

## European meta-strategic headaches<sup>1</sup>

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Looking at the latest data on [transnational commercial flows](#), including those between the US and China, one would almost breathe: [a sigh of sour relief](#): it is only the world of politics that is shattered, the commercial globalization [seems to be unmoved](#) by the crumbling global political frameworks. It is likely, though, that even the tiniest of reliefs is grossly misplaced. The pressures against open global market are mounting with increasing width and intensity. Unless these pressures are reversed, the fragmented political universe will eventually seep into the realm of global commercial flows. The shape of what such a comprehensive global fragmentation might look like is still much blurred. Yet as it occasionally emerges from the fog, we see a world that is deeply divided; the movement of goods, capital and people is being disrupted and limited; parallel - or even independent - geopolitical and geo-economic structures are being created.

This article demonstrates how Europe is [worried about this scenario](#) and why is the EU inherently uncertain about its policies regarding the future of commercial globalization. Europe finds itself in a relatively weak and vulnerable position. It has a relatively small leverage over the global processes that have decisive impacts on its economies and societies. As the fate of globalization is still very unclear, Europe is unsure and divided about the possible strategies to utilize the limited leverage it has. Europe is being forced to design protective policies that it knows will hurt back. The resources (human, financial, time, experience, governance) required to make the EU and its members resilient under current conditions plausibly surpass the resources available. In the second part, the article argues that by zooming in at the level of EU regions, the picture gets even bleaker. Less globalized world, together with interrelated challenges stemming from the digital and green transitions, augment risks of serious socioeconomic and political problems linked to an uneven regional development in Europe.

### *THE GLOBAL AND TRANSATLANTIC CONTEXT*

In [March 2023](#), the Chinese National People's Congress sketched out an ambitious plan of transformation, with the aim to [boost domestic consumption](#) and global technological

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<sup>1</sup> Meta-strategy can be described as „strategy to choose among strategies“.

competitiveness at its heart. Amid the current global economic environment, China officially looks homewards when designing its economic ambitions. This process – if successful – will take at least close to a decade to have a decisive impact on Chinese economy. Hence come useful the Chinese strategic efforts to bring more global South economies (including most recently the [Middle East](#)), [closer to its orbit](#) and the Sino-Russian marriage of convenience. Both these developments show how China prepares to strip itself of its dependency on economic and technological relations with the West.

While the fears – and dismissals – of [decoupling](#) are [nothing new](#), they do feel more real [this time](#). Despite [pains of such a process](#), major US tech companies, like [Apple](#), [Microsoft Corp.](#), or [Foxconn](#) are already making and executing plans to reduce their dependency on China. Huawei and [other Chinese companies](#) are taking steps to [become less reliant on US technologies](#).

The EU and the U.S. themselves have been [treading cautiously](#) around each other, with a disclosed dose of tension, for quite some time now. The EU has reacted with political irritation to the Inflation Reduction Act from August 2022 and has itself begun to prepare steps to protect specific European industries while looking for ways to boost its own technological independence. EU's newest [carbon emission trading scheme](#) as well as recent [implementation](#) of [closer scrutiny](#) of the US tech giants manifest the recent EU's protectionist instincts, even though channeled through normative frameworks (such as digital rules or climate protection). Both US and EU (and its [member states](#)) are mushrooming with ideas on subsidies to entice (clean) tech developers and semiconductor manufacturers and other ways to support their industries. While the US and Canada favor [“friendshoring”](#), Europe is reluctant to openly embrace this as a permanent part of future globalization. Such quarrels made it to the topic number one at the [annual Spring meetings](#) of the International Monetary Fund and World Bank in April 2023. In a surprisingly open manner, the IMF has voiced its concerns over the idea of “friend-shoring” as this approach is likely to lead to fragmentation which is a key risk for the global economy.

