COMILLAS
UNIVERSIDAD PONTIFICIA
ICAI ICADE CIHS

Facultad de Ciencias Humanas y Sociales

Grado en Relaciones Internacionales

Trabajo Fin de Grado

"De-risking":

Approach to the concept and study of the possible consequences of a strategically autonomous policy of the European Union

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Madrid, abril 2024

Abstract

The European Union (EU) presents profound vulnerabilities with respect to certain critical resources and dependencies to other countries. In order to reduce, and ultimately eliminate, these threats the EU has launched a package of measures under the umbrella of Open Strategic Autonomy. This set of policies has as its priority the de-risking of the European economy in order to achieve what is referred to as strategic autonomy. That very term, "de-risking", has been used by political leaders in recent years on a regular basis; however, its meaning remains ambiguous. The aim of this paper is to properly define the term and to assess whether it is the right strategy for the EU for the future. The method used to carry out this analysis is through a case study of one of the most relevant policies approved by the EU in recent years, the FDI Screening Mechanism. The findings of this work suggest that the roadmap for achieving appropriate de-risking still depends to a large extent on the will of the Member States, who often have a different vision from that of the European Commission.

Key Words: De-risking, decoupling, European Union, Foreign Direct Investment, Investment Screening Mechanism, Member States, Open Strategic Autonomy, strategic autonomy.

Resumen

La Unión Europea (UE) presenta profundas vulnerabilidades con respecto a ciertos recursos críticos y dependencias de cara a otros países. Con el objetivo de reducir, y en última instancia, eliminar estas amenazas, la UE ha lanzado un paquete de medidas bajo el paraguas de la Open Strategic Autonomy. Este set de políticas tiene como prioridad el realizar un "de-risking" de la economía europea para poder alcanzar lo que se determina como autonomía estratégica. Ese mismo término, "de-risking", ha sido utilizado por los líderes políticos en los últimos años de forma habitual; sin embargo, su significado sigue siendo ambiguo. El objetivo de este trabajo es definir apropiadamente este término y evaluar si es la estrategia adecuada de cara al futuro para la UE. El método con el que se realizará dicho análisis es a través de un estudio de caso sobre una de las políticas aprobadas por la UE más relevantes de los últimos años, el FDI Screening Mechanism. Los hallazgos de este trabajo sugieren que la hoja de ruta de cara a alcanzar un de-risking apropiado sigue dependiendo en gran medida de la voluntad de los Estados Miembro, quienes suelen tener una visión distinta a la de la Comisión Europea.

Palabras Clave: Autonomía estratégica, Autonomía Estratégica Abierta, de-risking, decoupling, Estados Miembro, Inversión Extranjera Directa, Mecanismos de Supervisión de Inversiones, Unión Europea.

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List of Abbreviations

ASEAN: Association of Southeast Asian Nations

BRI: Belt and Road Initiative

CCP: Chinese Communist Party

CFIUS: The Committee on Foreign Investment in the United States

CRM: critical raw materials

EFSI: European Fund for Strategic Investments

EU: European Union

FDI: Foreign Direct Investment

FIRRMA: Foreign Investment Risk Review Modernization Act

GVC: global value chain

IR: International Relations

ISM: Investment Screening Mechanism

MERCOSUR: Mercado Común del Sur (Southern Common Market)

NATO: North Atlantic Treaty Organization

NGO: Non-Governmental Organization

OECD: Organization for Economic Co-operation and Development

OSA: Open Strategic Autonomy

PIF: (Saudi Arabia's) Public Investment Fund

R&D: Research and Development

SRM: strategic raw materials

1. Introduction

During the last decades, the European Union (EU) has embraced an economic model based upon the outsourcing of critical resources and technologies to other countries. This strategy has fostered the Union's development due to the easy access to raw materials and a vast clientele to sell goods and services to. Nevertheless, in the wake of a period characterized by rising foreign protectionist agendas, the EU has been suffering the pain of its vulnerabilities and dependencies. Made present by the COVID-19 pandemic and the Russian invasion of Ukraine, these vulnerabilities include critical dependencies on importing energetical and technological resources, limited defense capabilities and migration issues.

To address these vulnerabilities and dependencies, the EU and other global powers have adopted a new strategy known as 'de-risking'. This term has become a buzzword in the field of international affairs since European Commission von der Leyen announced it in a conference in 2023. World leaders talk now about "de-risking" their economies from external threats, mainly Chinese interference in the public sphere.

Despite its recognition and widespread use, this term has become somewhat confusing due to the lack of an established definition to support it. As a result, political leaders often use the term arbitrarily to describe their own agendas. This is problematic because the United States and the European Union, along with other major powers, have adopted a seemingly unified discourse around de-risking that does not align with what is being done in practice. The reality is that countries are establishing their own strategic agendas around the concept of de-risking, despite the fact that they are interpreting de-risking differently, shaping it under their own interests.

The aim of this thesis tackle said problem. In a nutshell, the purpose of this work is to bring clarity to the debate around de-risking, determine a definition that fits the EU's stance on de-risking and evaluate whether it is the optimal strategy for achieving its desired strategic autonomy, within its capabilities and opportunities. In order to achieve such objectives, this thesis is based on the revision of the EU's newly launched package of measures, Open Strategic Autonomy (OSA), which covers various aspects of EU competencies, including defense, trade, and technology. In addition, a case study will be performed on the basis of the Foreign Direct Investment Mechanism, one of the most important policies promoted under OSA.

Findings made on this research include that, de-risking can be defined as the strategy put into place in order to reduce economic dependencies and mitigate external threats through policies that focus on reducing the role of few foreign countries in trade, defense, and natural resources. At the same time, de-risking also implies boosting the European budget and human capital to develop cutting-edge technologies to catch up (and potentially compete) with the US and China.

In addition, evidence based on the case study suggest that the EU's current strategic framework (OSA) and its overall activity still relies too much on the decisions of Member States, which could contradict the stances of the EU. Other state-level actors such as the United States have stablished robust and comprehensive frameworks tackling their vulnerabilities and appear to be more assertive in their approach towards de-risking.

Once the contributions of this thesis are outlined, it is structure as follows. Section 2 further develops on the purpose and objectives of this thesis, justifying its relevance to the field of International Relations. Section 3 presents a detailed view on the challenges that the EU is currently facing and the tool it has enacted to solve such challenges, OSA. Section 4 focuses on provide a theoretical approach to the issue, in order to contextualize the EU's new de-risking strategy utilizing the securitization theory. Section 5 presents the case study based upon the EU's Foreign Direct Investment Screening Mechanism, comparing it to other Investment Screening Mechanisms, assessing its effectiveness, and exploring potential routes to improve it. Section 6 discusses broader effects and how de-risking conciliates with other existential debates present at the EU, such as enlargement, the expansion of the EU budget, and further state integration. Last of all, Section 7 puts together the conclusions of this work, and leaves room for further lines of action.

2. Purpose and objectives

After several decades of policies designed to enhance the outsourcing of production processes and the importation of critical materials for its economy, the EU currently finds itself in a weakened position compared to its global competitors (Pardo, 2023). Recent events such as the COVID-19 pandemic and the invasion of Ukraine have acted as catalysts for many symptoms to flourish, showcasing the glaring deficiencies in the EU's resources, economic willpower, and vulnerabilities regarding third states.

Currently, the EU is obliged to import a substantial portion of its resources in order to keep its economy afloat and fund its green transition, encompassing energy, raw minerals, technological components, and more (Findeisen & Wernert, 2023). To secure these vital resources, the EU has created long and delicate value chains, dependent upon the stability of political and economic factors in a global environment shifting towards assertiveness and protectionism. Such complicated chains have been jeopardized by state and non-governmental actors in the past due to conflict, interests, or pure politics, and are likely to continue to face similar challenges in the future. Potential threats to the EU include the risk of energetical cutoffs, retaliatory measures over the enforcement of restrictive trade policies, and the blockage of critical trade routes (Díaz Lanchas, 2023).

This state of chronic dependence is further exacerbated when the focus is narrowed to a few selected elements. According to the Spanish Presidency of the Council of the European Union (2023), the primary vulnerabilities faced by the EU are: the denominated as **Key Enabling Technologies** (advanced products and materials, technologies of life sciences, micro and nanoelectronics, artificial intelligence, and security and connectivity), **digital services** (cloud computing, quantum technology, cybersecurity) **and raw materials and semi-processed goods** (such as boron, lithium, rare earths). In words of USA National Security Advisor Jake Sullivan, "these were the kinds of dependencies that could be exploited for economic or geopolitical leverage" (Farrell & Newman, 2023). Indeed, having such vulnerabilities puts the EU in a position of exposure in regard to third states.

In this aspect, the main economic partners of the EU are gradually shifting their policies from trade openness towards a greater emphasis on self-reliance. In the United States, President Biden has continued the decoupling policy from China that was introduced in the Trump administration, expanding restrictive trade policies, and allowing for the implementation of subsidy programs critical for national industries (Gehrke, 2022).

Similarly, the United Kingdom, through Project Defense, Japan, through the monitoring of technological and economic security risks, and India, through the strengthening of its autonomous policy, have moved away from a model based on extreme globalization (Gehrke, 2022). On the whole, this group of countries seems to have adopted an approach that could be understood in terms of International Relations (IR) theories as the "securitization" of their trade relations. In this way, states imply that their dependencies or weaknesses are a threat to national security.

