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# European economic statecraft in search of a future

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The language of Wilson. Opening session of the Council of the League of Nations in Geneva, Switzerland, in 1930.



The language of George W. Bush. Goddess America brings education and development, expelling indigenous people and illuminating the way ahead. American Progress, painted by John Gast (1872).



The language of Kissinger. The swearing of the oath of ratification of the Treaty of Münster in 1648, painted by Gerard ter Borch in that year.



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## I Introduction

For decades the success of Europe's economy was predicated on the globalization of trade.<sup>1</sup> Post-Cold War multilateralism formed a vital cog in the continent's business model, ensuring the availability of export markets, not least for Germany, Europe's largest economy. But the transition to a more geopolitical era leaves the future uncertain. Trade dependencies are becoming a go-to foreign policy weapon on all sides. Tough-talking US politicians are mobilizing the West for a cold war with China. European leaders wishing to continue to trade with China are viewed as simply not very 'strategic' or 'geopolitical' and as out of step with the future itself. The reality, of course, is less straightforward. Certainly, the future will be geopolitical. But there is no one geopolitical future, no single strategic narrative to draw on for dealing with Beijing or other rising powers. Different geopolitical futures can be imagined and pursued. In some of those futures the deep fragmentation of global markets is inevitable. In others, global trade continues, albeit in more controlled ways. As the European Union starts to develop its own economic statecraft, decision-makers should remember that alternative strategic narratives are available to them. Those narratives can be appraised differently, but how and when to deploy economic power is a political choice.

## II The return of economic power

Economic statecraft, the use of economic policy for geostrategic purposes, has undeniably taken off in recent years, both conceptually and in practice. Europe's energy ties with Moscow have for the most part been severed. Russian financial institutions have largely been frozen out of the dollar system. The US has imposed bans on exports to China of certain microchip technology and is pressuring European and Asian allies to follow suit.<sup>2</sup> It blocks Chinese technology from the US market in strategic sectors and has announced prohibitive tariffs for China-made electric cars (EVs). In Europe, Chinese investment in port infrastructure and other strategic industries faces increased levels of scrutiny. Efforts are underway to onshore and reroute critical supply chains away from China and boost the EU's industrial resilience, one of the goals that underpins Mario Draghi's recent call for a European 'foreign economic policy'.<sup>3</sup>

This growing use of the economy as a tool of state power reveals a dramatic shift in Western attitudes to trade and investment. In the aftermath of the Cold War, economic statecraft became something of a 'lost art'.<sup>4</sup> Economic policymaking disentangled itself from foreign policy. Welfare optimization became its overriding aim, something that called for the lowering of trade barriers. The 'economic weapon', as US historian Nicholas Mulder calls it, continued to be deployed in the form of sanctions aimed at punishing rogue regimes and rule breakers such as Libya, Cuba and Iran.<sup>5</sup> However, this did not change the consensus that 'trade' and 'foreign' policy needed to be separated into different domains and even into different institutional silos. Today, this widespread belief, which certainly in Brussels became an article of faith, is yielding to the realization that economic policy serves a plurality of goals, among which external security ranks highly.<sup>6</sup>

Historically, economic warfare is far from new. In its modern guise it dates back at least to the Anglo-French naval blockade of Europe's Central Powers in the Great War. Economic statecraft was also used during the Cold War. In the late 1940s, the US stopped exporting goods to the Soviet Union and communist China, obliging European states to do the same or forfeit their Marshall Aid.<sup>7</sup> However, economic interdependence between the West and the Sino-Soviet bloc was then modest, except for the West's increasing reliance on the USSR for energy. Once the Cold War had ended, the opposite situation prevailed. Economic interdependence rapidly increased, whereas strategic rivalry all but disappeared. Russia joined the G8 in 1997 and was seemingly in a process of integration with the Western order, while in 2001 the WTO welcomed China into the fold.

Now a more dangerous cocktail of relations has been mixed. Strategic incentives for powers to use economic weaponry against rivals have resurfaced. However, the post-Cold War period of globalization has created an unparalleled degree of economic and financial interconnectedness. Arguably, the destructive potential of economic power is greater than ever before. Opportunities for employing economic statecraft abound, for the US in particular, which benefits from the global dominance of its currency. In the two years following Russia's invasion of Ukraine, the US alone adopted more than 6,000 financial sanctions, targeting a third of the world's states in total, according to the *Washington Post*. 'The mentality, almost a weird reflex, in Washington has just become: if something bad happens, anywhere in the world, the US is going to sanction some people', a former US official



warns.<sup>8</sup> But in turn the West has come to depend on crucial foreign supplies, especially from China, leaving it vulnerable to economic coercion and counter sanctions. Indeed, supply chains have internationalized to such a degree that the impact of using the economy as a weapon of power is hard to predict, let alone control, including for the very governments wielding them.<sup>9</sup>

### III The need for an economic security doctrine

Considering its destructive potential, strategic reflection on how Europe should deploy its economic power is essential. It is also long overdue. In the EU context, however, such reflection remains largely absent. This is mainly because within the Brussels machinery, thinking in terms of *interests* has long been taboo, despite it being a prerequisite for strategic synthesis and decision-making. In June 2023, the European Commission and the EU's High Representative Josep Borrell presented their European Strategy for Economic Security. This was followed in January 2024 by several proposals for policy tools, strengthening FDI screening and export control at the European level among other things. Although they are steps forward, the strategic goal the EU wishes to achieve with these new instruments is poorly developed. There is a tendency to skip over questions of strategy and fast-forward to the choice of instruments, a technical matter that lies more squarely within the Brussels comfort zone. Politicians are well aware that the world is exiting a period of hyper-globalization. Yet there is little debate over where the world is, or should be, heading next. Any notion of what Europe's interest is in this regard is expunged from official EU documents, no doubt in part for fear that such notions might trigger deep political division. Tellingly, China does not even receive a mention in Europe's strategy for economic security.