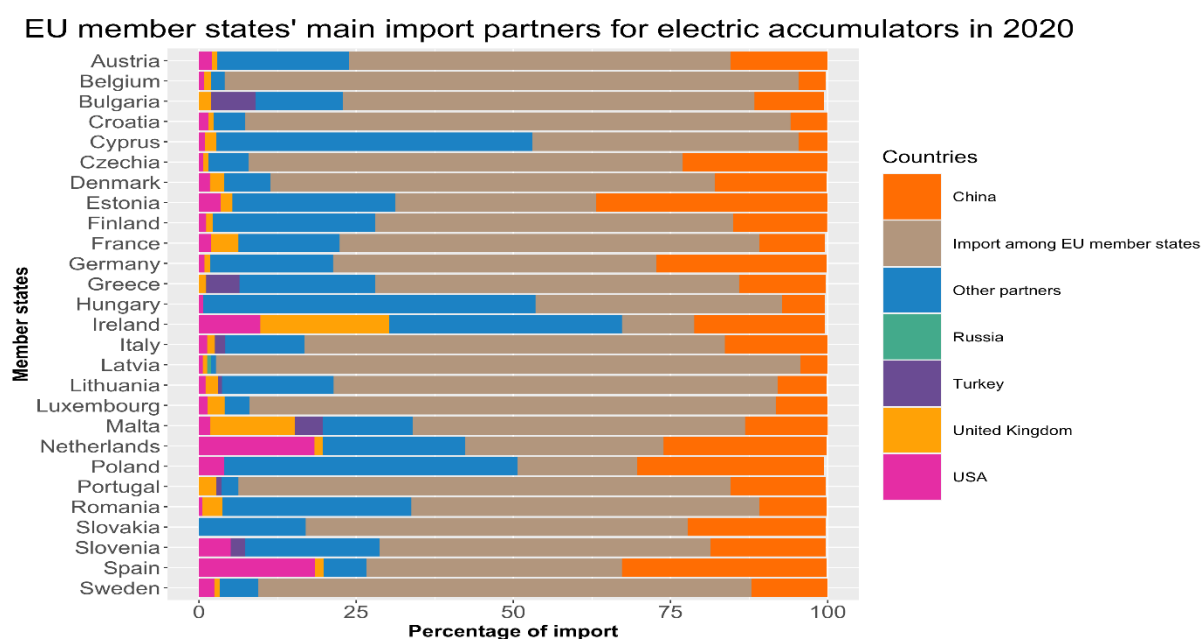
## *EUROPEAN CONTEXT*

Europe is in an [unenviable position](#). The EU economic wellbeing is dependent not only on exports, but also on affordable and accessible imports. Export disruptions are straightforward, import-related vulnerabilities are more complex and perhaps also more difficult to trace and hedge against. The share of [intermediate imported goods](#) that are used for further production and other economic activities in the EU is 60 % and this share grew in 2021. Imports with the highest dependencies on China are among electronics and machinery. They are crucial not only for retail,

but also for wide ranges of manufacturing activities, including those areas that are crucial for the two most fundamental socio-economic issues of recent times – digital and green transition. In Europe, both the [digital](#) and [green](#) transition is in Europe principally dependent on accessible flows of technologies and affordable products. In terms of technologies and production, Europe is nowhere near a position where it can proceed with the twin transition at a reasonable pace, depth, and social justice if the key flows are disrupted.

This can be crudely demonstrated on the following two charts that shows dependency of individual EU countries on two particular products that are key for both transitions.

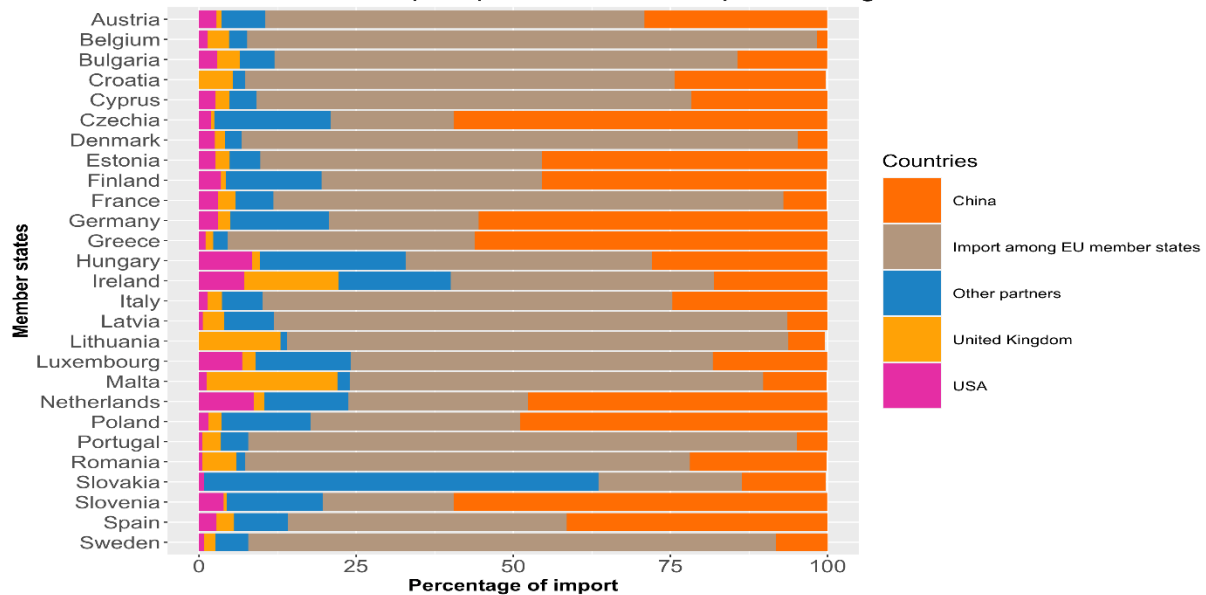
Chart 1: EU main import partners for electric accumulators (2020)