Among the countries that have started to showcase increased assertiveness with their peers in trade relationships, China notably emerges as the most challenging partner for the EU. This is due to the fact that at the time, China's resources are particularly critical for the green transition that the EU aims to undertake in the coming years. Among other elements, 98% of all imported lithium currently comes from this country, along with 80% of solar panels (The Economist, 2023).

In light of this context and faced with extreme pressure from society and the political class, the EU has embarked on a new foreign policy known as "Open Strategic Autonomy" (OSA). This strategy is designed to pave the way for the approval of policies with the aim of reducing vulnerabilities within the EU and strengthening its internal capabilities to ensure the survival of the EU as an integration project and its prosperity (National Office of Foresight & Strategy, n.d.).

By placing OSA in the forefront of its strategic agenda, European Commission President Ursula von der Leyen (2023a) has advocated the idea that the EU must "de-risk, not decouple" from China. This message entails the EU has to pursue the strategic management of risks associated with its intricate value chains, recognizing the importance of maintaining diplomatic and economic ties while mitigating vulnerabilities in the face of evolving global dynamics.

The term “de-risking” has long been used in other areas such as the financial sector, or the military sector. For now, European politicians seem to have employed it as a “buzz word” whenever asked about the future of EU strategy, with unclear explanation of what it means or what it implicates to the EU (Bildt, 2023). This research aims to provide a clear definition of the concept of “de-risking”, as well as analyze potential opportunities and risks associated, using the FDI Screening Mechanism policy as a case study.

The significance of this work lies in shedding light to an ambiguous concept, often misused, and that is going to mark the future of the European Union as a bloc in the long-term future. The result of the thesis will provide a comprehensive definition of “de-risking” that symbolizes the shift in policies that the EU has undertaken. Moreover, the research will also be directed towards assessing whether implementing de-risking is worth the effort, or if the European Union would be better served by adopting a different approach towards its strategic autonomy. In order to carry out that analysis, implications from the Foreign Direct Investment (FDI) Screening Mechanism will be examined, assessing whether this policy and OSA overall have real effects on other issues the EU faces, such as the financing of this strategy or how it aligns with other intentions, for instance, the EU enlargement.

This work will be directed at pursuing the following objectives:

- Describing why the EU has adopted Open Strategic Autonomy as the strategy designed to de-risk its economy.
- Defining de-risking: by exploring various interpretations and definitions, a clear and comprehensive definition of de-risking will be provided.
- Providing context on the origins of the emergence of de-risking and framing it through the lens of an IR theory, the securitization theory.
- Analyzing the EU’s Foreign Direct Investment Screening Mechanism and how its implications shapes the EU’s stance on de-risking.
- Describing what are the potential opportunities and risks associated with the implementation of de-risking in the EU.
- Explaining how de-risking is necessary (or not) to achieving Strategic Autonomy: leaving room to propose other methods of achieving Strategic Autonomy.

3. State of the question

To comprehend de-risking as a concept, it is first necessary to consider the political and economic risks faced by the European Union and the policies it has implemented in order to address them. This will enable a more rational approach to the term de-risking, which will lead to a better understanding of the concept, tailoring it to the current context of the Union.

3.1. EU's Outsourcing Model

Over the past two decades, the EU has embraced an outsourcing model in several key sectors in order to bolster its economic development. This approach has entailed a reliance on external sourcing of technology and security from the United States, energy from Russia and other nations, and export-led growth that is heavily dependent on trade activity with China (Pardo, 2023).

This approach to production and commerce has contributed to the economic development of the EU over the last two decades, primarily driven by the benefits of outsourcing as cheaper imports have played a crucial role in reducing production costs. Moreover, the delegation of non-core functions such as IT, marketing, back-office operations, and customer service to third countries has allowed the EU to focus on high-added value goods and services (Alexandrova, 2009). While this economic strategy has fostered growth within the EU, it has also led to high levels of dependency on external partners in critical sectors. This increasing interdependence has raised concerns about the long-term sustainability and resilience of the European economy, as it has become more susceptible to political and economic fluctuations outside of the bloc.

A clear example of this dynamic is showcased by the EU's economic leader, Germany. In 2021, Germany imported a significant portion of its gas supply, 32%, from Russia (Eckert & Abnett, 2022). This substantial dependence on Russian gas highlights the economic significance of energy security for EU Member States, which lack the resources to produce sufficient energy to sustain their economies. This reliance on external gas, while providing a stable and inexpensive energy source, has exposed Germany to geopolitical vulnerabilities.

Furthermore, this country engaged in extensive trade with China, with exports reaching $123 billion in goods, making it the second largest trade partner (World Bank, n.d.). This relationship could become harmful and further expose Germany because, as a manufacturer and exporter of cars and other automotive components, it may see its demand affected by Chinese interests in gaining market share in this sector.

In addition, according to an investigator from the US-based think tank Brookings, the conflict in Ukraine, with its relevance to Germany's numerous bilateral, regional, and global interests, has only magnified the vulnerability of the country (Stelzenmüller, 2022). In a time of rising protectionism, especially in the US and China, this Germany's deep interdependence with external suppliers and markets cannot be considered a catalyst of growth for its industry (Bofinger, 2023).

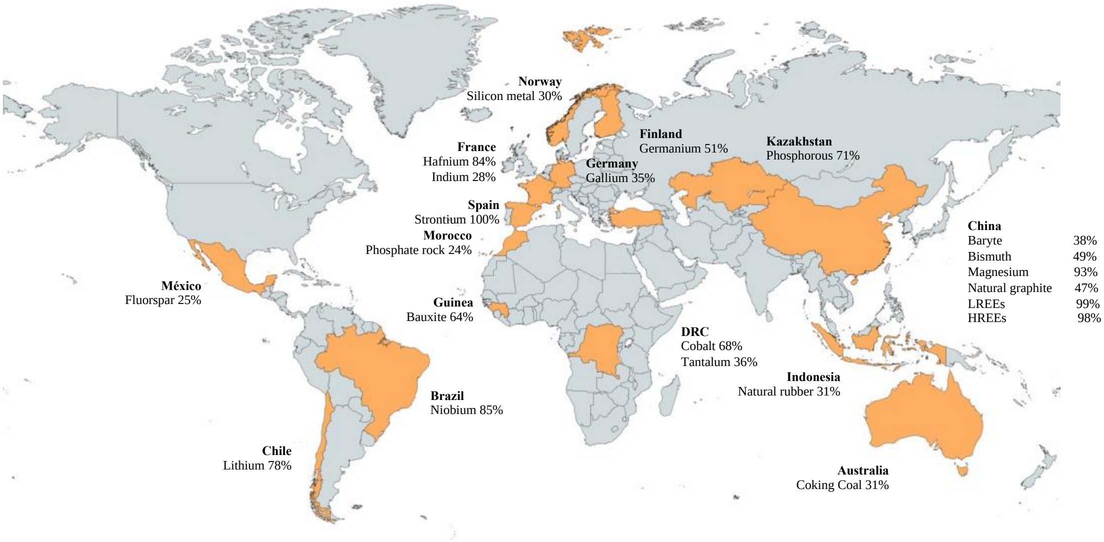
This case exemplifies the EU's outsourcing model, which, while providing economic advantages, it has also exposed the bloc to various risks, underscoring the importance of enhancing its capacity for resilience and adaptability in a rapidly changing world. The most crucial risks associated with this trend of policies are autonomous development, security and defense infrastructures, and key dependencies, which are energetical resources, critical raw materials (CRM), semi-conductors, and technologies such as advanced products or artificial intelligence.

3.2. The EU's Main Vulnerabilities

3.2.1. Key Enabling Technologies and global value chains

The EU's existing economic model, characterized by outsourcing and interdependence, has led to some one-sided dependencies, which are particularly evident in key sectors such as critical raw materials (as shown by Figure 1), semi-conductors, and technologies. These areas are denominated by the EU as "**Key Enabling Technologies**", because they are the basis for transforming the current economy to a carbon-neutral one by 2050 (Spain's National Office of Foresight and Strategy, 2023).

Figure 1: Main EU suppliers of Critical Raw Materials (CRM).



Source: *Cagnin, C., Muench, S., Scapolo, F., Stoermer, E., & Vesnic Alujevic, L. (2021). Shaping and securing the EU's Open Strategic Autonomy by 2040 and beyond (p. 7).*
Note: LREEs: Light Rare Earth Elements (which include lanthanum, cerium, or europium, among others); HREEs: Heavy Rare Earth Elements (which include gadolinium, terbium, or dysprosium, among others).

The main provider of these Key Enabling Technologies to the EU is China who for example, according to The Economist (2023), is also source of almost all rare earths, solar panels, and batteries in the world. In addition, the EU has signaled a subgroup of CRMs called Strategic Raw Materials (SRMs), which are 16 minerals critical for the production of technology, defense, or telecommunications (Righetti & Rizos, 2024). These commodities will likely see an uptick in demand during the last decades, so having a stable and reliable source of them is key for economic development.

Most SRMs have distinct applications that are difficult to substitute with other more common raw materials. This is why the EU has a critical dependency on China, because it holds the vast majority of these unique resources. The importance of these materials means that China may politicize their supply, posing a risk to the energy and economic security of the EU (Castillo & Purdy, 2022).