What we get instead is a formalistic analysis of the types of risk Europe is exposed to, such as the weaponization of economic dependencies by hostile powers and the leakage of sensitive technology. New bureaucratic processes are established for identifying those risks. However, this hardly suffices for guiding concrete policy decision-making. Charting supply chain vulnerability, although important, is the technocrat's response to epoch-making and tectonic shifts that above all demand political answers. Clarity is needed about the geostrategic choices of our time, which one way or another must respond to the collapse of the international rules-based order and its transition to a pluralistic world of competing power blocs. Can the rules-based

order, as it emerged under US leadership after World War II, still be salvaged? Should the West try to re-establish its primacy in the world and seek the defeat of revisionist powers? What would a post-American world look like and how should Europe prepare for it? Anything that deserves the name 'strategy' must begin from a substantive orientation to such questions.

The need for grand strategy is better understood in the US, including in the context of economic power. In *The Atlantic*, Daleep Singh, who has since returned to the Biden White House as Deputy National Security Adviser for international economics, observes, 'While the United States has spent hundreds of years developing and refining its doctrine for military engagement ... the effort to formulate a grand strategy for economic statecraft has only recently begun.'<sup>10</sup> In his mind, such a strategy consists of limiting principles that can counter the overreach of economic power. It answers the questions of when, what, how and against whom, offering reassurance to the wider world that the US will not use its economic statecraft indiscriminately. This doctrine would, of course, also answer 'why', the question around which everything pivots. To what end should we use these tools to begin with?

If the EU is to deploy economic power in a consistent, effective and accountable manner, it will need to answer the same questions and embed its nascent economic statecraft in a wider strategy about how to use state power and for what overall purpose. This requires Europeans to consider the continent's current geopolitical and historical situation, work out what futures might spring from the present, and decide which of those futures it wishes to promote. In contrast to the US, sweeping strategic narratives about the past, present and future tend to get little hearing in policy-detail obsessed Brussels, as anyone who has worked there knows. However, such narratives are never innocent and rarely without consequence. They frame, promote and legitimize concrete policies, if often only implicitly. Through the prism of strategic narratives, and the projection of different futures, some policies will appear self-evidently correct, whereas others will be 'on the wrong side of history' and disregarded. And if you do not personally possess such a narrative, you are likely to end up being enlisted in somebody else's. After all, discursive power is also power.

## IV Three geopolitical futures

In the European context, three strategic narratives about the global order and its futures vie for dominance, each with a specific and prescriptive outlook on critical policy choices, including for economic statecraft. Not coincidentally, these narratives might each be loosely linked to the strategic outlook of a particular US president, or in one case his national security adviser and secretary of state.

### Future A – The Wilson narrative

The grand narrative that Brussels' policy elites grew up with, and that until recently coursed through the city's veins, is Wilsonian in spirit. It is built on unrelenting optimism about the future, predicting the triumph of the rules-based liberal international order. With its antecedents in the doomed League of Nations, Woodrow Wilson's brainchild, the ideal of this order re-asserted itself more powerfully after World War II. The end of the Soviet Union's communist alternative in 1991 signalled that its global progression would be unstoppable. History, as one of the ideal's most celebrated proponents put it, had arrived at 'the end point of mankind's ideological evolution and the universalization of Western liberal democracy.'<sup>11</sup> Of course, some tidying up was still necessary. States like Russia and China retained illiberal features, but all they needed was a 'democratic transition', a process that would be accelerated by giving them access to Western lifestyles, technology and markets.

According to this view, despite some setbacks, perpetual and global peace is still within reach. At the heart of the rules-based order are international covenants, universal legal obligations and human rights. They are policed by transnational institutions such as the UN, the WTO and the EU institutions themselves. Inter-state conflicts are settled by dispute mechanisms and international courts of law. Trade barriers are removed to end poverty, while global problems such as climate change are tackled by joint action as agreed by the Paris Agreement and UN COP conferences. In this regard, the transnational system of law pioneered by the EU offers a perfect blueprint for creating a united world. What the Union did for Europe after World War II, the international rules-based order will do for the rest of the planet.

