

A Changing World

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Five years after the last European elections, the geopolitical landscape has drastically changed. From COVID-19 to economic tensions, war in Europe, and the rise of illiberal forces, the relationship between the EU, the US and China has undergone seismic shifts. This year's elections on both sides of the Atlantic are likely to alter these dynamics once more.

In the last few years, the world has experienced some of the most rapid changes since the end of the Cold War. Even a brief *tour d'horizon* of events since the 2019 European Parliamentary (EP) elections would highlight: a global pandemic, full-scale war in Europe, a stagnant Chinese economy, Donald Trump's mercurial and isolationist presidency, a smaller EU, inter-state and non-state war in the Middle East, and accelerated climate change. Domestically, illiberal right-wing parties have grown in strength on both sides of the Atlantic, brandishing a method and message that threatens to weaken Europe's most prominent and successful institution and the democracy on which it is based.

Starting in 2020, the virulence of the COVID-19 pandemic overwhelmed political borders to cause more than seven million deaths worldwide – more than 2.25 million in Europe. Rates of economic growth, trade, investment, travel, and tourism all plummeted, and angry populations sought to blame China, where the disease began. Relatively quick action managed to curb the disease in the US and Europe, and only later in China. After a modest recovery, economic growth rates in the EU and China have flattened out.

The EU lost one of its top economic performers and most militarily capable members when the UK withdrew in 2021. NATO, on the other hand, continued to grow, adding three members since the last EP elections – most significantly, well-armed Sweden and Finland, with its long border with Russia. That enlargement was provoked by the Russian invasion of Ukraine, which produced a historic unity among the EU members. Contacts with Russia were cut and trade was reduced, including crucial imports of Russian natural gas and petroleum products. EU countries adapted by cutting consumption, shifting partners, and importing liquefied natural gas (LNG).

Broad sanctions against Russia have been applied and expanded, affecting finance, assets, travel and investment. While alternative trade – including with China and using a 'shadow fleet' for oil deliveries – has allowed Russia to avoid some pressure, growth figures and large-scale emigration reveal a weakened and distorted economy. Since the invasion, NATO defence spending has met the ambitious guideline of two per cent of GDP and the EU has provided nearly €90 billion in military and humanitarian aid to Ukraine – more than the United States.

The last half-decade has not been kind to China either. In addition to the disappearance of 5+% annual growth rates, harsh COVID-19 lockdowns and erratic policies have made foreign investors wary. Foreign direct investment (FDI) into China hit a three-year low in 2023. At the same time, Chinese investment in Europe, once a preferred and welcoming zone, has plummeted to levels not seen in a decade. Beijing has tried to make up for this with reinvigorated activism in other regions, such as the trillion-dollar Belt and Road Initiative but debt levels and backlash against unfulfilled Chinese promises are obstacles.

Globally, the country's responses to COVID-19 and human rights combined with China's aggressive territorial assertions in the South China Sea soured attitudes toward China.

Suspicion of China has been reinforced by its willingness to endorse Russian excuses for the invasion of Ukraine, casting some doubt on China as a champion of national sovereignty. European leaders have been frank in their criticism of this support and Beijing's unwillingness to use its influence to help end the conflict. At the same time, the EU has adopted economic and security policies in what is now referred to as the "Indo-Pacific" that are directly supportive of US-led efforts in Asia.

Transatlantic ties

The United States and Europe are each other's most important economic partners. While China is the largest provider of goods to Europe, the overall transatlantic trade in goods and services is more than one-third higher than that with China. Direct investments back and forth dwarf such ties with China and create some 16 million jobs.

Since World War II, the US has been linked to Europe's defence through NATO. With the end of the Cold War, the alliance not only expanded its membership but added "out-of-area" tasks to its portfolio. These include peacekeeping in the Balkans (73 per cent of the forces in Kosovo are from European NATO members), leadership of the military operation in Afghanistan and, since 2022, a "shared security interest" in the Indo-Pacific.

Across the range of issues, European states and the US have not always seen eye-to-eye, for example on the promotion of democracy. But the Russian invasion of Ukraine in 2022 strengthened transatlantic unity – ironically, given Vladimir Putin's preferences. The sanctions adopted by the EU mirror those of the US, which has become the single largest supplier of both oil and liquified natural gas to the EU. NATO's enlargement was secured with emoluments to Hungary and Turkey, and more than at any time since the end of the Cold War, Europe and the US have been enjoying a period of common action.