Figure 2 captures the strategic importance of the SRMs, signaling which technology do they enable, its Import Reliance (the level of dependency the EU’s domestic production has on said SRM), and its main supplier.

Figure 2: Import reliance, main EU supplier and applications of strategic raw materials (SRMs).

SMRs	IR	Main EU supplier (share)	Li-ion batteries	Wind turbines	Solar Panels	Electrolyzers	Fuel Cells	Traction Motors	Heat Pumps	Data transmission networks	Data storage and servers	Smartphones, tablets, laptops	Robotics	Drones	Space Applications
Bismuth	100%	China (65%)								●	●	●			●
Boron	100%	Turkey (99%)		●	●	●	●	●	●	●	●	●	●	●	●
Cobalt	81%	n/a	●			●	●			●		●	●	●	●
Copper	48%	Poland (19%)	●	●	●	●	●	●	●	●	●	●	●	●	●
Gallium	98%	China (69%)			●					●	●	●	●	●	●
Germanium	42%	China (45%)			●					●	●	●			●
Lithium	100%	Chile (79%)	●							●		●	●	●	●
Magnesium	100%	China (97%)				●					●	●	●	●	●
Manganese	96%	South Africa (41%)	●	●		●	●		●	●	●	●	●	●	●
Natural Graphite	99%	China (40%)	●			●	●			●		●	●	●	
Nickel	75%	Russia (29%)	●	●	●	●	●		●	●	●	●	●	●	●
PGM	96%	n/a				●	●			●	●	●	●	●	●
REEs for magnets	100%	China (n/a)	●		●	●	●	●	●	●	●	●	●	●	●
Silicon metal	64%	Norway (34%)	●	●	●	●	●	●	●	●	●	●	●	●	●
Titanium metal	100%	n/a										●	●	●	●
Tungsten	n/a	China (31%)				●						●		●	●

Source: Righetti, E., Rizos, V. (2024). Reducing supply risks for critical raw materials. Evidence and policy options (p. 4).

Note: IR (Import Reliance) = (Import – Export) / (Domestic production + Import – Export); PGM: Platinum Group Metals; REEs for magnets include the rare earth elements used for the magnets production.

Not only is the EU vulnerable to particular countries themselves, but also to the stability of the global value chains (GVCs) that transport said products from point to point. According to Harvard academic, Pol Antràs, GVC:

> consists of a series of stages involved in producing a product or service that is sold to consumers, with each stage adding value, and with at least two stages being produced in different countries. A firm participates in a GVC if it produces at least one stage in a GVC (Pol Antràs, 2020, p.3).

The EU is dependent on GVCs since it needs to import great amounts of raw materials and finished goods from a multitude of partners. For most of the time, GVC are expected to function seamlessly and benefit global trade; however, they have exposed Western economies to trade disruptions, such as the one erupted in Suez in 2021 (Díaz Lanchas, 2023). The Suez Canal and other points on Earth, such as the Panama Canal or de Strait of Hambantota, represent critical chokepoints for trade the EU is really vulnerable to.

Currently, most companies operating in Europe are part of these long and complicated GVCs, which benefits countries of origin usually found in Southeast Asia. As a result, companies are more exposed than ever to supply chain risks. In a global research carried by McKinsey & Company, half the company surveyed declared that they had suffered from supply chain challenges in 2023 that had caused major issues with their operations (Alicke, Foster, Hauck, & Trautwein, 2023).

In light of this situation, it has emerged a new wave of politics that pushes for the relocation of production plants and providers of resources through different strategies. These are: **friendshoring**, **nearshoring**, and **reshoring**. According to Senior Writer of the World Economic Forum, Stefan Ellerbeck (2023), Figure 3 includes the definitions and what changes would entail for the EU.

Friendshoring, nearshoring and reshoring, although helpful to reduce the risk associated with dependencies or national security threats, have their own set of negative implications.

Figure 3: Definitions and examples of friendshoring, nearshoring, and reshoring.

Term	**Definition**	**Implication**
Friendshoring	The process by which a company re-routes its supply chains to countries that are perceived to be politically and economically safe or low risk in order to avoid disruptions in the flow of business.	Moving production or resourcing to partner countries such as Japan, Brazil, South Korea, or Mexico
Nearshoring	The process by which a company moves its business operations to a nearby country, often one with which it shares a border.	Moving production back to the Mediterranean or Eastern Europe.
Reshoring	The process by which a company moves its business operations back to its country of origin.	Bringing back production to origin country.

Source: Own elaboration from Ellerbeck, S. (2023). What's the difference between 'friendshoring' and other global trade buzzwords?

First, there is the risk of retaliation. According to the proposals that appear in the Figure 3 , there would be a very high risk that the affected country would harm the EU. This could be either by restricting trade in other goods not considered “critical”, or by breaking off economic and political relations. In these situations, there is a fine line between what is considered a liberal policy and a protectionist policy, which could lead to an escalation as seen in the trade war between the US and China.

Second, there is also the risk associated with substitution. This would happen because the new countries, either the "friendly" or the "close" ones, are not able to satisfy the needs of the EU in the same way. Similarly,, they also could use their geopolitical interests as a yardstick for their relations and ask for increased incentives to the EU. The reality is that, by moving production chains from China to other places, it would be very difficult to find more competitive settings. In addition, other countries have their own set of political risks too, which could lead into further instability of the GVC and more complications to trade.

Third, and finally, there is the risk that this process will ultimately be passed on to consumers in the single market. As a result, European citizens would have to pay more and more for imported goods. One might therefore ask: would European citizens be willing to pay an increase for their consumer goods in order to "protect national security" or reduce dependence on certain countries? And should the answer be negative, would national governments (or the EU) be capable of bearing the burden of such an operation?

3.2.2. Advanced equipment and telecommunication services

At the same time that it has fostered an import-extensive model of Key Enabling Technologies, the EU has also increasingly deepened its technology collaborations with China and the US. This has led to imports of **advanced telecommunications equipment and artificial intelligence capabilities** (Eurostat, 2023). These cross-continental technology exchanges have not only enhanced the EU's competitiveness but have also created a dynamic technological landscape that promises to shape the future of the European economy. From the US, the EU has embraced cutting-edge innovations in areas like information technology, aerospace, and biotechnology, establishing strong partnerships with American tech giants (Eurostat, 2023), which have led to dependencies in light of technological development. In addition, there are security concerns that should be addressed because of growing influences set by China in modern devices and telecommunication services.

These concerns were exacerbated because of combined development of cutting-edge technology, such as 5G. Having signed an agreement in 2015 for the joint research and market openness of 5G fiber, in 2019, the European Parliament had published a report rejecting this agreement because they had found “interdependencies between 5G networks and many other systems in critical areas (e.g. health, autonomous vehicles, power, gas and water supply, defense)" (Friis & Lysne, 2021, p. 1181, as cited in von Blomberg, 2023).

Furthermore, there is a vulnerability associated with the EU's reliance on Taiwan for over 90% of its advanced semi-conductor needs. This dependency raises concerns should there be a cross-strait crisis that could involve China and Taiwan (Jash, 2023). This conflict would cut off a supply that, for the most part, is irreplaceable because of the inability of any country other than the US to produce such advanced semi-conductors to support the green transition the EU hopes to undertake.

3.2.3. Defense capabilities

In addition to the EU's deficiencies on CRMs and technologies, there are also **limited existing security and defense capabilities**. The EU has historically faced challenges in developing a robust system, unlike NATO. That is due to the fact that the EU lacks competence in the defense of its Member States. Nevertheless, the collective spending and capabilities of the EU countries could potentially form one of the strongest armies globally. The EU's approach to defense is centered around reacting to threats that mainly occur on the Southern and Eastern borders; however, there is need for creating a framework that tackles potential transnational, as well as hybrid threats (Cagnin, Muench, Scapolo, Stoermer, & Vesnic Alujevic, 2021).

Related to security capabilities is the ongoing migration crisis and the EU's **border issues**, which are being managed by Frontex on the one side, and bordering countries in Northern Africa and Southeastern Europe on the other. The externalization of border services is evident through actions focused on both delegating responsibilities, such as by providing financial support to NGOs or offering economic incentives, and exerting control, including funding third-party border security personnel, and strengthening detention facilities.

This model has created opportunities, including foreign governmental authorities, private security enterprises and militias in Northern Africa, to secure contracts for the supply of equipment and services. Currently, some of these actors have also found ways to profit from the migration industry they were meant to eradicate (Pacciardi & Berndtsson, 2022). What this implicates is that there is an incentive to help sustain the migration crisis, as long as the EU is willing to support external agents.

While the EU engages in technology collaborations globally, especially with China and the United States, enhancing competitiveness and shaping its technological landscape, it simultaneously faces security concerns related to growing influences from China and dependencies from the US. Furthermore, the EU confronts issues in its security and defense capabilities, lacking a robust, decisive, system comparable to NATO.

The current defense approach primarily focuses on threats along Southern and Eastern borders, needing of the creation of a comprehensive framework to address potential transnational and hybrid threats. Issues related to border management, externalized through Frontex and cooperation with neighboring countries, present opportunities for external actors in Northern Africa to profit from the migration industry, revealing a complex web of challenges that the EU must navigate in pursuit of its strategic autonomy and security.