## Future B – The Bush narrative

The second narrative is linked to President George W. Bush, who after the 9/11 terror attacks rediscovered the presence of evil in the world. Although this narrative is also embedded in the liberal rules-based order, it accuses Wilsonian optimists of naivety towards dictatorships, China and Russia in particular. Rather than viewing these illiberal powers as being en route to joining the rules-based order, the language of Bush identifies an existential contest in which diplomatic empathy equals appeasement. It detects not so much a 'clash of civilizations' but, in the words of Israeli prime minister Benjamin Netanyahu, 'a clash between barbarism and civilization'.<sup>12</sup> The popular frame within this narrative is that of the Cold War and the struggle against fascism, of which Putin and Xi are only the latest incarnation.<sup>13</sup> The former wishes to restore the Soviet empire. The latter dreams of turning China into a Marxist version of the Middle Kingdom. The return of geopolitics is no mere scrap over power, minerals and other riches; the principle of freedom itself is under attack, from Russia in Ukraine, from the People's Republic of China in Taiwan, and from Iran and Hamas in the Middle East.

This global clash of values brings us to Biden's 'inflection point in history – one of those moments where the decisions we make today are going to determine the future for decades to come.'<sup>14</sup> Two possible futures emerge from this fork in the road. In one the US retreats into deal-based diplomacy with tyrants, ushering in an age of darkness as the world falls to the imperial designs of Moscow and Beijing. Ceding an inch of ground to them, historian Timothy Snyder argues, 'will lead to all hell breaking loose around the world'.<sup>15</sup> Like dominoes, democracies will fall. In the other future 'Team Democracy' stands firm, leading to a struggle from which liberal principles emerge triumphant. In this future of George W. Bush, the US reasserts its global supremacy by defeating Russia and China either through a cold or a hot war. Those states will change their autocratic regimes in favour of democratic governments and acquiesce to the rules-based order, roughly as Washington sees it.<sup>16</sup>

## Future C – The Kissinger narrative

The final narrative can be termed Westphalian, and its standard bearer is Henry Kissinger. It regards the futures of Wilson and Bush as *Vergangene Zukunft* (futures past), imagined futures already past their sell-by date. The rules-based order, according to this view, has had its glory days already and

neoconservative plans for corralling History into its 'end-stage' by force are but pangs of nostalgia. However, the demise of the rules-based order is not the end of international law. The world reverts to the bedrock of Europe's old state order, on which the liberal rules-based order, with its doctrine of human rights, was later built. This order is based on the norm of states not interfering in each other's domestic affairs. It demands respect for the territorial integrity and juridical equality of states. Moreover, it bans the use of state power for settling religious-moral disputes, a practice that after the Reformation had cast Europe into the most destructive of wars. States decide their own interpretation of the gospel or, as we would put it today, their own 'values' within their own territory.<sup>17</sup> Stability is ensured through transactional dealmaking and diplomatic summitry, relying on the early foundations of international law, the *droit des gens* (rights of states), not to be confused with the *droits de l'homme* (rights of man). It is further aided by opportunistic alliance building aimed, not at the total defeat of rivals, but, more modestly, at preserving the balance of power.

In the Kissingerian narrative, the older rules of Westphalia never entirely lost their hold on international relations. The ban on interfering in the domestic affairs of other states clashed with new directives to promote human rights and democracy and created a tension. But as the liberal top layer erodes, such normative conflicts will dissolve. Autocracies will govern their own territories as they see fit, without international bodies or Western powers holding them to account. Of course, other tensions will persist. We should not be starry-eyed about the prospects of world peace. Great powers are likely to claim privileges in their neighbourhoods, leading to conflict about where those privileges begin and end, precisely the kind of contestation that is playing out in Ukraine and the South China Sea. The same powers will compete for influence further afield, for example in Africa. However, on this view such rivalry will be bracketed by the rights of states and by the principled rejection of moral crusades aimed at regime change.

## V Economic statecraft as policing, warfare or balancing

The strategic languages in which these different futures are sketched provide normative frameworks that, even if roughly drawn, inform decision-making on employing economic statecraft. They set broad goals and draw boundaries around the use of economic power. They provide guidance on the why, what,

who and other questions that economic security doctrines need to answer. The sort of concrete policies they may suggest can and sometimes do overlap. There is no future, for example, in which Europe would not have used economic power against Russia following its invasion of Ukraine. However, these policies also differ, either in substance, scope or the narrative used to offer justifications.

### **Doctrine A – Policing the rules-based order**

In Wilsonian language, economic power is used solely for policing the rules, not for strategic or other interest-based aims. Economic statecraft roughly coincides with sanctions. Governments that break the international rules – by violating the human rights of citizens, by rigging elections to stay in power, or by bullying smaller neighbours – need to be punished. Bad behaviour needs to be discouraged by the international community, and imposing economic sanctions on delinquent governments is one way of doing this. This is preferably done in controlled ways, by targeting responsible officials and state entities only, so as not to harm the broader population. Moreover, ideally multilateral bodies such as the UN authorize such sanctions. If this is not possible, then states should seek to act in broad coalitions rather than unilaterally. There is no need for economic statecraft beyond the goal of dissuading felons. States should generally promote global markets and free trade. Banning foreign companies from markets and industrial policy aimed at onshoring supply chains are policies that undermine the global trade rules.