Source: Data by UNCTAD, calculations and visualization by Global Arena Research Institute

Chart 2: EU main import partners for data processing machines (2020)

### EU member states' main import partners for data processing machines in 2020



Source: Data by UNCTAD, calculations and visualization by Global Arena Research Institute

Europe is facing a backbreaking dilemma: on the one hand, it could start looking for ways to strategically weaken its dependencies. Thus, the EU would adapt to the rising proclivity for fragmentation of global economic relations. By choosing this path, though, it would further poke global instincts toward protectionism which will be tremendously harmful for European economies. Or Europe will attempt to salvage openness. This approach would set a laudable global example, but it comes with the risk of being exposed and not resilient enough in the case of major deterioration of global economic relations, namely of those with China. The EU tries to find a balance between these two poles. It rhetorically advocates an open global market, while steadily defining and focusing on [strategic vulnerabilities](#) and specific areas (however exclusively or inclusively defined) where resiliency takes precedence over commerce. The term [Open Strategic Autonomy](#) well reflects this schism which is – naturally – present in [everyday policy talks](#).

Europe has reacted with a [surprising integrity](#) to the Russian aggression against Ukraine. Yet the dilemma described here is a much tougher nut to crack. The future fate of globalization remains very much unclear and quiet [out of the reach](#) of the European policy makers<sup>2</sup>. European leaders face a truly unsettling puzzle: they have to devise and execute policies that make economies and

<sup>2</sup> Webber, Douglas. "DECLINING POWER EUROPE: THE EVOLUTION OF THE EUROPEAN UNION'S WORLD POWER IN THE EARLY 21st CENTURY." *European Review of International Studies*, vol. 3, no. 1, 2016, pp. 31–52. JSTOR, <https://www.jstor.org/stable/26593546>. Accessed 11 May 2023.

societies resilient (if not competitive) under conditions of globalization that is *deepening* and *transforming* in some areas, while *regionalizing* and *retreating* in others – and no one can be sure what areas are which. In the current fickle global environment, policies must be crafted for conditions where certain types of global flows will be structurally constrained while others will continue to flourish, but we do not know exactly which are which.

It is extremely difficult to design policies under such a veil of uncertainty and the past few months suggest that Europe's potential to safeguard the rule-based, free-trade global environment is running rather thin. This dynamism – and associated dilemmas – can be demonstrated by citing just a few most recent examples. [During his April 2023 trip to China](#), the French President Emmanuel Macron said that Europe must “resist pressure to become ‘America’s followers’” and must be careful not to get “caught up in crises that are not ours”. Tellingly, during the visit, [Airbus signed a substantial deal](#) on continuity of its activities in China. That same week that the French President visited China, the Dutch intelligence agency AIVD issued a report with [a very different message](#): together with Russia, Beijing poses the greatest threat to Dutch national security. [Italy is considering](#) pulling out of the China Belt and Road Initiative by the end of 2023. On May, 9<sup>th</sup> at a [Europe Day speech](#) to the EU lawmakers German Chancellor Olaf Scholz urged the European Union to reduce its reliance on China noting the increasing rivalry with China. And on May 8<sup>th</sup>, [the EU Commission has proposed](#) widening trade restrictions on Chinese companies in an attempt to hinder the Chinese assistance to Russian war efforts. China promptly responded with [warning](#) of consequences.