In conclusion, the EU grapples with a many-sided challenge rooted in its economic and political model, characterized by dependencies on CRMs and key technologies, and its limited defense capabilities. These dependencies, particularly from China, pose significant energy and economic security risks, as witnessed in the EU's reliance on China for Key Enabling Technologies, crucial for transitioning to a carbon-neutral economy.

3.3. Open Strategic Autonomy

To try to mitigate these vulnerabilities, the EU has initiated what it calls Open Strategic Autonomy (OSA). This shift represents a significant change from the previous global strategy pursued by the EU, denominated Effective Multilateralism. Effective Multilateralism, launched in 2003, aimed at agreeing on strategic relations with different actors in an increasing multipolar scenario (Montobbio, 2013). However, a change was long overdue as European politicians caught up on the necessity of achieving strategic autonomy as a means of securing the European economy and its relevance in the global sphere.

As defined by the Council of the European Union, Strategic Autonomy is the “ability to act autonomously when and where necessary and with partners whenever possible” (Mogherini, Domecq, & Timmermans, 2016, p. 4). Strategic Autonomy is a term that has long been present in political talks in Brussels. It reflects the EU’s aspirations for greater independence in its longer-term vision and decision-making. However, effects from the last strategical route, Effective Multilateralism, still condition the EU’s ability to shift policies overnight.

Under the umbrella of OSA, a set of proposals and regulations is being introduced to bolster the EU's autonomy, fortifying its capacities, and diminishing dependencies on other states. Figure 2 lists some of these instruments. As set out in a Joint Communication by the European Commission and the High Representative:

> The proposed strategy sets out a common framework for achieving economic security by promoting the EU's economic base and competitiveness; protecting against risks; and partnering with the broadest possible range of countries to address shared concerns and interests. The fundamental principles of proportionality and precision will guide measures on economic security (European Commission and the High Representative, 2023, p. 1).

This approach encompasses two distinct angles. Primarily, there remains economic rationale in importing goods and services from cost-effective regions (e.g., importing batteries and minerals from China). This approach advocates for economic efficiency, promoting growth and competitiveness. However, the other angle is that following this strategy can lead to the potential "weaponization" of such resources, introducing geopolitical vulnerabilities, such as the ones evidenced by the case of Russian gas in 2022 (Tagliapietra, 2023).

For example, China has begun to feel the pain of reduced trade flows caused by increasingly protective agendas and has begun to impose restrictions and other retaliatory measures. The measures include (Benson & Sicilia, 2023):

- Prohibiting the use of Micron, an USA technological manufacturer, in critical infrastructure.
- Restricting export licensing on graphite, a critical mineral employed in the production of electric vehicles.
- Imposing export license restrictions on CRMs such as gallium and germanium, which, if put into action, could disrupt the semiconductor supply chains.

Figure 3 presents a selected list of policies launched by the EU in light of OSA, including its current state, description, and field of influence. As seen in the figure, most legislative actions have entered full application in recent years, which means that the EU has long worked on developing tools that can give the EU an edge on strategic autonomy regarding its resilience and economic coercion. In addition, they cover several critical areas related to strategic autonomy, which are security, defense, trade, and more.

A notable effort in order to counter pressures from third countries, the European Parliament and the Council have passed in November 2023 the **Critical Raw Materials Act**, which is entailed to limit any provider to supply more than 65% of any strategic raw material (Yun Chee & Blenkinsop, 2023). In addition, the EU has also passed a regulation on **Export Controls**, by which there will be a developed framework for the export of dual-use goods, those are items that can be used both for civilian and military purposes. By developing a comprehensive framework for exporting goods, the EU seeks to strike a delicate balance between fostering international trade and preventing the misuse of certain goods for military purposes (Gehrke, 2022).

Nevertheless, the landmark initiative tackling economic development and financial diplomacy is arguably the **Foreign Direct Investment Screening Mechanism**, which has been conceived to combat economic statecraft. This piece of legislation was put into place after years-long worth of securitization narrative around foreign (mainly Chinese) investments in strategic European infrastructure, such as ports or airports (Comerma Calatayud, 2023).

In essence, the FDI Screening Mechanism establishes a collaborative framework for Member States and the Commission to exchange information and express concerns. Additionally, it empowers the Commission to provide an opinion when an investment is deemed to endanger the security of a Member State (Ruys & Rodríguez Silvestre, 2023).

Figure 4: Set of instruments developed by the EU in light of OSA.

Instrument	**Year**	**Description**	**Tipology**
Distortive Foreign Subsidies Instrument	Entered full application on July 12, 2023	Policy aimed at preventing unbalances in the internal market due to excessive foreign subsidies, and thus, influencing economic agents.	Investments
Foreign Direct Investment Screening Mechanism	Entered full application on October 11, 2020	Policy aimed at creating a framework of cooperation among Member States to identify potential hazardous investments to the strategic interests of the EU.	Investments
Export Controls	New regulation adopted on May 20, 2021	Policy aimed at regulating the exports of dual-use products (both for civil and military purposes).	Trade, Security and Defense
Carbon Border Adjustment Mechanism	Entered full application on October 1, 2023	Policy aimed at fortifying EU's stance on carbon neutrality through tariffs on carbon-intense products, such as steel or concrete.	Climate Change and Energy Transition
Chips Act	Entered full application on September 21, 2023	Policy aimed at securing the semiconductor value chain and supply for the EU, as well as incentivizing investments in semiconductor production.	Security and Defense
Critical Raw Materials Act	Provisional agreement reached in November 2023	Policy aimed at protecting the EU from "weaponized dependencies" and assuring the supply of critical raw materials.	Security and Defense

Source: Castro Ribeiro, G. (2023). Geoeconomic Awakening: The European Union's Trade and Investment Policy Shift toward Open Strategic Autonomy (p. 21)

To sum up, it can be argued that the decades-long worth of policies that the EU has directed at externalize its economic development are what have left it with serious resource deficiencies and vulnerabilities. As it has been demonstrated, the EU is dependent on the import of CRMs and advanced technology for the maintenance of its economic growth, and dependent on the US to guarantee its security against external threats. In order to meet the challenge, the EU has launched OSA as a roadmap to achieve strategic autonomy as a bloc by strengthening its capabilities and de-risking its economy from other actors.

4. Theoretical Framework

4.1. What is de-risking?

In order to better understand the term de-risking, it is essential to approach the term from two distinct points of view, which will lead to a better comprehension on how actors, especially the EU, shape its definition through their policies and actions.

4.1.1. Risk and Securitization

First, it is crucial to define what is the risk an actor is facing. According to the World Economic Forum (2023), risks can appear in 5 different categories: economic, societal, geopolitical, environmental, and technological. It would be a combination of individual risks of each category that would make up the "overall risk landscape" of a country.

The European Commission, through its Joint Research Center, has compilated what it considers to be its weaknesses in these same areas (Cagnin, Muench, Scapolo, Stoermer, & Vesnic Alujevic, 2021):

- *Economic*: EU's decreasing market power, one-sided dependencies, increasing public debt
- *Societal*: political polarization and demographic challenges
- *Geopolitical*: increasing multipolarity, escalation of global threats (regional conflicts), expansion of new threats (cybersecurity, satellite infrastructure)

- *Environmental*: food and water security, climate change, lack of current decarbonization
- *Technological*: industry convergence, ethical challenges regarding AI, brain drain

Due to the varying strengths and weaknesses of states, the term “risk” can hold different meanings for each and every single one of them. While the US may be concerned with inflation or their trade conflict with China, in the EU it is clear that the most significant risks are the war in Ukraine and its dependencies on third countries. So then, how do these actors frame and prioritize these problems or vulnerabilities to portrait them as risks?

An IR theory was developed in the late 1980s and 1990s that could answer that precise question: the Securitization Theory, firstly announced by the Copenhagen School. In a nutshell, *securitization* is giving an issue “sufficient saliency to win the assent of the audience, which enables those who are authorized to handle the issue to use whatever means they deem most appropriate” (Balzacq, Léonard, & Ruzicka, 2016, p. 495).

The main argument of the Copenhagen School is that those in power can manipulate policy issues to be seen as national security risks, in order to justify an increase in resources to address the problem (Balzacq, Léonard, & Ruzicka, 2016). For instance, the US may perceive China's progress in semiconductor development as a threat to its military dominance and, consequently, its national security. Therefore, it may advocate for an increase in resources to maintain its leadership in the field. This proposal represents an advance from the traditional categorization of the word security, which was classically related to conflict or war, to embrace new fields such as technological, food or energy security (Farrell & Newman, 2023).

Balzacq, Léonard, & Ruzicka discuss that the principal elements that compose the securitization theory are the following:

> The securitizing actor (i.e. the agent who presents an issue as a threat through a securitizing move), the referent subject (i.e. the entity that is threatening), the referent object (i.e. the entity that is threatened), the audience (the agreement of which is necessary to confer an intersubjective status to the threat), the context and the adoption of distinctive policies (‘exceptional’ or not) (Balzacq, Léonard, & Ruzicka, 2016, p. 495).