For Europeans, framing economic statecraft as a policing tool is a familiar and trusted approach. No other policy language is so readily available to EU decision-makers, who often habitually resort to it. To some extent this language still delivers. The bloc's sanctions against Russia, for example, are easily justifiable on these terms. Moscow has broken all kinds of international rules, to begin with by annexing Crimea in 2014. That said, the reality of economic statecraft, in European discussions as elsewhere, increasingly ignores the goals and boundaries set by the language of policing and sanctions. The export controls the US deploys against China, some of which EU states like the Netherlands have reproduced, are not motivated by the wish to stop human rights offenses against the Uyghurs or similar infractions. They are intended to slow down China's development and to stop Beijing from obtaining technology that could tilt the military balance of power or threaten America's technological primacy. Foreign investment is vetted, and

sometimes blocked, for reasons of national security, not because other states break the rules. The onshoring or friend-shoring of supply chains is motivated by strategic goals such as resilience, not the enforcement of democratic norms.

The refreshingly honest and unrepentant way in which US policy elites disown some of America's obligations to its trade partners, for example through the Inflation Reduction Act, is indicative of the shift towards different strategic narratives. Today, Washington's policy elites no longer feel the need to defend their economic statecraft in terms of the international rules. America's acceptance of trade obligations seems to belong to a more tranquil time in world affairs, when rule-following made more sense for the US. As Jake Sullivan, Biden's national security adviser, puts it, 'The game is not the same. Our international economic policy has to adapt to the world as it is, so we can build the world that we want.'<sup>18</sup> America's rivalry with China, and indeed the investment needed for the green transition, require the full liberation of its state power, the sort of agency not hemmed in by international bodies such as the WTO. For its part, the EU remains more hesitant about such unbridled sovereign power, and is likely to insist – certainly in public – on the WTO compatibility of its economic statecraft. But the tension between such Wilsonian language and the necessity to unleash Europe's own state power is palpable, for instance in calls by Emmanuel Macron or Mario Draghi for 'a new industrial strategy'. Should the Union succeed in developing its own brand of economic statecraft, the rest of the world will increasingly view its talk about respecting the trade rules as hollow.

### **Doctrine B – Winning the *bellum sanctum***

In the strategic language of George W. Bush, the ultimate goal of economic statecraft is to win the war against a China-led 'Axis of Upheaval' and restore the primacy of the US (and its allies), that being the only true guarantee of security.<sup>19</sup> The frame of a global struggle between democracy and autocracy inexorably pushes the use of economic statecraft, and state power more generally, to its extremes, since no compromise or deal with an evil force can be justified. We are not dealing with tinpot dictators, who can be restrained with some well-targeted financial sanctions, travel bans or asset freezes. The adversary is sophisticated, highly motivated and led by the second largest economy in the world, an aspiring hegemon that, according to this view, wishes to impose its autocratic ways on the rest of the planet. Within

this narrative, policing powers and targeted sanctions no longer suffice. The full weaponization of the economy is called for. The export controls set in place by the US and some EU states are seen only as a first step. A more comprehensive and radical effort is needed to cut off adversaries from military-linked technology and to stunt their development more generally. Scrutiny of imported Chinese technology is to be further ramped up, while supply chain dependencies need to be reduced far more aggressively.

Biden White House officials such as Sullivan insist the US prefers a 'Small Yard, High Fence' approach to trade restrictions, focusing on a small number of technologies while still allowing others to be traded freely.<sup>20</sup> But the yard's boundaries are poorly defined and elastic, with the image of a Cold War 2.0 stretching them ever further outwards. Although the US government began by expressing concern over the security implications of exporting the most advanced semiconductor technology to China, those concerns have since broadened to so-called legacy chips, used in a larger range of consumer products.<sup>21</sup> A few years ago, the US restricted the use of Chinese-made technology in domestic communications infrastructure. Similar security risks are now perceived in a range of other areas, such as Chinese ship-to-shore cranes used in US ports.<sup>22</sup> US Commerce Secretary Gina Raimondo observed earlier this year that EVs and connected cars collect 'huge amounts of sensitive data' on drivers. 'So it doesn't take a lot of imagination to figure out how a foreign adversary like China, with access to this sort of information at scale, could pose a serious risk to our national security and the privacy of US citizens.'<sup>23</sup> In 2023, the Biden administration announced new rules under which outbound US investment in AI, quantum computing and other sensitive technologies are notifiable to the government and prohibited if those technologies can be used not just for civilian but also for military purposes, a distinction that is notoriously hard to draw.<sup>24</sup> Ties with China in the field of research and higher education are attracting greater scrutiny, amid concern that universities are open to 'foreign influence' and dual-purpose technology ends up in the wrong hands.<sup>25</sup>

'Small Yard, High Fence' may well sound reassuring to the markets, as does the European concept of targeted 'de-risking' as opposed to full-scale 'de-coupling'. But if our free and democratic way of life is truly under siege, and defeating the adversary is the only way to safeguard it, it becomes hard to see how this process of boundary stretching will stop short of a more fully de-coupled world. As Matt Pottinger, a former deputy national security adviser



in both the Trump and Biden administrations, argues, 'US officials need to recruit everyday Americans to contribute to the fight', which he believes they should do by giving up their 'squeamishness' about the term cold war and using it to 'mobilise society'.<sup>26</sup> Business interests, fearing eye-watering costs, may urge officials to exercise greater caution. However, once the language of George W. Bush takes hold, politically there is just one way the trade-off between commerce and freedom can go. Trade restrictions will look farsighted, courageous and strong. Opposing such restrictions will seem cowardly, naïve or cynical. 'No one with ambition wants to be in the dovish half of those talking about policy directed towards China,' former US treasury secretary Larry Summers has noted.<sup>27</sup> Maintaining commercial and high-level diplomatic ties with China will become harder and harder to justify, until eventually those ties will become impossible altogether, as they already are with Russia.