European political turn to caution and protection is tectonic. In comparison with the two previous strategic documents (Lisbon strategy, Europe 2020) the language of the most recent [Strategy 2019 – 2024](#) grew darker: “In a world of increasing uncertainty, complexity and change, the EU needs to pursue a strategic course of action and increase its capacity to act autonomously to safeguard its interests, uphold its values and way of life, and help shape the global future”. Neither of the previous two strategies mentioned “autonomy” or “interests”.

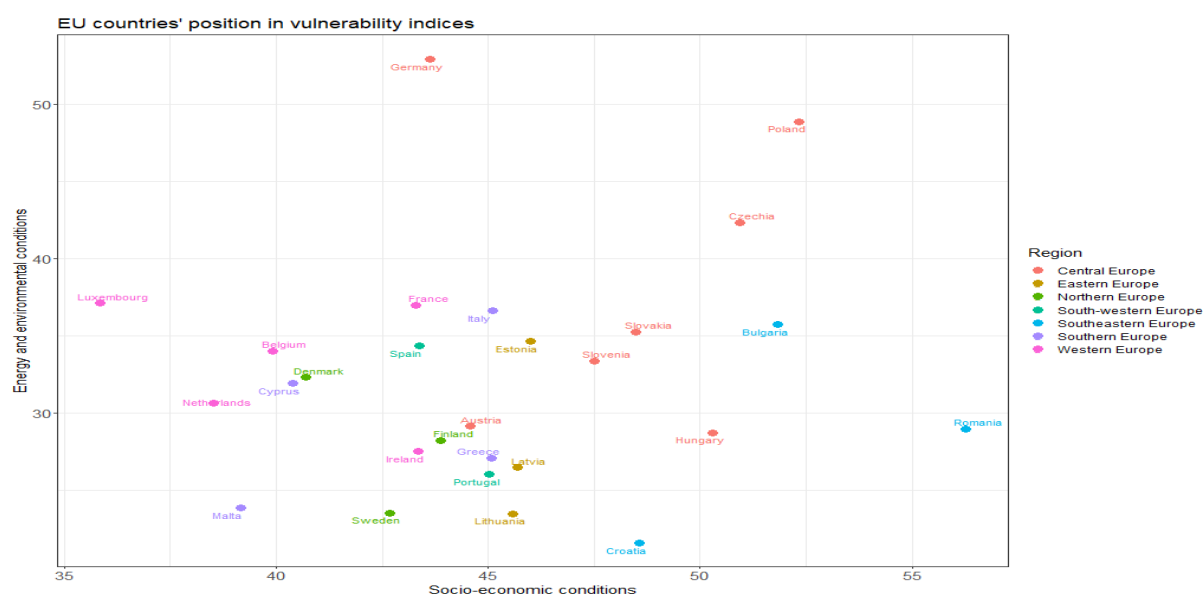
What remains unclear is how this change will inform actual policies. The intricacies of economic dependency will not fade away by adopting a new strategy or different rhetoric. In the past 20 years, Europe's dependence on external economic and technological relations grew extensively. Despite well-meant policies, Europe has been continuously losing its technological competitiveness. This is valid especially when looking at the abilities of the Europeans to transform knowledge into applied innovations and technologies at a necessary scale and, thus, into capital. Let us also not forget that the previous strategies to increase EU's global

competitiveness were designed and carried out during much more favorable socioeconomic conditions than today. And yet, in the crucial areas of innovations and competitiveness their results were mixed at best.

### *Regional Context*

The picture gets even more complicated when we look at the situation in various EU regions. Recent data-based research done by the Global Arena Research Institute<sup>3</sup> found evidence that the benefits and costs of innovations, technological changes and past decade of globalization have been distributed unevenly across the EU regions, thus further deepening the intra-EU divisions.

Chart 3: Vulnerabilities of EU countries to energy and digital transition relative to socio-economic conditions.



Source: Data: Eurostat, OECD, World Bank, calculations, and visualizations by Global Arena Research Institute

Chart 3 shows relative positions of the EU countries in a two-dimensional space, where vertical axis represents the magnitude of challenges related to digital and green transitions and the horizontal axis represents the socio-economic vulnerabilities of the EU countries. This chart provides a general overview of the divisions within the EU. Perhaps unsurprisingly, the Central European and Southeast European countries are in a much more difficult position. If we look