In other words:

- *Securitizing actor*: agent that declares an issue as a palpable threat
- *Referent Subject*: agent(s) threatening the Referent Object, policy targets
- *Referent Object*: agent(s) potentially harmed by the threat
- *Audience*: agent(s) that need to be convinced that the issue is cause for declaring a threat
- *Adoption of policy*: action put into place to respond to the threat, designed to protect the Referent Object

Using this theoretical framework, the EU's policies under OSA can be assessed through the lens of securitization, represented by Figure 4.

Figure 5: Securitization Framework around selected policies part of OSA.

Securitizing Actor	**Referent Subject**	**Referent Object**	**Audience**	**Adoption of distinctive policies**
EU Commission	Third countries gaining capital share in EU companies	EU Member States and its partners	Governments affected by controlling interests from third countries	Distortive Foreign Subsidies Instrument
				Foreign Direct Investment Screening Mechanism
	Military and commercial competitors to the EU		Industry and Infrastructure Ministers	Export Controls
	Companies benefitting from outsourcing production		Governments of developing economies and trade organizations	Carbon Border Adjustment Mechanism
	Semiconductor monopolies outside de EU		European technology companies	Chips Act
	CRM providers to the EU		European manufacturers and consumers	Critical Raw Materials Act

Source: Own elaboration from Balzacq, T., Léonard, S., & Ruzicka, J. (2016). 'Securitization' revisited: theory and cases. International Relations, 30(4), 494-531.

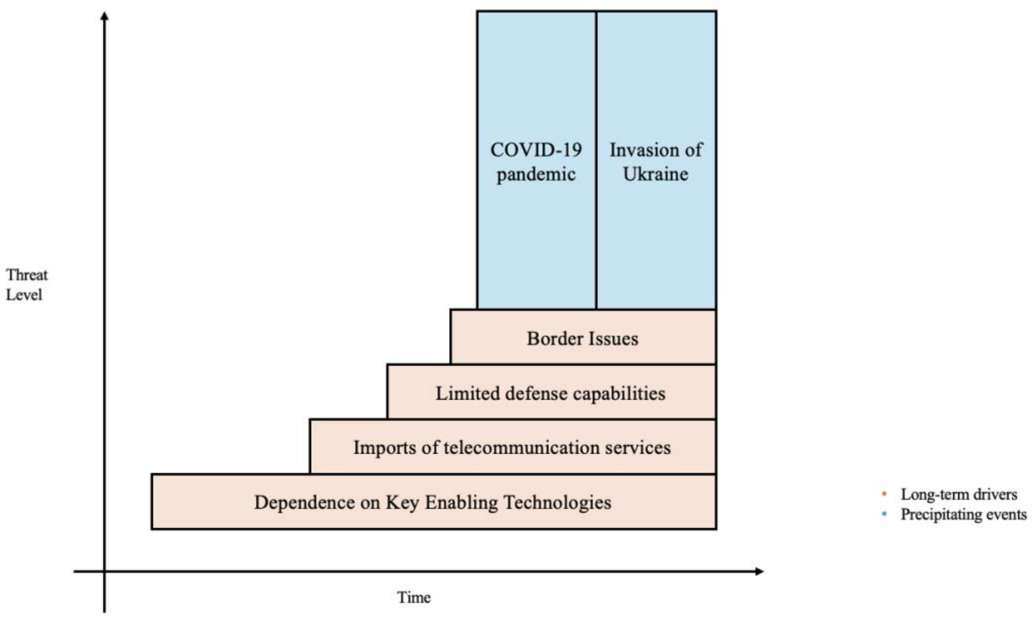
Aside from being useful at labelling the different variables in a discussion, securitization theory has two objectives: first, to explain how a matter of common politics can be shifted to the realm of "national security"; and second, to analyze the mechanism that was enacted to "securitize" an issue (Sperling & Webber, 2017).

To address the first objective, Chen and Gao (2021) proposed a framework for understanding the decision of the EU to collectively securitize its relationship with China. This action involved political distancing and treating the relationship as a matter of national security rather than cooperation. The authors argue that long-term drivers, along with "precipitating events", had constructed this securitizing narrative around EU-China relations (Chen & Gao, 2022, p. 196).

In regard with this thesis, those elements are as follow:

- *Long-term drivers*: Dependence of Key Enabling Technologies, imports of advanced communication services, limited defense capabilities, border issues.
- *Precipitating events*: COVID-19 pandemic, invasion of Ukraine.

Figure 6: Threat Level perceived by a state compounded from long-term drivers and precipitating events.



Source: Own elaboration from Chen, X., & Gao, X. (2022). Analysing the EU's collective securitisation moves towards China. Asia Europe Journal, 20, 195-216.

The mechanism that enacted the EU in order to securitize the issue of its strategic autonomy has been the adoption of the Open Strategic Autonomy. Since then, it has been made a priority for the EU to pursue “a strategic course of action and increasing its capacity to act autonomously in a challenging international environment” (Stanicek, 2024). Even if it only means a message to its counterparts or it does not have the full support of the Member States, the Open Strategic Autonomy is what is guiding the overall route of the EU moving forward.

4.1.2. Understanding de-risking and its alternatives

The argument for this thesis is based on the EU's decision to engage in a de-risking exercise. However, there are other options that the EU could explore. Among them, it is worth highlighting the **different aspects of de-risking**, as well as **decoupling** or **maintaining the status quo**.

While de-risking is a strategy, it comprehends a set of actions that have different, if not opposite, character. For instance, one policy might be aimed at building bridges between the EU and other countries, at the same time that another might have as an objective reduce the dependency on a third country. A recent publication elaborated by investigators from the Directorate General for External Policies of the Union argues that EU could pursue different kinds of de-risking: offensive, defensive, and collaborative (Brinza, et al., 2024):

- *Offensive de-risking*: proactive strategy to reduce dependency and increase resilience, by diversifying supply chains and increasing competitiveness.
- *Defensive de-risking*: development of measures to protect the economic security and manage risks without targeting specific countries, emphasizing a principles-based rather than a country-specific approach.
- *Collaborative de-risking*: building and reassuring partnerships with “reliable partners” to enhance economic security and supply diversification, avoiding self-sufficiency and focusing instead on interdependence with trusted allies.

In addition, there is a more aggressive side to deal with economic dependencies and strategic vulnerabilities. This is called “decoupling”, and according to trade and GVC academic Alex Capri (2023) it "refers to a complete separation of ties between two or more economies. It involves dismantling existing trade and investment relationships, severing supply chains, and establishing new economic partnerships elsewhere".

Decoupling is a potentially damaging process for the economies involved. The actor committing the act stops receiving necessary goods or services and must quickly and effectively replace them. Meanwhile, the country that exported those goods or services must find a new market for them to avoid harming its own economy.

The last, and least important alternative for the discussion of this thesis, is to maintain the status quo. However, having gathered evidence calling for a necessary, immediate change in EU strategy, it will not be pursued further.

4.2. Views on de-risking

The term of de-risking may have different meanings because the perceived risk in one state differs from that in another, or that it suits a certain political agenda. That is the reason why political leaders must communicate appropriate responses to the problems they face through their narratives and actions. This means correctly determining the naming of policy strategies right in order to maintain a level playing field when it comes to the debate around de-risking.

De-risking in matter of politics was first articulated by the President of the European Commission, Ursula von der Leyen (2023a). As she stated, For the EU to perform a proper de-risking, it would need to be done first diplomatically, and then economically (von der Leyen, 2023b). In this sense, diplomatic de-risking could be interpreted as maintaining mutually beneficial alliances and treaties with partners, mediating in third-party conflicts, or even promoting cultural exchange between countries.

This position represents a significant shift in the EU's approach to its relations with other countries. Originally, the EU (and more specifically its predecessor, the European Coal and Steel Community) was founded with the goal of using trade and economic relations to maintain peace. However, this new perspective prioritizes diplomatic relations as a means of preserving economic ties. This phenomenon demonstrates the importance of international trade as an essential asset for world governments, to the extent that it is now at the forefront of political priorities.

To further expand on the idea of de-risking, von der Leyen (2023b) broke it down into four pillars that are applicable to the EU:

1. *Making European industry more competitive*, remarking the importance of making the EU the global leader in healthcare and clean technologies.
2. *Using trading tools better*, continuing the establishment of policies such as the FDI screening or the Export Controls in order to reduce economic coercion.
3. *Providing the EU with new defensive policies*, eliminating trade deals that imply the provision of dual-use goods.
4. *Aligning with other business partners*, focusing on finalizing free trade agreements with likeminded nations and providing infrastructure investment opportunities to developing countries.

From this position, the EU holds its strategic autonomy strong through the pillars of **competitivity, defense and trade**. Notably, this presented vision of diplomatic and economic de-risking may conflict with the thoughts of other leaders.

In May 2023, the President of the U.S., declared in a conference in Hiroshima that de-risking meant:

> Taking steps to diversify our supply chains, and we're not — so we're not dependent on any one country for necessary product. It means resisting economic coercion together and countering harmful practices that hurt our workers. It means protecting a narrow set of advanced technologies critical for our national security (Biden).

In this instance, de-risking is focused on **protecting national security** and retaliating against harmful policies put into place by third countries, rather than deploying secure trade networks and reducing vulnerabilities.