The Biden administration has been careful to repair and prevent obstacles to continued transatlantic closeness. During 2018 and 2019 the administration of Donald Trump used a national security justification to impose tariffs not only on Chinese goods but also on many European exports, including steel and aluminium. President Biden suspended most of those directed at Europe in 2022 and extended the exemption until 2025; the EU ended its countermeasures and trade negotiations are continuing. A broader US-EU Trade and Technology Council was created in 2021 to work on investment screening and AI issues, among others, and to demonstrate Washington's commitment to mutual agreement after the contentious Trump period.

But domestic political demands have also led to actions in the US that might carry negative consequences for Europe. Producing advanced AI and chip equipment and efficient green technology at home is preferred, because it avoids supply chain issues, protects individual and collective security, and provides jobs – all important goals in an election year. The Inflation Reduction Act and Chips and Science Act, both enacted in 2022, involve significant industrial subsidies and consumer tax incentives along with some "buy American" provisions that alarmed European businesses and governments. Europeans worry that such "onshoring", while politically necessary (as evident in European responses), could erode newly found transatlantic modes of cooperation. Critics on both sides of the Atlantic decry what they see as protectionism that will not protect consumers or national security. But such measures are difficult to reverse in an election year.

The US-Europe-China triangle: a colder environment

The rising economic power of China has posed its own challenge to the US-European relationship. Early in the century, the Communist Party's "Go Out" policy and a benign international environment favoured a vigorous Chinese search for foreign export markets and sources of primary goods. In Europe, desires for economic growth after the recession of 2008-2009 produced a boom in Europe-China trade and investment. The EU was attractive, as the world's largest market and divided government meant that restrictions on foreign investment were weak and non-uniform – unlike in the United States. By 2021, Chinese investment had brought some €200 billion into Europe.

As Chinese presence grew, unhappiness surfaced among European businesses. Blunt criticisms were aired about Chinese trade practices, restrictions on foreign investment, and intellectual property violations. Such complaints were nearly identical to those raised in Washington. A comprehensive EU-China investment treaty lagged and in 2021 was shelved by the European Parliament.

In both Europe and the US, China's assertive international policies began to raise security concerns. In 2019, the EU formally declared China to be a "systemic rival". Beijing's human rights policies and pressure on new smaller EU members in Eastern Europe worsened the atmosphere, as did mutual accusations and restrictive policies during the COVID-19 outbreak. Supply chain worries and the EU's recognition of its own growing dependency, combined with US pressure, led governments across Europe to restrict the adoption of Chinese communications systems like Huawei. In 2020, the EU adopted its first bloc-wide foreign investment screening policy, which enjoined members to pay close attention to the sectors and scope of foreign (read: Chinese) investment in Europe. By 2023, 21 members had either adopted or strengthened national policies.

For China, a state-directed economy, subsidies, and targeted capacity-building in key sectors constitute standard policy. They are hard to reverse, even – or especially – in the face of foreign pressure. Moreover, producing and selling products with high global demand, like communication systems and solar panels, keeps the factories at home humming. In the words of US Treasury Secretary Janet Yellen, China is trying to "export its way to rapid growth". This has, predictably, sparked protective reactions in both the US and Europe. Washington and Brussels are actively engaged in "de-risking" strategies, aimed at reducing economic dependence on China for either products or natural resources, such as rare-earth minerals.

At the same time, China has been eager to assert its national sovereignty in the South China Sea and vis-a-vis Taiwan, while reducing its own vulnerability to global economic forces – including possible US sanctions for supplying Russia. It has been trying to "de-dollarise" its trade, offering bilateral currency swaps and encouraging the use of the yuan. Such efforts are particularly vigorous in the "Global South" and complement a push to exert influence through the Non-Aligned Movement.

Despite aspirations, an overall doctrine and officials to implement it, on foreign policy the EU is usually not a unitary actor. National preferences are privileged and tend to exert centrifugal force.

The global dilemma for Beijing is the same as it faces at home: how much power to allow markets as

opposed to governments. How to engage with and profit from global capitalism, while resisting influence that might erode the Communist Party's power. For a government like China's, which is authoritarian but still in need of domestic support, the cross-pressures are great. Simultaneously, in the US and Europe, there is a great need – especially during election run-ups – to be “tough on China”.

In Europe, the conundrum has an additional dimension. Despite aspirations, an overall doctrine and officials to implement it, on foreign policy the EU is usually not a unitary actor. National preferences are privileged and tend to exert centrifugal force. For example, European investment in China has become greatly concentrated among a few key partners, like Germany, who are loathe to risk markets and growth. Others, like Italy, with a more rightward-leaning government and concerns among key constituents about Chinese presence in its economy, have taken a firmer line, closer to that of the US.