The frame of a global ideological war also impacts economic diplomacy with the world's so-called middle powers and other states, which would need to be pressured or courted into joining 'Team Democracy' as a matter of urgency. What is the point of export controls if Western strategic technology finds its way to China or Russia through other states? Countries such as Turkey, India, Saudi Arabia and Indonesia tend to balk at being recruited to one side or the other. They wish to decide their own foreign and trade policies. However, the logic of inflexion points and historic forks in the road is that choices need to be made. Coercive economic power may need to be used against countries that continue to trade with 'Team Autocracy' or that do not sufficiently distance themselves from it in other ways.<sup>28</sup> Economic power could also be used in positive ways, enticing middle powers to pick democracy's side with the help of favourable investment deals, free trade deals and other inducements.

### **Doctrine C – Safeguarding the balance of power**

In Kissinger's strategic language, the overall goal of economic statecraft is not to restore Western primacy and the rules-based order, but to secure and manage the balance of power. Clearly, this goal provides a rationale for using economic power, but it also sets narrower boundaries and imposes norms on its use. Within the Westphalian language of order, China's great power aspirations are legitimate in principle and, historically, perhaps inevitable. Moreover, the fact that the country rejects democracy offers no reason for

sanctions. There is no place for tools such as the US and European Magnitsky Acts, authorizing the sanctioning of foreign government officials who violate the human rights of their citizens. That said, China's rise must not lead to new forms of hegemony or domination. Nor can Beijing be allowed to curtail European trade with the wider Pacific region, for example by gaining control over maritime trading routes. In turn, the West must recognize that the principles of order have changed. Gripes about US dollar power and Western overrepresentation in global financial institutions, shared by countries such as Brazil and India, deserve a hearing. The West can no longer hope to dictate its rules and values. Instead, the best and only hope for stability is for the US and its allies to keep any hegemonic designs by China in check by mobilizing sufficient countervailing power to thwart them.

Economic statecraft is primarily a balancing tool, for example when technological or energy monopolies loom or when states, like Russia, shamelessly flout the Westphalian norm of territorial inviolability. Within Kissinger's strategic language, it is easy to see why excessive dependence on China in certain supply chains – critical raw materials or pharmaceutical ingredients – should be countered. Beijing gaining control of the Taiwanese microchip industry, which produces some 90 per cent of the world's most advanced microchips, would be a deeply worrisome geopolitical event. This is why the US and EU Chips Acts, aiming to build more production capacity at home, are prudent steps. More broadly, Bidenomics is an obvious countermove to Beijing's growing industrial dominance in green technology. European desires to shield its EV industry from Chinese overproduction are understandable for reasons of security as well as fairness. Import and export restrictions are legitimate tools of statecraft, if and when they help preserve the balance of power.

That said, this language also suggests limits to the use of economic power. State power is in control, but we are not engaged in a stand-off, or at some inflexion point in history in which we must circle the wagons to withstand the forces of autocracy. Society need not be mobilized against the enemy. Economic power is to be used conservatively, to preserve an equilibrium among sovereign states that offers adequate security to all, not to establish dominance or to democratize the world. This strategic goal of balance offers more room for commerce to flourish freely. To a greater degree than in the post-Cold War era, states should monitor, scrutinize and intervene in trade for their own security reasons. However, in this doctrine, there are no

inherent or ideological obstacles to striking deals with autocracies like China, such as America's Phase One Trade Agreement (still in force) and Europe's Comprehensive Agreement on Investment (CAI), which was eventually abandoned by Brussels after US pressure.<sup>29</sup> Depending on geostrategic circumstances, such deals may be perfectly reasonable, whereas tough trade restrictions may be deemed heavy-handed. Vowing to uphold the dollar's status as global reserve currency, Donald Trump recently proposed penalizing foreign states that shun the US dollar with 100 per cent tariffs on their goods.<sup>30</sup> Whether this and other such measures offered by US politicians are necessary to strengthen the balance of power, or in fact just aim at restoring US hegemony, is a pertinent question for those who follow this doctrine, including for EU policymakers looking to Washington for guidance.

## VI Moving the EU debate forward

Since the end of World War II, Europe's strategic compass was Wilsonianism, a mindset still deeply ensconced in the EU's political culture and institutional machinery. As Walter Russell Mead once put it, 'Arguably, no ruler since Charlemagne has made as deep an impression on the European political order as the much-mocked Presbyterian from the Shenandoah Valley.'<sup>31</sup> But although not all EU actors are ready to admit it, Wilsonianism is over – not just in Washington but in Brussels too, whereas in Beijing and Moscow it never really took hold. This is not because economists have discovered new welfare benefits of state-led industrial policy, tariffs and other forms of state power, but because history moved on: the geopolitical conditions for free trade and multilateralism have simply deteriorated.