From the Chinese point of view, the Chinese Communist party (CCP) grows largely skeptical of what is thought in the West. For the majority of officials, EU policies and strategies are dictated by the US. At the time, most would argue that in China the thought is that **“de-risking is hardly different from decoupling”** (CCTV English, 2023, as cited in Hompot, 2023).

Yet another example of discordance among world leaders has risen. That is because, according to the former prime minister of Sweden, Carl Bildt (2023), the final and sole objective of de-risking should be to become more competitive than China in the key strategic production processes (semiconductor manufacturing, renewable energy components, etc.). This would mean that de-risking is solely meant to **improve its own competitivity**.

Overall, the issue of having such an ambiguous word like de-risking summarizing the strategic agenda of a set of countries is that **it is highly probable that nations will interpret and implement "de-risking" in different ways**, resulting in divergence rather than consensus. In some countries, de-risking might mean limited degree of economic disengagement, while in others, it could potentially resemble a "de-coupling" policy, such China (Gewirtz, 2023).

The following section of the thesis will analyze the EU’s stance on de-risking is from one of its landmark initiatives: the Foreign Direct Investment Screening Mechanism. This instrument is pivotal to OSA as it was conceived with the intent of safeguarding European private companies and public entities from foreign capital assuming decision-making positions.

Furthermore, there is a compelling argument to be made that investment screening serves as a strategic means for governments to shield their national interests from influences and pressures. In recent years, concerns towards FDI in developed countries have intensified due mainly to four reasons (Evenett, 2021):

- Investments coming from opaque economies or state-controlled entities
- Widespread thought that, in addition to the more traditional risks of espionage or piracy, foreign ownership can also threaten national security by limiting supplier diversity
- Increased amount of confidential and sensitive data

- Increased assertiveness portrayed by states, fueled by competition and resource scarcity

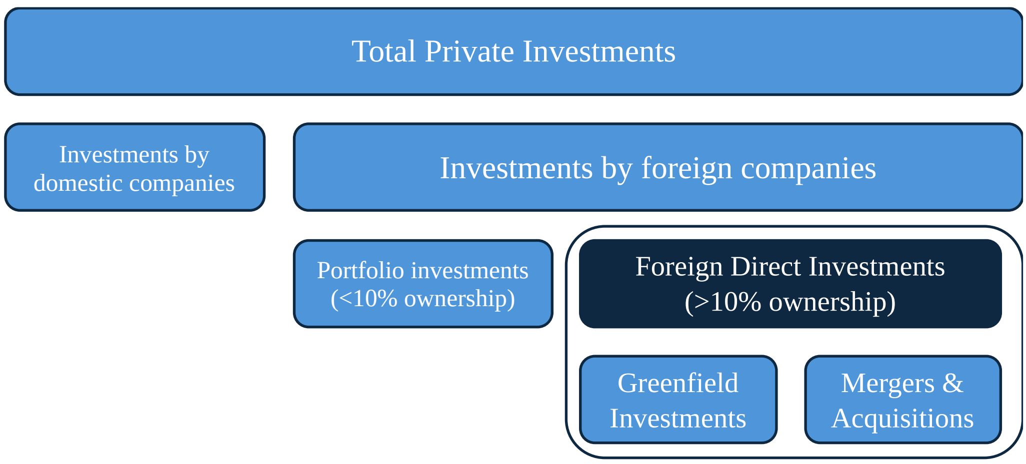
This is the reason why the case of the FDI Screening Mechanism will be discussed. Being such an important piece of legislation for national governments and the European Commission, a practical approach to de-risking through this initiative seems appropriate.

5. Case Study: Foreign Direct Investment Screening Mechanism role on de-risking

Before addressing the Foreign Direct Investment Screening Mechanism, it is important to gather what is FDI in the first place and why it is important for the economic growth of the EU. According to the European Commission, Foreign Direct Investment (FDI) means:

> Investments of any kind by a foreign investor aiming to establish or to maintain lasting and direct links between the foreign investor and the entrepreneur to whom or the undertaking to which the capital is made available in order to carry on an economic activity in a Member State, including investments which enable effective participation in the management or control of a company carrying out an economic activity (European Commission, n.d.a).

Figure 7: Description of what is an FDI though its categorization.



Source: Sunesen, E. R., & Hansen, M. M. (2018). Screening of FDI towards the EU. Copenhagen Economics.

FDIs usually provide several benefits to both the acquired company as well as the host country. These include improved performance, transfer of technologies, increase in capital disposal, access to managerial expertise, and so on (Blomstrom, 1991). However, FDI can also arise concerns, such as technology or information transfers and potential political instability or discordance from the home country, which could affect the acquired company or its country (Dans Rodríguez, 2016).

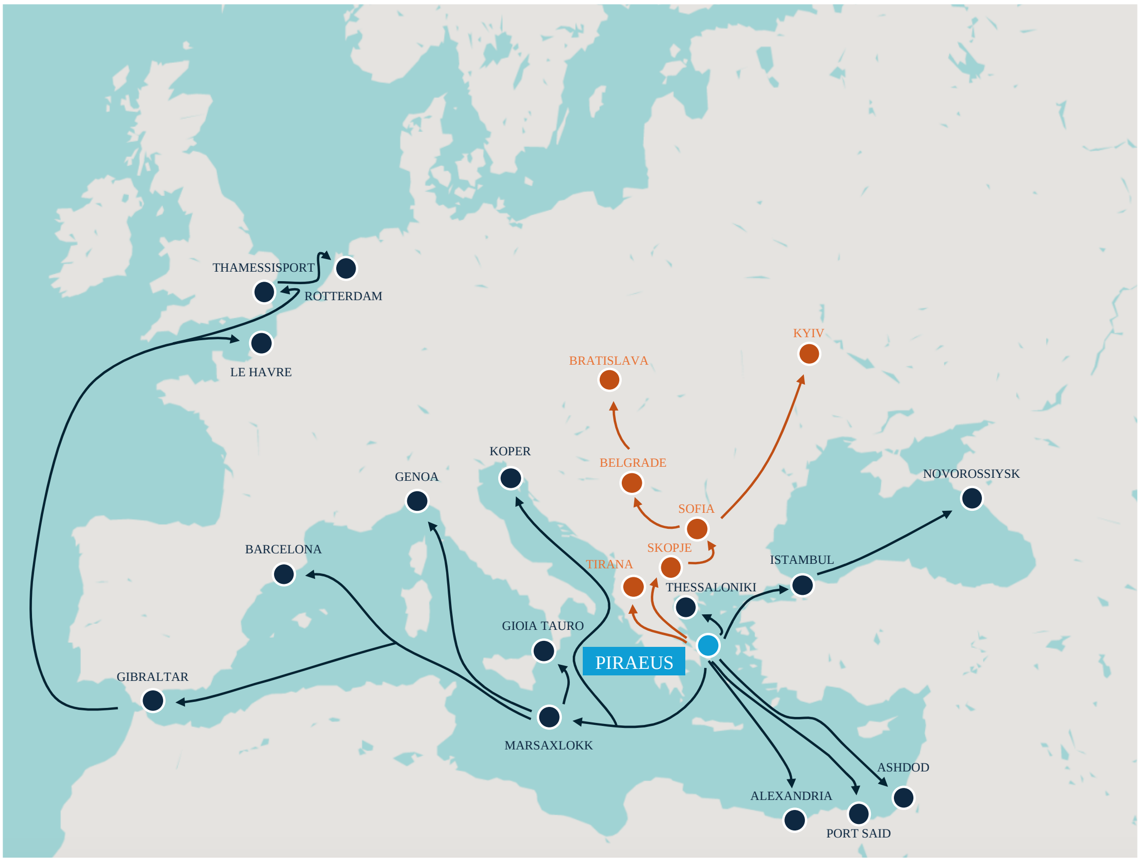
In 2022, the total FDI flow into the EU amounted to 1.2 trillion euros, distributed across approximately 43,000 transactions, including M&A deals (investments made into existing companies) and greenfield investments, which involves the creation of a new entity usually behind an existing company's name (European Commission, 2023).

5.1. Setting the stage: what is to screen a Foreign Direct Investment

About 12 kilometers from Athens stands the Piraeus Port. This port constitutes not only a critical trading hotspot for Greece itself, but also for the EU too, as it is considered to be the main entry point of goods coming from Suez to Europe. In addition, it also serves as an entry for goods imported from Africa, which are distributed by various sea and land routes (Spyrou & Kontogiorgi, 2019). The Piraeus Port serves as a key connection point between Asia and the Middle East (mainly producers or providers of resources) and Europe (mainly final consumers or advanced product manufacturers), as it is shown in Figure 7.

In 2016, feeling the pressure from financial crisis and political instability, the Government of Greece had to carry out a series of economic tightening policies which led to the privatization of national strategic infrastructure. It was then that the China Ocean Shipping (Group) Company, known as COSCO, achieved a stake of the 67% in the Piraeus Port (Comerma Calatayud, 2023).

Figure 8: Main connections of Piraeus port by land and sea.



Source: Spyrou, D., & Kontogiorgi, C. (2019) Sustainable and Low Carbon Port Action Plan. (p. 6)

The acquisition of the Piraeus Port made by COSCO subsequently became a part of what is recognized as the Belt and Road Initiative (BRI). The BRI, often mentioned as the New Silk Road, represents a strategic project initiated by the CCP aimed at expanding China's political and economic influence globally. This ambitious agenda facilitates investments in key infrastructure projects, including ports, highways, tunnels, and more, serving as a mean for China to project its power and foster economic ties across continents (McBride & Berman, 2023).

