



Photo: © Mads Claus Rasmussen, Ritzau Scanpix, picture alliance.

[What Will Become of Globalisation?](#)

Searching for the Right Dose

On the Role of State Intervention in Times of Goeconomic Competition

Gunter Rieck Moncayo

For Germany and Europe, the geopolitical environment has deteriorated massively. Our foreign trade policy cannot ignore this fact. That is why the term “de-risking” is on everyone’s lips. The demand on the state to intervene in economic relations if necessary to protect its own security is increasing. That is quite right, as long as we realise two things: more is not necessarily better. And even the best de-risking instruments are of little help without your own competitiveness.

It was a boom with a bang: since 5 July 2024, manufacturers of battery electric vehicles (BEVs) from the People’s Republic of China have to pay a so-called countervailing duty of up to 37.6 per cent in the form of bank guarantees if they want to import their cars into the European Union. According to the European Commission, these duties are intended to compensate for the unfair competitive advantage enjoyed by Chinese manufacturers owing to state subsidies. In doing so, the Commission drew on its geo-economic toolbox, which it has greatly expanded in recent years in response to the changing global political situation.

There were mixed reactions to the Commission’s decision: while a survey conducted by the German Economic Institute (IW) showed a clear majority of companies (eight out of ten) in favour of the announced measure,¹ many observers warned of Chinese countermeasures and an escalation into a trade war.² In the short term, however, the European show of power was successful, at least in the sense that only ten days after Brussels informed of its plan on 12 June 2024, negotiations were announced between the European Union and China to find an amicable solution. However, China will initially respond with its own measures.

Only time will tell to what extent the feared trade war will actually materialise. Meanwhile, Europe has demonstrated its ability to act on the geoeconomic stage, despite all the prophecies of doom.

The New Geopolitical Reality

At the end of 2019, Ursula von der Leyen caused astonishment when she announced at the beginning of her first term as Commission President that she wanted to lead a “geopolitical commission”.³ From now on, global power politics was also to be conducted from Brussels and no longer only in Member States’ capitals. And even if it was not entirely clear at the time what this announcement would mean in practice, the new geopolitical reality quickly showed that the European Union could not avoid aligning its external action more closely with interests of power politics and possibly also using economic instruments to achieve them.

Following Russia’s attack on Ukraine, a gas embargo was hotly debated in Germany, aimed at cutting off an important source of Russian revenue to finance the war. At its core, the debate centred on the dependence of Germany’s energy supply on gas imports from Russia. The question was: are we even in a position to play this trump card? Or do we end up harming ourselves more than the other side? The discussion was finally brought to an end by Russia itself, which first reduced gas supplies to Germany and then stopped them completely.

However, even prior to the Russian invasion of Ukraine and the associated debates about dependence on gas supplies, the issue of economic resilience had gained in prominence in the political and public arena as a result of



The subject of the dispute: The EU Commission accuses China of conquering the European market with subsidised electric vehicles and imposed countervailing duties on 5 July 2024. Photo: © Frank Hörmann, Sven Simon Fotoagentur, picture alliance.

various disruptions to value chains. For example, empty shelves in the wake of the fight against the coronavirus pandemic and supply bottlenecks due to the blockade of the Suez Canal caused by the Ever Given container ship accident in March 2021, have markedly demonstrated the vulnerability of global supply chains. In an era when just-in-time production with the smallest possible stocks had become the standard, these disruptions had far-reaching consequences, and further disruptions to delivery routes are likely to occur in the future. The consequences of climate change only add another “source of error”, as recently demonstrated by a drought in Central America, which temporarily

reduced the capacity of the Panama Canal by 40 per cent. This resulted in long waiting times and detours with corresponding delays at the ports of destination.

De-globalisation is by no means occurring, but rather a reorganisation of globalisation.

More than ever, though, the resilience of an economy must also be measured by its ability to respond to geoeconomic attacks, as shown by

the example of the Russian gas tap being turned off for Germany in 2022. This is not a new phenomenon, just look at the conflict between Japan and China over rare earths since 2010.⁴ Yet, there is no doubt that geopolitical tensions are rising and potential conflicts involving Europe are at least becoming more likely.

