negotiations on the partnership agreement between the EU and Mercosur is an important step in the right direction (even if it still needs to be ratified). Investment in the Global South will strengthen Europe's standing on the geopolitical stage. In addition, various initiatives need to be brought together and harmonized. These include the Global Gateway Initiative, a new generation of commodity partnerships, trade agreements, and climate financing.

260 World Trade Organization, WTO Reform. An Overview, 2022, https://www.wto.org/english/thewto_e/minist_e/mc12_e/briefing_notes_e/bfwtoreform_e.html (accessed March 31, 2025).

261 Gisela Grieger, the WTO's Negotiating Function: Towards Plurilaterals and New Trade Challenges, European Parliament Research Service, April 2024, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/760443/EPRS_BRI\(2024\)760443_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/760443/EPRS_BRI(2024)760443_EN.pdf) (accessed March 31, 2025).

262 World Trade Organization, 2022.

263 World Trade Organization, European Union: Negotiating Documents, Proposals, and Other Documents, https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S006.aspx?DataSource=Cat&query=@CountryConcerned=European%20Communities%20or%20European%20Union%20AND%20not%20@DocumentType=Notification%20AND%20not%20@Symbol=WT/DS*%20AND%20not%20@Symbol=DSB*&Language=English&Context=ScriptedSearches&languageUICChanged=true# (accessed March 28, 2025).

About the Authors

Stormy-Annika Mildner is Executive Director of the Aspen Institute Germany and Adjunct Lecturer for International Political Economy at the Hertie School.

Claudia Schmucker is head of DGAP's Center for Geopolitics, Geoeconomics, and Technology.

Elisabeth Saulnier is a student assistant at the Aspen Institute Germany.

About the Aspen Institute Germany

The Aspen Institute Germany is an independent, non-partisan organization that promotes values-based leadership, constructive dialogue, and transatlantic cooperation to strengthen a free and open society. Founded in 1974 in Berlin, the Institute has been bringing together decision-makers and experts from politics, business, academia, media, culture, and civil society for 50 years to address the challenges of our time.

More Information about the Aspen Institute Germany: www.aspeninstitute.de



About the German Council on Foreign Relations

The German Council on Foreign Relations (DGAP) is committed to fostering impactful foreign and security policy on a German and European level that promotes democracy, peace, and the rule of law. Since its founding in 1955, the nonpartisan organization's members and research have continued to shape the debate on foreign policy issues in Germany.

More Information about the DGAP: www.dgap.org



About the Project German-American Trade and Tech Dialogue

The German-American Trade and Tech Dialogue brings together a diverse group of transatlantic representatives from politics, administration, business, academia, and civil society to support the U.S.-EU Trade and Technology Council (TTC) and provide new impetus for German-American cooperation. The project includes virtual workshops and an annual conference.

This text represents the personal views of the authors. The authors expressly do not speak on behalf of the institution they are associated with.

ISSN 3052-7260

Imprint

Publisher:

Aspen Institute Deutschland e.V.
Friedrichstraße 60, 10117 Berlin
Germany

Authors: Stormy-Annika Mildner,
Claudia Schmucker, Elisabeth Saulnier

Data Visualization: Elisabeth Saulnier,
Luca Kozlowski, Leony Broschek

Layout: Volk Agentur + Verlag, München

Publication: May 2025

Follow Us



@AspenGermany



@aspen_germany



Aspen Institute Germany



@AspenGermany