Due to Greece’s legislation, this investment did not have to undertake any revision by the government, as the country did not dispose of an investment screening mechanism (ISM) which meant that any entity could perform these types of actions, regardless of its nationality, interests, or criminal background. This example is often used on building an argument in favor of ISMs, where not only economic, but also political and trade interests are at stake.

An ISM is an instrument that "empower national authorities to review, and potentially condition or prohibit, transactions that may threaten domestic interests, including national security and public order" (Bencivelli, Faubert, Le Gallo, & Négrin, 2023, p. 1). Through this instrument, states follow a planned procedure when assessing the operations initiated by foreign investors in its country's economy. In the past decades it has gained lots of attention from advanced economies trying to protect their national security or assets, despite OECD's conviction to keep it as a "last resort" lever (OECD, 2009, as cited on Evenett, 2021, p. 3)

Another argument in favor of ISMs is reflecting on the successes of other countries' legislation and procedures. Examples of such successes can be found in the USA or Canada, that have developed a strong ISMs that systematically block or mitigate investments that could potentially threat their national security and are independent from political pressures (Blumental, Croley, & Xu, 2018).

USA's FDI mechanism, carried out by the Committee on Foreign Investment in the United States (CFIUS), has been implemented since 1975 and has suffered multiple modifications ever since. The last and most notorious of those is the Foreign Investment Risk Review Modernization Act (FIRRMA), which expanded CFIUS's authority, and designed five clear lines of action (Broadman, 2019):

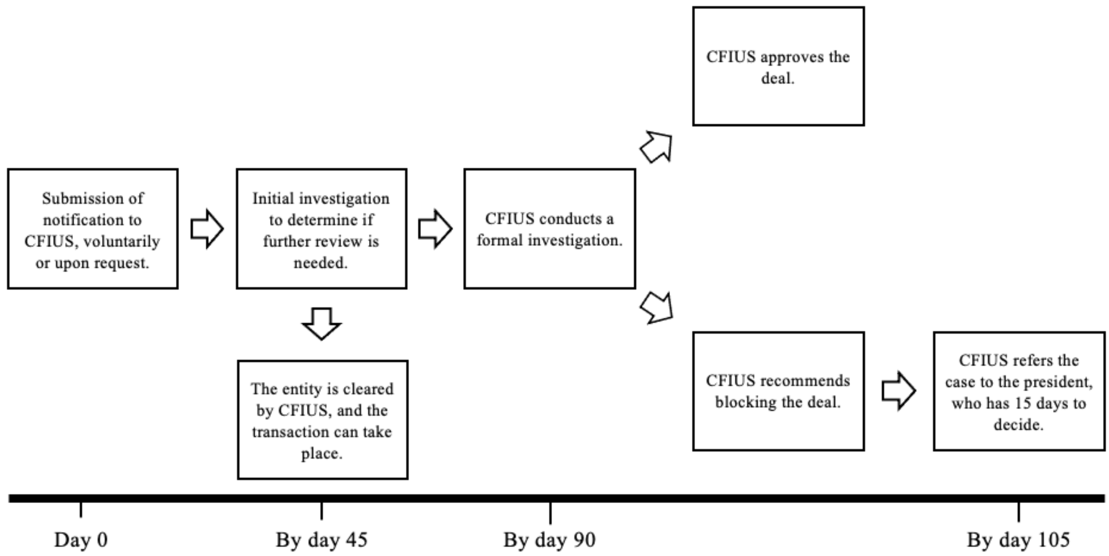
1. The investor's country of origin
2. The relation of the business with critical technology or infrastructure that might compromise national security
3. The status of foreign investors' rights after the deal
4. The likeness (or not) of a foreign government having interest in the deal
5. The proximity of the involved assets to USA facilities such as airports or military infrastructure

This model has led to the blocking of several deals, such as the purchases of Aixtron, Inc. or Qualcomm by Chinese-backed entities, dedicated to the designing and production of communication technologies and semiconductors (Patnaik, Litan, & Kunhardt, 2022).

In the case of the attempt of acquisition of Qualcomm by Chinese-related company Broadcom Limited, President Donald Trump (2018) blocked the transaction on the grounds that:

- Qualcomm was, and still is, leader in R&D innovations regarding telecommunication services
- Qualcomm's incoming leadership was expected to focus on short-term profitability reducing long-term investing, facilitating the entry of new players in the 5G market in the US, such as Chinese-based Huawei
- Qualcomm's ongoing contracts with public entities such as the Department of Defense could harm national security due to its critical use of classified information.

Figure 9: CFIUS procedure to determine the approval of a FDI transaction.

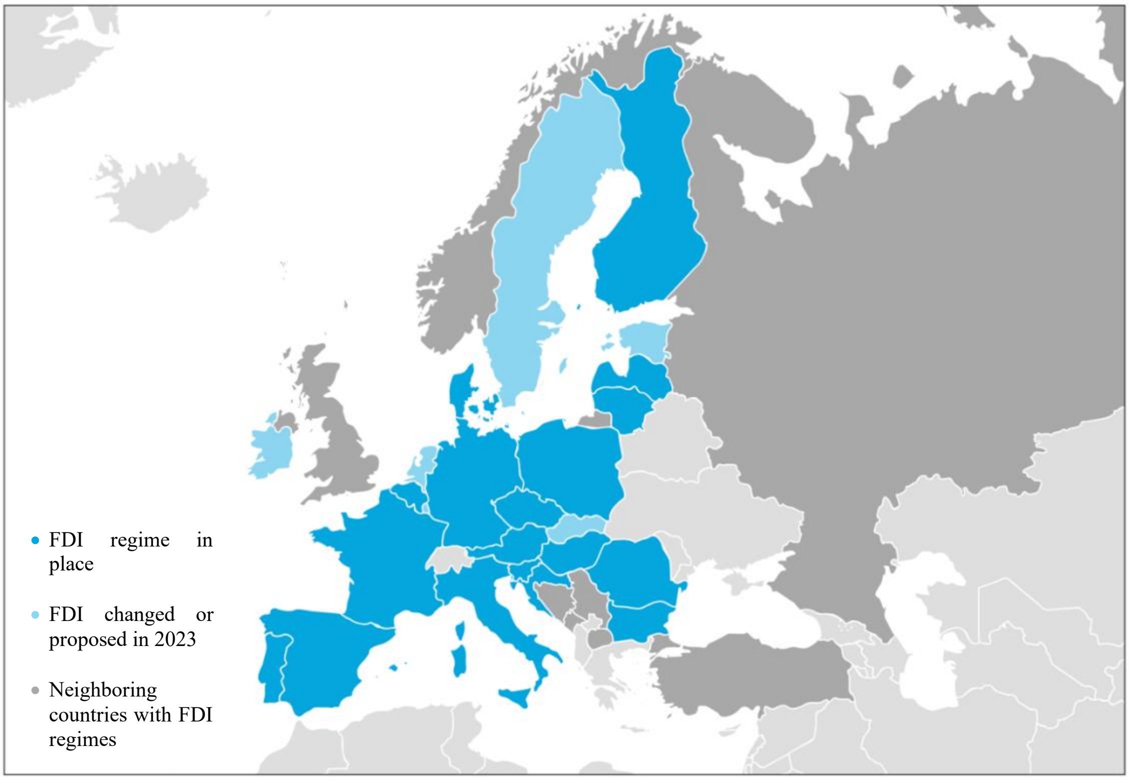


Source: Patnaik, S., Litan, R. E., & Kunhardt, J. (2022). The national security grounds for investigating Musk's Twitter acquisition.

This case sets an example of how an ISM operates. Overall, the USA has one that has been developed for decades, fairly independent from political interests, and well resourced. Regardless of its overweight in neutralizing national security threats, according to Julien Chaisse (2022), professor of Law in the City University of Hong Kong and president of the Asia Pacific FDI Network, the EU should take CFIUS as its benchmark due to its effectiveness, maturity, and speed at analyzing transactions.

The picture in Europe is indeed different than in its North American counterpart. In an attempt to synchronize their ISMs, almost all EU countries that have passed FDI screening regulation, including Spain, France, Germany, and Italy. However, this regulation is mostly asymmetrical, depending on the scope of the screening, eligibility, and procedures (European Commission, 2023).

Figure 10: Status of FDI Screening Mechanisms in Europe.



Source: Heinrich, T., Kuhn, T., Berg, O., Wienke, T-M. (2023). Foreign direct investment reviews 2023: Europe. White & Case.

The differences seen are correspondent to the national politics and economics. For instance, countries that are geo-politically aligned with the USA or that have a negative view on the BRI tend to have stricter ISMs; while countries that benefit from foreign investments, such as the aforementioned Greece or Portugal, might see ISMs as a procedure that repels FDI from nourishing their economies (Bencivelli, Faubert, Le Gallo, & Négrin, 2023) (Snell, 2019). In addition, it has been shown that technological factors of a country are the most important variables at the time of determining its level of preference towards FDI screening (Chan & Meunier, 2022).