The realization that 'geopolitics is back' has led to the popular but simplistic view that there are just two sides in this debate: the geopolitically naïve, battling to save unconditional free trade, and the geopolitically aware, calling for tough trade restrictions. EU leaders engaging in economic diplomacy with Beijing, such as Germany's Chancellor Scholz and Spain's Prime Minister Sanchez, belong among the dreamers and are supposedly stuck in the past. They are accused of 'strategic unseriousness' and 'bowing to the Chinese dragon'.<sup>32</sup> China hawks calling for a new cold war are hailed as 'strategic' and 'geopolitical' and represent the future. However, the idea that we must choose between the past and the future is misleading. Different geopolitical futures exist. Undoubtedly, rearguard battles are still fought by some. But the real

choice Europe needs to make is not whether to amass more economic power (it evidently must), but how to use this power in a sensible and targeted way, to what end and – no less importantly – within what boundaries. The question is no longer whether Europe needs an economic foreign policy, but how that policy anchors economic statecraft within a workable framework of goals and guardrails.

The language of neoconservatism (Doctrine B) offers one way forward. It calls for moral clarity and an expansive and, if necessary, all-out use of economic power to restore the primacy of the liberal rules-based order and to defeat its enemies. Russia's invasion of Ukraine in 2022 has strengthened this narrative's hold over European politics, most palpably in Central and Eastern European countries such as Poland, Czechia and the Baltic states. Putin's war has equally led to a hardening of European attitudes towards China, which according to US intelligence continues to supply Moscow's war machine.<sup>33</sup> However, the language of Westphalia (Doctrine C) offers an alternative way of thinking about economic power and how to use it. Accordingly, Europe will need to invest in economic statecraft, too, and develop an economic foreign policy. But that policy deploys economic power in more constrained ways and in pursuit of more modest geopolitical goals. Consequently, it leaves greater scope for trade and international commercial diplomacy, including with autocracies like China. Sometimes trade is just about trade and there is nothing naïve about it.

Both languages have their attractions. However, they clearly also impose costs. The moral clarity and political vitality offered by the Bush narrative comes at the price of economic pain. And to be clear, this pain will not be distributed equally among European states. The sudden collapse of the Soviet Union at the end of Cold War I, and the economic boom that followed in the decade after, may be cause for optimism and hope that freedom will triumph once more. But the idea that Cold War II must necessarily end in a similar implosion of communist China suffers from its own brand of historical and geopolitical naivety. China makes up around 20 per cent of global GDP. It is the world's biggest manufacturing hub by a mile. Less benign outcomes are very easily imaginable. Moreover, as the leeway for diplomacy narrows, what is to become of international climate cooperation? How do we manage the risk of cold war sliding into hot war?

The economic respite offered by the language of Kissinger, however, comes at a price too. It is measured in moral pain and ambiguity. Since World War II, European policy elites have seen it as part of their mission to spread liberal values across the world and to hold non-European states to account in terms of ethical standards and rights deemed universally valid. Such ambitions would need to be scaled down and traded in for the political acceptance of repugnant and illiberal regimes. Strongmen like Xi Jinping and absolutist rulers in the Gulf would need to be treated with respect and equanimity, allowing for dealmaking on investment, regional stability and energy supplies. Cherished moral principles may have to be sacrificed, for example to negotiate an end to the war in Ukraine, or even just to participate in FIFA World Cups in countries such as Saudi Arabia where women do not have equal rights. Moreover, with political pluralism and inter-state competition built into the system, peace secured by diplomacy is unlikely to last forever.

Weighing these benefits and costs will be onerous work. Nevertheless, these trade-offs will inevitably form the political core of any European economic foreign policy, which will itself create new political fault lines. Clearly, cost and benefit calculations are not the same for everyone. European states in the path of Russia's territorial ambitions will see more obvious benefit in the moral clarity and political energy provided by the language of George W. Bush. This, they will say, is no time for sophisticated diplomacy and deal-making, as will politicians who put great stock in values-based foreign policy, like the German Greens. However, for European states whose economic fortunes and social market models depend on international trade and export markets, a bifurcation of the global economy absolutely must be avoided. Those states will see greater value in the narrative of Kissinger. European leaders flying to Beijing, a posse of CEOs in tow, to clinch new business deals will need a language that explains why their diplomacy does not stem simply from naïve ideas about peace-through-trade, but from a coolheaded calculus in terms of the national or European interest.

## VII Conclusion

If Europe is to make use of its economic-power potential, far-reaching changes are needed at three different levels. First, the EU needs new power instruments. The Union was built as a peace project. Its historic ambition was to overcome and negate state power, not – as Charles De Gaulle wished – to combine the state power of its members into a new geopolitical force able to compete with superpowers. Consequently, Europe created the single market, along with instruments to regulate this market, such as controls on state aid. But the tools, budgets and levers necessary to wield the economic power contained within the single market remained in the hands of EU member states. Export controls and the vetting of foreign investments are national competences. Public funding and investment for industrial policy goals come largely from national budgets, which is why Mario Draghi calls for such funding to be more centralized. We have lived in a world in which economic statecraft fell out of use, and this strategic hiatus was of little consequence. Today economic power is squarely back on the menu. If Europe is to thrive in this new environment, national tools of economic power and statecraft will one way or another need to be placed in the hands of the European Union, which alone has the size and scale to make a global difference.