It is important to note that despite these shocks, global trade has continued to grow unaffected, at least for now. Contrary to predictions by some observers at the peak of the coronavirus shock, de-globalisation is by no means occurring.⁵ But what is actually happening is a reorganisation of globalisation, a re-globalisation in which various processes are taking place in parallel: fragmentation, regionalisation, diversification.

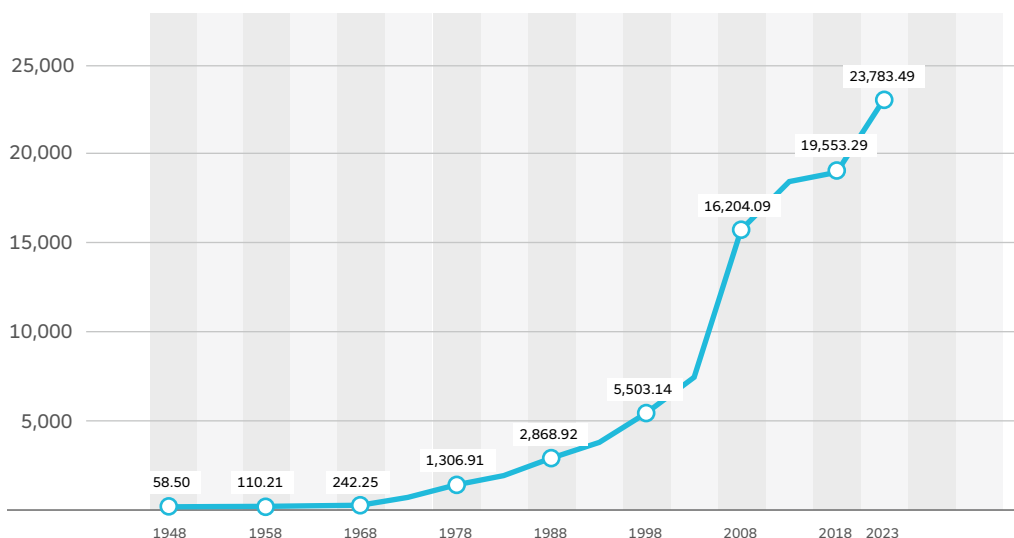
Germany's industry is more dependent on China than any other in Europe.

De-Risking Is the Order of the Day

The buzzword par excellence in these times of re-globalisation is “de-risking”. The term originates from the world of finance. It describes the termination or restriction of business relationships by financial institutions with certain customers or customer groups so as to exclude risks (“avoid, rather than manage, risk”). The “new” de-risking in the geoeconomic context is also about reducing risks in economic relationships, but without breaking off the relationships completely.⁶

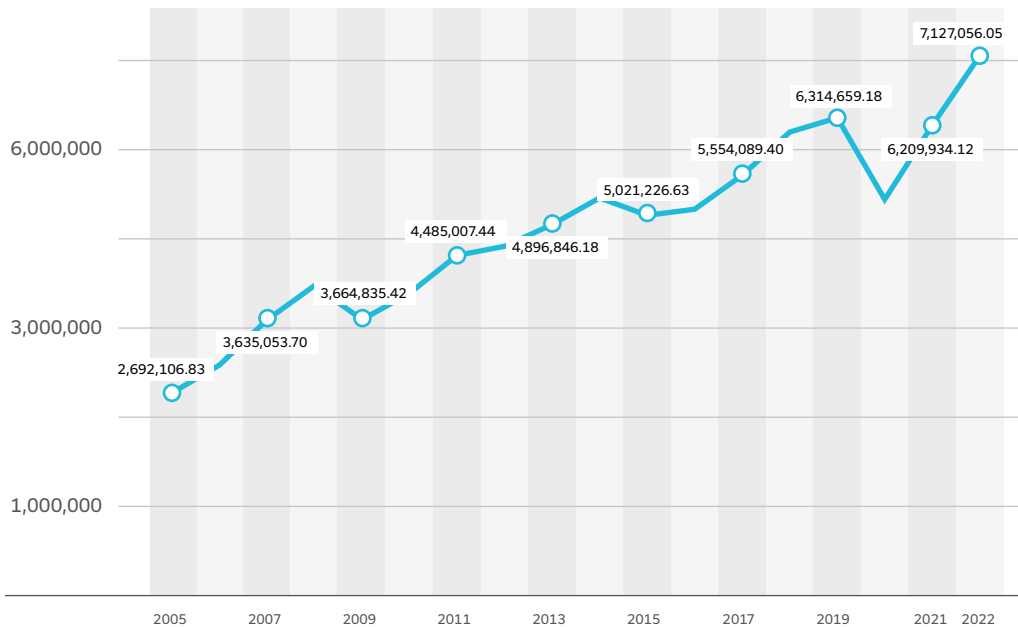
The main aim is to reduce dependencies in value chains that could be exploited by third parties to achieve geopolitical goals. Now, dependencies in the economic sphere are not bad per se. Quite the opposite: the concept of the global division of labour is based on the fact that not every economic unit holds the entire value chain in one hand. Exchange and specialisation create added value for all sides, giving rise to a deliberate dependency for mutual benefit. It is to be assumed that the decentralised spontaneous organisation of these diverse dependencies can be brought about more efficiently by the market