EP elections and foreign policy

Generally, foreign policy issues do not figure highly in national elections in the US or Europe. As US citizens prepare to go to the polls in November, for example, surveys show that economic issues, including inflation, dominate their concerns. Similarly, across Europe, the European Council on Foreign Relations found that only in the most exposed new East European members does a pure foreign policy issue – the threat of Russia – figure prominently. Migration, a “hybrid” issue (both foreign and domestic), is the number one concern in Germany, while climate change, economic turmoil and the repercussions of COVID-19 are most salient elsewhere.

Still, election years are usually not good for free trade policies. In the US, Joe Biden needs union support in key industrial states to hold off Donald Trump. Granting the EU a pass will likely not be controversial, but the president will have less freedom to act when it comes to China. Since becoming president, he has not suspended or removed tariffs against Chinese steel and aluminium as he did for Europe. Instead, he pushed for expanded restrictions on exports of advanced microchips and the equipment for their manufacture. As part of its global effort to reduce the risks from China, Washington has successfully added partners in Europe and Asia. In August 2023 President Biden added outbound investment to scrutiny, issuing an executive order to establish strict regulations on American high-tech investment in China.

European actions have also become more vigorous. In the past year alone, the EU has initiated investigations into Chinese subsidies in key export sectors, including electric vehicles, wind turbines and medical and security equipment. As *Politico* put it, “Europe's phoney war with China is at an end”. Still, leaders of major European China partners, like Germany's Olaf Scholz, are protective of key sectors (automobile production) that rely on sales and investment in China. Cross-cutting goals are also evident in the US where the desire to boost renewable energy sources has led President Biden to exempt Chinese-made solar panels from tariffs. Fearful of price competition, however, US manufacturers are clamouring for such tariffs to be restored to protect them.

The delicate balance of domestic constituents and international partners is also seen in the use of targeted industrial policy. As part of its response to China, as well as the dangers of climate change, the US has begun to devote substantial government subsidies to key industries, e.g. microchip production and green technology. Such subsidies generally run counter to US commitments under the WTO but mirror those long used in other countries, including Europe. The danger for Europe is that subsidies and tax incentives to US companies could put European products at a comparative price disadvantage and undercut the production of green technologies, leaving Europe more, not less, dependent on China for such products. European business and government leaders also fear that firms will move to the US to

avoid the extra cost or restrictions, costing European economies precious jobs. Overall, such fears seemed to have calmed and the EU and national governments have responded with their own subsidies, so “US bullying” is less likely to be a powerful campaign slogan.

A move to the right?

Since the last EP elections, the challenge to both democracy at home and the EU’s global stance has come largely from domestic politics. Fundamentally, the radical right parties base their appeal on a stance that opposes a stronger Brussels across all policy areas, including migration, climate change and foreign policy. Most forecasts point to a high likelihood of right-wing parties gaining seats in the next European Parliament. If so, EU foreign policy will be a central focus for change.

Carnegie Europe recently published a 14-country study of the rise of radical right parties and the way they might affect EU foreign policy – or are already doing so. The growing strength of such parties across Europe has already moved mainstream parties to the right on migration, for example. When in power in a member state, such parties can block or extract ransom for foreign policy consensus. Applying sanctions on Russia has typically involved tortured negotiations with Viktor Orbán of Hungary, usually followed by exemptions for his country.

The Carnegie report also points to compromising the EU “foreign policy architecture”, e.g. in the Commission, as another possible blow to its foreign policy. The standing of Commission President Ursula von Leyen, for example, could be weakened even if she is not defeated in the EP vote for that position. She could be forced to appoint Eurosceptic politicians to key positions, including those dealing with foreign policy.

In the US, the startling victory of neo-isolationist, “transactionalist” candidate Donald Trump in 2016 damaged US-European ties with threats and tariffs, abrupt changes in policy, and the spectacle of the US president fawning over dictators from Vladimir Putin to Kim Jong Un. A return to power by Donald Trump would not only bring with it a return to the disparagement of Europe but also a full range of policy reversals on trade and climate change. Most alarmingly, given Trump’s scorn, it could also mean an end to the historic security relationship represented by NATO. It would be, as *Foreign Affairs* recently described it, “a sea change in domestic and foreign policy”. Just the prospect of a Trump return has inspired calls for a Europe that spends more on defence, coordinates its trade and technology policies more effectively and, above all, reasserts the importance of democratic values.

Among both European and US electorates, right-wing populist candidates – and some governments – have gained followings by brandishing the promise of national over supranational solutions to international problems – even those that are manifestly not contained by political boundaries, like climate change and migration. If successful in Europe, either by winning office or through political marriages of convenience, such forces would put the continent and its people on a very different path than that travelled for the last 70 years.

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