However, in contrast to what many in Brussels seem to believe, new European tools are no simple cure-all. At the institutional level the EU also needs to upgrade and futureproof its decision-making frameworks, ensuring the deployment of these tools can be effectively debated and decided. Separating economic and foreign policy into institutional silos is an untenable way of working. Strategic goals and security interests will need to be better integrated in decision-making across the full range of policies, on trade and foreign investment, but also on climate, energy, technology, the euro and migration. They must be considered at a sufficiently early stage in the decision-making process and not be left to the highest political level of executive power, the European Council. Although the latter remains the primary body for strategic decision-making, it cannot perform this role without the decisions being adequately prepared. In the US, the National Security Council plays an important role in US executive decision-making. No comparable body exists at EU level. How precisely to remedy this is a question for another occasion.<sup>34</sup> In any event, it is clear that upgrades are needed.

Third, at the level of strategy, Europe will need to set out more clearly the fundamental choices and trade-offs it faces and think more deeply about how it intends to resolve them. If economic statecraft is the use of economic policy for geostrategic goals, then what are those goals? What is the Union's security doctrine? No one seems to know the answer. Proposals for new EU policy tools have already been made, but much less is said about how such tools are to be deployed. China in particular remains 'the dragon in the room'. Businesses and foreign states are left to guess at the why, when and who of Europe's economic statecraft. In the typical Brussels way, this policy, it seems, is to be developed *à la tête du client*, tailored to ensure the greatest number of EU states find things they wish for or, at least, can live with. As an EU diplomat sighed, after an acrimonious debate on introducing new tariffs for Chinese-made EVs, 'There is no joint strategy on China. We are basically just muddling through.'<sup>35</sup>

However, if Europe is to develop a mature, effective and coherent economic foreign policy, fudging the big geopolitical questions of our age will not suffice. Strategic narratives are needed to set out when to use economic power, whom to direct it against and to what end, and, more broadly, how order and stability in the world should be secured. At the very least those narratives need to be developed and articulated, leading to a clearer and honest political conversation, and a better grasp of the political choices Europe needs to make. Here lies the task, not just for European politicians and decision-makers, but for the policy community in the broadest possible sense – for academics, business leaders, commentators and analysts who are in the position to contribute to creating a European strategic culture. Of course, it is entirely possible for the EU to obtain new tools of economic power without devising a strategic compass for using them. Some will claim this is the more practical way forward. Getting EU member states to part with national competences on export control and foreign direct investment and to agree on EU spending on industrial policy will already be extremely difficult. Will things not become more complicated if we need to debate strategic superstructures and 'doctrines'?

The truth is that they might. However, the Union ignores strategy at its peril. One danger is that economic power will be used aimlessly and contradictorily. Another risk is that security interests become a fig leaf for protectionism or even electioneering.<sup>36</sup> Before granting Brussels powers to vet and block foreign direct investments, would national governments not want to know

how it intends to use those powers? But perhaps the most immediate danger is that if Europe does not do its own strategic thinking, others might do it for Europe. The US indisputably leads the West in developing and popularizing grand strategy, its narrative propelled across the Atlantic with ease. It may turn out, of course, that this narrative supports European interests. There is much that ties the US and Europe together. But even if it does, Europe should arrive at that conclusion having done its own interest-based calculations, having made its own political trade-offs, and having decided for itself which geopolitical future it wishes to help bring about. New tools of state power, economic or otherwise, should come with new levels of political accountability, to the European polity itself, as well as to its partners in the wider world. For such accountability to exist, the Union will need to learn to make and articulate its own strategic choices.



## Notes

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13. Biden writes in America’s most recent [National Security Strategy](#) (October 2022), ‘Autocrats are working overtime to undermine democracy and export a model of governance marked by repression at home and coercion abroad.’ Donald Trump’s Secretary of State, Mike Pompeo, once put it like this: ‘The CCP regime is a Marxist-Leninist regime. General Secretary Xi Jinping is a true believer in a bankrupt totalitarian ideology ... that informs his decades-long desire for global hegemony of Chinese communism.’ [‘Communist China and the Free World’s Future’](#), remarks by Secretary Michael R. Pompeo on 23 July 2020.
14. Joe Biden, 23 October 2023, [Remarks by President Biden on the United States’ Response to Hamas’s Terrorist Attacks Against Israel and Russia’s Ongoing Brutal War Against Ukraine | The White House](#)
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- Quoted in Adam Samson and Chris Cook, '[US warns Turkey of 'consequences' over military-linked exports to Russia](#)', *Financial Times*, 7 August 2024.
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  32. See Matthew Karnitschnig, '[Why Germany's Scholz is bowing to the Chinese dragon](#)', *POLITICO Europe*, 12 April 2024; James Crabtree, '[The Strategic Unseriousness of German Chancellor Olaf Scholz](#)', *Foreign Policy*, 22 April 2024.
  33. See Stuart Lau, '[US accuses China of giving "very substantial" help to Russia's war machine](#)', *POLITICO Europe*, 10 September 2024.
  34. How to reform decision-making structures will be the subject of a further paper by the Brussels Institute for Geopolitics on the topic of economic statecraft.
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  36. See the US debate on the opposition by President Biden, as well as presidential candidates Harris and Trump, to the \$15bn takeover of US Steel by Japanese Nippon Steel, as set out for example in Dan Ikenson, '[Blocking The Nippon-US Steel Deal Would Undermine National Security](#)', *Forbes.com*, 27 September 2024.