Fig. 1: Global Volume of Trade in Goods from 1948 to 2023 (in Billions of US Dollars)



Source: own illustration based on Statista 2024: Entwicklung der weltweiten Exporte im Warenhandel von 1948 bis 2023 (in Milliarden US-Dollar), 10 Apr 2024, in: <https://ogy.de/ngou> [11 Jul 2024].

Fig. 2: Global Trade Volume for Services 2005 to 2022 (in Millions of US Dollars)



Source: own illustration based on Statista 2023: Entwicklung der weltweiten Exporte von Dienstleistungen im Zeitraum 2005 bis 2022 (in Millionen US-Dollar), 16 Aug 2023, in: <https://ogy.de/wtm7> [11 Jul 2024].

players than central government coordination could ever guarantee.

Having said that, critical and therefore potentially dangerous dependencies may arise that require government intervention. The danger lies in the fact that in times of increasing geopolitical fragmentation, other states could exploit dependencies to further their interests of power politics, for example by provoking disruptions to supply relations. Import dependencies on China are a particular focus here. Germany's industry is more dependent on China than any other in Europe, both for the import of raw materials and primary products, and as a sales market.

At first glance, the dependence on China does not appear to be too great, as the People's Republic accounts for only nine per cent of Germany's foreign trade.⁷ At second glance, however, dependencies that have become entrenched over long periods of time are clear to see, where a breakdown in supply relationships would have far-reaching (not only economic) repercussions

and where substitution is hard to achieve. However, these truly critical dependencies apply to far fewer imports than is generally assumed, and especially include pharmaceutical products and some raw materials such as scandium, yttrium, graphite, germanium and magnesium.⁸

It is to be expected that companies will hedge less against geopolitical risks than would be necessary.

There is a passionate debate about how to respond to this situation. Near-shoring, in which the individual production steps are geographically closer together again, may have been an understandable approach at the onset of the polycrisis outlined above, whereby disruptions along the supply chains occurred rather accidentally and without political influence due to the consequences of the pandemic and the

blockade of the Suez Canal. However, such an approach will not help against geopolitically motivated, deliberate disruptions.

In response to this new threat, so-called friend-shoring quickly emerged, in which geopolitical, rather than geographical, distances were to be minimised. Yet, the truth is that a supposedly brave new world where we only trade with like-minded value partners would not only be very small, but also very limited in terms of supply. It thus seems more expedient to have a mix of larger stockpiling to bridge short-term disruptions in supply chains and greater diversification of sources of supply to reduce dependence on individual countries over the medium to long term.

Structural Challenges for Companies

In a social market economy, companies are the primary addressees of all such considerations. For them, assessing risks in their production processes is always an important task. However, any hedge against risks is associated with costs, whether through increased warehousing or the diversification of supply relationships. From a business perspective, it is important that the cost of hedging against a particular risk is always in relation to the potential loss. In this sense, de-risking works like a classic insurance policy in this context: you pay a premium (cost of de-risking) to protect yourself against a loss event (disruption of supply relations). The problem here, however, is that the probability of occurrence cannot be calculated, particularly in the case of geopolitical risks. Therefore, it is generally not possible to insure against losses caused by such business interruptions on the open market.⁹

Companies therefore face the enormous challenge of determining the right level of de-risking. In a highly competitive environment, it is not surprising that companies avoid additional costs with an immediate impact if they cannot safely assess the potential medium to long-term benefits. We can thus expect that companies will tend to hedge less against geopolitical risks than

would be necessary for society as a whole. This is all the more true if companies assume, based on experience, that they will be cushioned by government support measures in the event of major upheavals. The costs are thus shifted, sometimes with active support from policymakers, from the company to future taxpayers, who will have to finance the government's additional debt service.