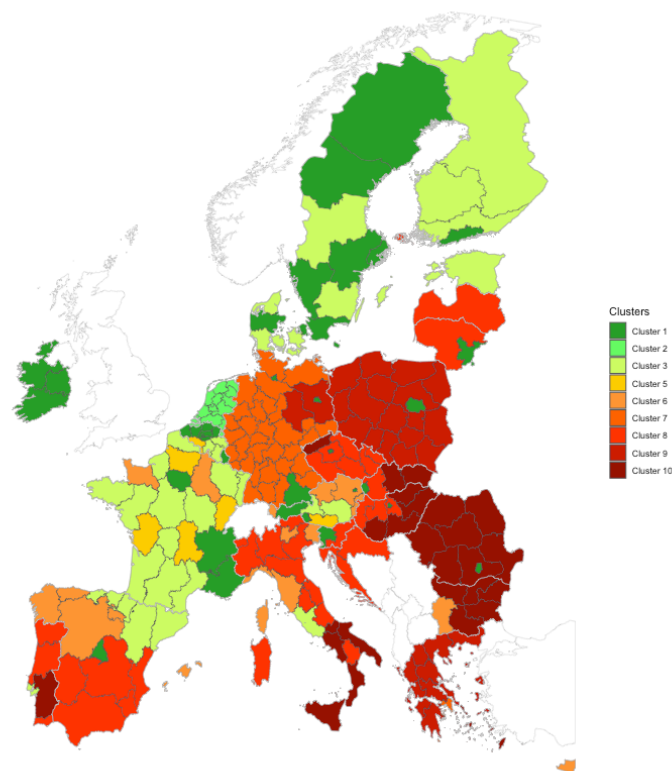
<sup>3</sup> This yet unpublished research was based on analyzing roughly 1200 indicators across 14 socio-economic domains at a NUTS2 and NUTS3 EU regional levels between years 2014 – 2021. This research was part of a multi-year project of building the Digital Twin of the Globalized World, supported by the Czech Technology Agency.

deeper at the regional level, the picture gets further complicated as it points at divisions *within* the EU countries.

The following chart shows clusters of regions based on their resilience/vulnerability to the twin transition, it is a composite index across 10 socio-economic areas (such as research and development, social conditions, macro-economic indicators, education, digitalization, employment).

Chart 4: EU regions' socio-economic status by clusters

EU NUTS2 regions clustered based on indices in 2019



Source: Data: Eurostat, calculations, and visualizations by Global Arena Research Institute

Both charts point at relatively high vulnerability of most German regions, which is especially troubling given the prominent political and economic role Germany plays in today's Europe. Looking at further at the distribution of socio-economic conditions, there are few urban regions around metropolitan areas (such as Paris, Berlin, Munich, Brussels, Luxembourg, Utrecht, Vienna, Prague). These regions are clear winners of the socio-economic transformations of the past decade and the pace of their development surpasses all other regions. Regions that are –

broadly speaking – in a geographical proximity to these urban centers faced stagnation or slower pace of development, still the differences have not been that damaging. Yet, more than half of European regions are in such a geographical and economic position that drives them into further and deeper deterioration in key areas such as research and development, business development, economy structure, or social conditions.

Another headache emerges if we add a layer of trade-related vulnerabilities. A whole new category cluster of regions that are exceptionally vulnerable to all three major trends (changing globalization, digital and green transition) appears. This is especially true about the highly industrialized regions in Central Europe (Eastern Germany, Northern Czechia, Southern Poland, Slovakia, partly Hungary). They are defined by lower levels of added value of their economy, high export/import dependency, lower shares of services in their economic structures, weaker digital and innovation conditions, and high share of energy- and pollutant-heavy industries. Here, the regional problem becomes a European problem. The scale and scope of (very broadly defined) investments needed to transform these clusters of regions likely surpass the threshold of what the national government and/or the EU can come up with. Importantly, the scale and scope of these investments also likely surpass the threshold of what these regions can digest in the limited time given.

All this happens in such a context where the European public is unusually receptive to anti-globalist arguments. Also, there is a widening spectrum of political parties or movements that put anti-globalism at the forefront of their agenda. European societies are riddled with a distrust of globalization that is often associated with the contemporary global elites. Agenda of commercial global flows and globalization experiences politization at levels not seen for many years. This also means that policy choices are more exposed to getting befuddled by politics.

With merging of geo-economics and geo-politics, there are those willing to risk – and can afford facing – the fallouts. Those who are looking for policy answers in post-Covid Europe have already seen the contours of the world with much limited flows and can imagine the consequences. Europe can neither afford nor is willing to risk the fallouts of this scenario but there is an emerging perception that it will have to do both. The sad irony is that Europe knows that the consequences will be dire, especially given their uneven impact on European regions.