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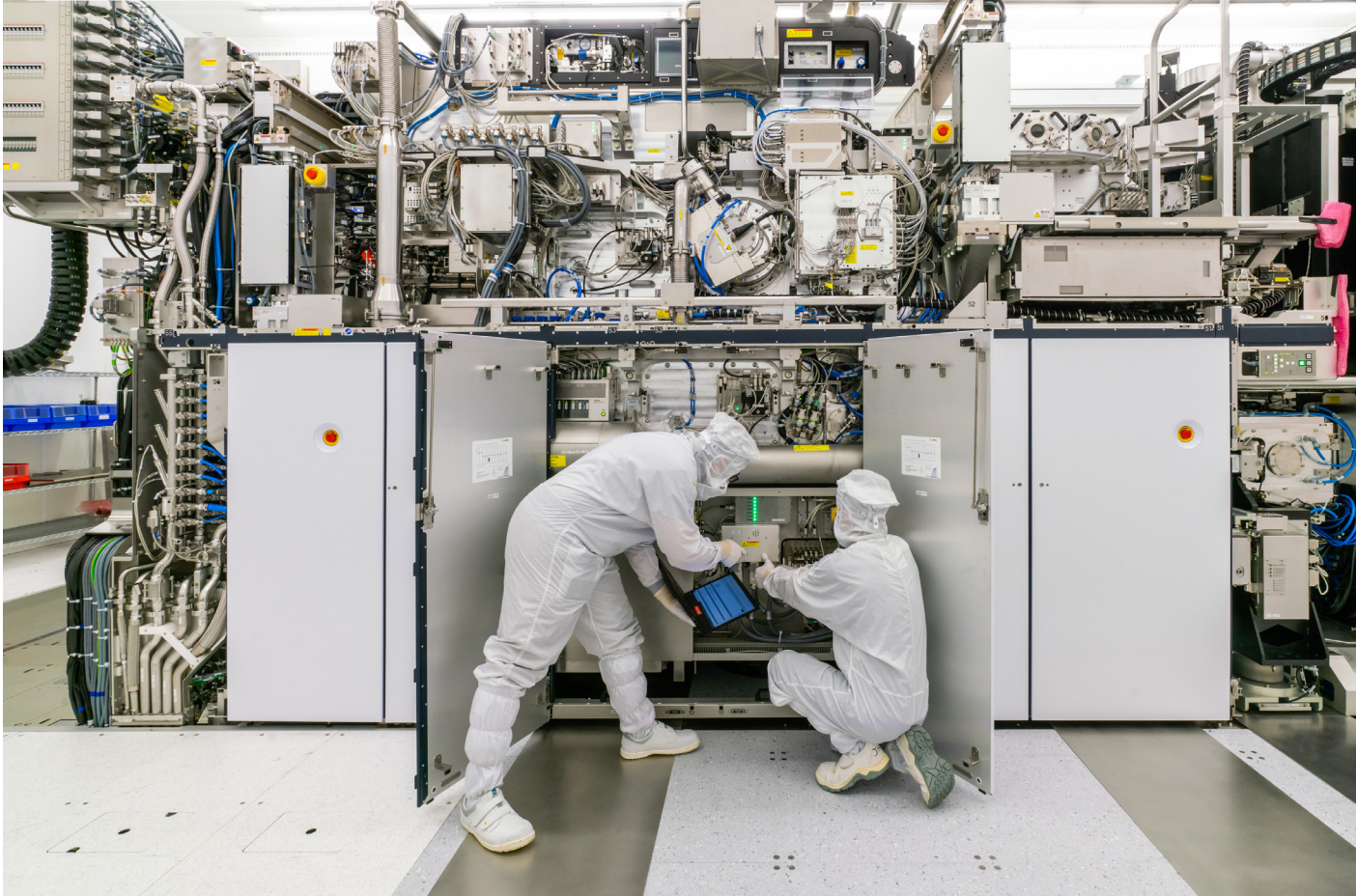
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An Afghan man with his donkey and a US Marine crossing paths in Garmsir Helmand Province, Afghanistan, in 2010.

Europe's economic muscles. Inside the ultraclean assemblage environment of ASML's EUV lithography systems. ASML headquarters in Veldhoven, the Netherlands.





Chinese soft power. An employee of Huawei presents a 5G phone in Brussels, Belgium, February, 2020.

Overstretching economic interdependence? Chinese state-owned company COSCO ships docked at a terminal in the port of Hamburg, Germany.