A look at the diversification efforts of German companies paints a mixed picture.

A further complicating factor for companies is that a monopolistic supplier structure means that it is simply impossible for individual customers to diversify their supply relationships. Especially in the processing of strategic raw materials, China has achieved a market power to which no alternative has yet been established. The demand for battery raw materials for the energy and mobility transition and for the ongoing digitalisation of society will further intensify these dependencies, as China is the dominant market player here.

A look at the diversification efforts of German companies in terms of de-risking from China therefore paints a mixed picture: in 2023, only 37 per cent of German companies were still dependent on upstream products from China, compared to 46 per cent prior to the start of the Russian war of aggression against Ukraine. At the same time, however, the number of companies that want to further reduce their dependency has also decreased. In some cases, dependency on imports has even increased because, for example, some primary products in the chemical industry are no longer produced in Germany at all due to the rise in energy prices.¹⁰ Jürgen Matthes from IW Cologne recently summarised the findings as follows: "On this basis, there is hardly any sign of structural de-risking of imports in 2023, although total German imports from China have fallen by almost a fifth."¹¹

The lack of visibility of private diversification efforts is also partly due to value chains increasingly being considered regionally rather than globally in the sense of a “local for local” approach. The aim is to guard against both disruptions to supply routes and protectionist trade restrictions, which are increasingly being employed by states as an instrument of geoeconomic power. In line with this approach, products for the Chinese market are then manufactured locally wherever possible, products for the North American market are manufactured there, and so on. As a result, more investments are being made in China, for example, during the transition phase in order to establish the corresponding value chains locally. The CEO of Mercedes-Benz, Ola Källenius, pointedly expressed his company’s prioritisation in the recent past by stating that de-risking for Mercedes means more China, not less.

Politicians must be aware of their own capabilities and limitations.

Would the State Please Take Over?!

Thus, if structural challenges mean that decentralised risk minimisation by companies falls short of the optimum for society as a whole, central government coordination appears to be necessary. In fact, the state can use cleverly designed de-risking to resolve the dilemma for companies and secure the competitiveness of its own economy in the long term. However, it is crucial that politicians are aware of their own capabilities and limitations.

A lack of information also makes it difficult for political decision-makers to assess the extent to which de-risking is necessary to achieve the socially optimal level. As with companies that have to accept higher costs in the short term as a result of their own de-risking efforts, society is initially threatened with a loss of prosperity owing to centrally coordinated de-risking

measures. And even if these short-term losses in prosperity must of course be set against any medium to long-term positive effects, the existing uncertainty leads to calculation problems. What is more, government decision-makers do not bear the resulting costs themselves, but impose them on other stakeholders – either as direct costs in the form of taxes, levies and additional compliance costs or indirectly through higher debt. This can soon result in state-coordinated de-risking becoming too far-reaching and the costs for society as a whole being higher than the potential damage against which it wants to protect itself. Clever policy should avoid this.

After all, we cannot afford this loss of prosperity. That is partly because, as an ageing society with stagnating productivity, we do not want to give up the social benefits we have come to





Traffic jam: In August 2023, container ships piled up at the entrance to the Panama Canal, whose capacity had been significantly reduced by persistent drought. Such natural events are a risk factor for world trade alongside politically induced disruptions. [Photo: © Mauricio Valenzuela, dpa, picture alliance.](#)

value. In addition, the necessary transformation of the economy and society towards climate neutrality incurs enormous costs (at least in the short to medium term), which also have to be covered.

There is no way around the strategic use of geoeconomic instruments.

However, despite all the hurdles and risks, there is no way around the strategic use of geoeconomic instruments, of which de-risking is just one component. And since large parts of foreign trade policy fall exclusively within the

competence of the European Union, the specific organisation of geoeconomic instruments is determined at European level. The corresponding toolbox has been greatly expanded in the recent past. There are now more than 20 different tools and strategies that can be grouped into three categories:¹²

1. Instruments to safeguard a level playing field with third countries, such as the anti-subsidy investigation, which has now led to the above-cited countervailing duties for Chinese electric cars;
2. EU instruments bridging the economic and security domains: the so-called anti-coercion instrument against economic coercion

by third countries, screening of foreign direct investments in Europe, export controls and outbound investment screening;

3. EU strategies to support its geoeconomic agenda, including the Cybersecurity Act, the Internal Market Emergency and Resilience Act, the scientific research framework programme Horizon, the European Chips Act and the Net Zero Industry Act.

This list gives an idea about how complex the implementation of a geoeconomic agenda is. In particular, there is a tendency towards a very high density of regulation, with some provisions immediately creating the need for the next regulation. In the worst case, the result is a political patchwork.¹³

The potpourri of different instruments and strategies with which the European Union seeks to ensure its geoeconomic capacity to act raises the question of when the state exceeds the limits of its capacity. The wide-ranging competences, which sometimes lie with the Member States, sometimes with the Commission – and there again, depending on the measure, either with the Directorate-General for Trade (DG Trade), the Directorate-General for the Internal Market, Industry, Entrepreneurship and SMEs (DG Grow), or the Directorate-General for Competition (DG Comp) – or the European External Action Service (EEAS), further increase the risk of the state overstressing itself. Given the very limited number of critical dependencies, which can be restricted to just a few products, fewer, but more precise instruments seem to be required.

It would be more than just collateral damage if, in addition to the critical dependencies, non-critical economic exchange relationships were also affected by overly ambitious regulatory zeal. There is little point in criticising dumping from China when it comes to products that can be produced more cheaply there than in Germany, even without state subsidies. Eliminating or even artificially increasing the price of these cheap imports would have an inflationary

effect and further delay the implementation of the energy and mobility transition.¹⁴

European trade policy is currently dysfunctional on virtually all fronts.

Focus on Your Own Economic Strength

In any case, it is crucial for the successful implementation of a geoeconomic agenda to focus on our European and German competitiveness. After all, our own strength is the best tool for greater resilience. To this end, the ability to innovate should be strengthened and weaknesses in the financing of start-ups should be addressed, for example by enabling public institutional investors to invest in venture capital and improving the tax position of entrepreneurial investments in research and development.¹⁵

There is also an urgent need to make European trade policy work again, so that business diversification can develop with as little disruption as possible. European trade policy is currently dysfunctional on virtually all fronts. The fact that the negotiations with Australia are failing; that there is a de facto deadlock with MERCOSUR; that the ratification of CETA is not in sight; and that an agreement with the United States is currently inconceivable (especially if Donald Trump were to be elected for a second term in office) is a trade policy disaster in itself. That this is happening at a time when risks should actually be minimised through greater cooperation with like-minded countries makes the failure inexcusable. Europe is in danger of losing touch with the rest of the world, and no amount of geoeconomic instruments can compensate for this.

Too many non-trade issues have been included in trade talks over the years, where the interests of our potential partners diverge so much that successful deals are prevented. And we are too unwilling to recognise that our protected agricultural markets, which distort competition, are

a major source of irritation for many potential partners. We need a new way of thinking to prepare Europe for the future. In any case, the trade talks should be less comprehensive, so that the end result is an “EU-only” agreement that does not require the Member States’ approval for full entry into force.

In contrast to “EU-only” agreements, comprehensive agreements are currently being negotiated that not only concern areas of exclusive EU competence, but also areas of competence of the Member States. These so-called mixed agreements must therefore not only be ratified at EU level, but also by the Member States themselves in order for them to fully enter into force. This has started to slow Europe down.

Germany and the European Union should continue to review regulations to determine the extent to which they harmonise with the objectives of de-risking and diversification. The German Supply Chain Act and the European Supply Chain Directive CSDDD, for example, make diversification more difficult and thus consolidate China’s dominant role. This is not what a coherent policy looks like.

It is right and important for the state to focus on risks that could jeopardise our ability to act. However, it must not overshoot the mark: if more and more details are regulated and entrepreneurial decisions are increasingly controlled, the function of free competition as a process of discovery is compromised and, with it, the greatest economic strength we have to offer as a free society. Yet, our strength and ability to innovate should always be the measure of all things. For only through our own strength can we ensure that dependencies are mutual and that they cannot be used against us.

– translated from German –

Gunter Rieck Moncayo is Economic and Trade Policy Advisor in the Konrad-Adenauer-Stiftung’s Analysis and Consulting Department.

- 1 Matthes, Jürgen / Schmitz, Edgar 2024: Competitive pressure from China for German companies, IW-Report 30/2024, German Economic Institute (IW), 11 Jun 2024, in: <https://ogy.de/hvn5> [16 Jul 2024].
- 2 The President of the German Association of the Automotive Industry (VDA), Hildegard Müller, commented that “countervailing duties for e-cars imported from China [...] are not suitable for strengthening the competitiveness of the European automotive industry”. VDA 2024: VDA Statement on EU Countervailing Duties. VDA President Hildegard Müller on EU Countervailing Duties, 4 Jul 2024, in: <https://ogy.de/xhle> [16 Jul 2024].
- 3 European Commission 2019: 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, 27 Nov 2019, in: <https://ogy.de/d0vb> [16 Jul 2024].
- 4 In September 2010, the captain of a Chinese fishing vessel was arrested by the Japanese Coast Guard in waters to which China also lays territorial claims. As a result, deliveries of rare earths to Japan were de facto halted for two months. Officially, however, China has denied an export ban.
- 5 For example, Dullien, Sebastian 2021: Nach der Corona-Krise: Die nächste Phase der (De-) Globalisierung und die Rolle der Industriepolitik, IMK Policy Brief 100, Institut für Makroökonomie und Konjunkturforschung (IMK) der Hans-Böckler-Stiftung, Jan 2021, in: <https://ogy.de/mn95> [16 Jul 2024].
- 6 Ursula von der Leyen: “This is why we need to focus on de-risk – not de-couple.” European Commission 2023: Speech by President von der Leyen on EU-China relations to the Mercator Institute for China Studies and the European Policy Centre, 30 Mar 2023, in: <https://ogy.de/ko5x> [16 Jul 2024].
- 7 See the public hearing of the Economic Committee of the German Bundestag on 10 April 2024 on economic relations between China and Germany, German Bundestag 2024: Prüfung der Wirtschaftsbeziehungen zwischen Deutschland und China, 10 Apr 2024, in: <https://ogy.de/r9p1> [16 Jul 2024].
- 8 Matthes, Jürgen 2024: Import side De-risking China in 2023: An anatomy of high German import dependencies on China, IW-Report 18/2024, IW, 9 Apr 2024, in: <https://ogy.de/g6oz> [16 Jul 2024].
- 9 In contrast, losses resulting from business interruption for other reasons are perfectly insurable, such as in the case of natural events, fire, burglary or strikes.
- 10 Baur, Andreas / Flach, Lisandra: Zeitenwende in German-Chinese Trade Relations? Evidence from German Firm, EconPol Policy Brief 57, CESifo, Apr 2024, in: <https://ogy.de/zjvt> [16 Jul 2024].
- 11 Matthes 2024, n. 8, p. 14.

- 12 The categorisation here is based on Leichthammer, Arthur 2024: Navigating the Geoeconomic Tide. The Commission's quest for a policy compass, Policy Brief, Jacques Delors Centre, 16 Apr 2024, in: <https://ogy.de/e2dr> [16 Jul 2024].
- 13 Ibid., p. 8.
- 14 Bollmann, Ralph 2024: Deutschlands fatale Abhängigkeit von China, Frankfurter Allgemeine Zeitung, 12 Apr 2024, in: <https://ogy.de/vst2> [16 Jul 2024].
- 15 Fochmann, Nadja et al. 2024: Mit Risikokapital Innovationen hervorbringen. Zur Weiterentwicklung der Wachstumsfinanzierung in Deutschland, Federation of German Industries, 29 Apr 2024, in: <https://ogy.de/se4z> [16 Jul 2024].