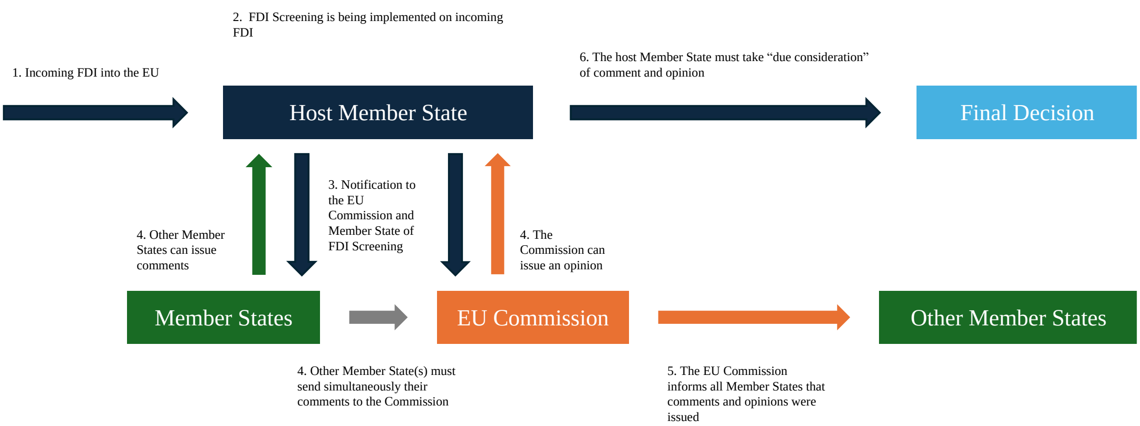
5.2. The EU's FDI Screening Mechanism

The Foreign Direct Investment Screening Mechanism (FDI Screening), which entered full application in October 2020, is a framework designed to foster communication in relation to potential threatening investments to the EU's autonomy and strategic interests.

As presented in Article 6 of Regulation (EU) 2019/452, Member States of the EU are mandated to communicate the other Member States and the Commission of any foreign investment that is being investigated. The organism inside the European Commission responsible of coordinating all operations is the Directorate-General for Trade, which holds dialogue with Member States and experts, and manages overall discussions regarding trade.

Essentially, what the FDI Screening Mechanism is meant to do is create a space of cooperation where Member States and the Commission can raise concerns about any type of foreign investments (whether M&A or greenfield) and share knowledge about what is occurring in all parts of the EU. In other words, by no means this regulation establishes any coercion from the EU onto the Member States regarding any investments being made in their economies (Bencivelli, Faubert, Le Gallo, & Négrin, 2023). Figure 10 describes how the FDI Screening framework operates, establishing connections among the country host of the FDI, the European Commission, and other Member States.

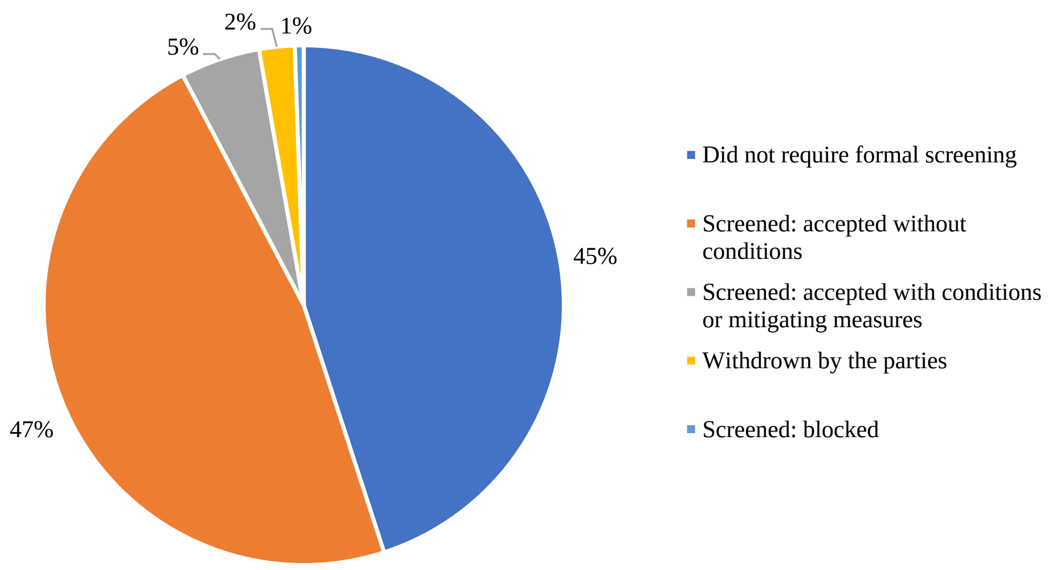
Figure 11: Visual description of the EU's FDI Screening Mechanism.



Source: *Bencivelli, L., Faubert, V., Le Gallo, F., & Négrin, P. (2023). Who's Afraid of Foreign Investment Screening? Banque de France Working Paper (927), 1-56.*

In 2022, the FDI Screening Mechanism reviewed over 1,200 transactions from Member States, which were the 55% of all the incoming FDI. From these operations, the Commission did only issue opinions in about a 3% of the cases, and of all reported operations, only less than 1% of transactions have been blocked by Member States (European Commission, 2023). That would mean that in total, roughly 93% of investments done from foreign capital into the EU are accepted without any conditions.

Figure 12: Outcomes of a FDI into the EU by percentage.



Source: European Commission. (2023). Third Annual Report on the screening of foreign direct investments into the Union.

Regarded by analysts as "a porous system" (Ghiretti, 2021) the FDI Screening Regulation falls relatively short of what its counterparts' systems are doing at the moment, which either block or mitigate more transactions. The EU, either because it does not have an independent agency analyzing these transactions, or because it delegates its responsibilities to Member States that currently do not perform FDI Screening, "lacks teeth" (Chaisse, 2022).

In essence, the EU's FDI Screening Mechanism infrastructure is more like 27 independent ISMs put together with no consensus. This has led to having several critical aspects in which Member States differ (Genner, et al., 2023):

- There are not clear definitions of the main concepts regarding FDI, provoking ineffectiveness and blind spots
- Member States define the scope of screening, what is a threat to their national security and what is not, screening practices,
- There are different thresholds put into place to determine whether a company has the implied control of a company or not (10%, 15%, or 50% plus one vote)

Despite of the previous examples, what is arguably the most glaring evidence of this mismatch between Member States is the areas in which they carry FDI screening. Figure 12 showcases this difference, acknowledging that there are countries that cover multiple sectors of their economy (Austria, France, Germany, etc.) while others, such as Croatia or Finland, do not engage in as many. In grey figure the Member States that, as of March 2024, have not passed regulation regarding the screening of incoming FDI.

In general, the countries that receive the most transactions are those with the most advanced identification systems (Spain, Germany, France). However, Ireland is a notable exception. Despite being among the top 5 EU countries in terms of FDI volume (European Commission, 2023), it does not yet have an approved system for investment screening.

Figure 13: Sectors covered by the ISM of each Member State of the EU.

	Defense	**Energy**	**Telecom**	**Transportation**	**Real Estate**	**Other**
Austria	•	•	•	•	•	IT
Bulgaria	•	•				Finance
Belgium	•	•	•	•		Finance, data, dual-use goods, cybersecurity
Croatia						*Finance*
Cyprus						
Czech Republic	•	•		•		Finance, data, critical technologies
Denmark	•	•				
Estonia	•	•	•		•	Finance
Finland	•					
France	•	•	•	•	•	Data
Germany	•	•	•	•	•	Cloud computing, telematics, finance, dual-use goods
Greece						
Hungary	•	•	•	•		
Ireland						
Italy	•	•	•	•	•	Finance, data, critical technologies
Latvia		•	•		•	
Lithuania	•	•	•	•		Finance
Luxembourg	•	•		•		Finance, insurance data, pharmaceutical industry
Malta	•	•	•	•	•	
Netherlands	•	•	•			Finance
Poland	•	•	•	•	•	
Portugal	•	•	•			
Romania	•	•	•	•	•	Finance
Slovakia		•	•	•		Finance, pharmaceutical and chemical industry
Slovenia	•	•	•	•	•	Finance, insurance data, critical technologies
Spain	•	•	•	•	•	Finance, data, critical technologies
Sweden	•					Critical raw materials, data

Sources: *Heinrich, T., Kuhn, T., Berg, O., Wienke, T-M. (2023). Foreign direct investment reviews 2023: Europe. White & Case and Investment Policy Hub (n.d.). Investment Policy Monitor.*

Despite the cohesion between the EU's most important economies, having such a diverse playing field could lead to imbalances inside the Union and undermine the effect of the EU's FDI Screening Mechanism. As a system of cooperation and mutual communication between Member States and the Commission, having these differences can provoke inefficiencies. For instance, a FDI from a third country might not fall as subject of screening for a country such as Sweden, while others such as France, Germany or even the Commission might consider it to be. As long as the final decision sits in the host country, these imbalances will continue to happen, leading to asymmetrical economic and political decisions referring to foreign acquisitions.

This fact is perhaps what sets the EU apart from its world counterparts, who in turn, can be more efficient and decisive. Figure 13 presents a comparison between the US's, China's, and the EU's current ISMs, and although they were not conceived with the same purposes, there are certain areas that the EU could look into in order to further de-risk its economy.

Figure 14: Key Aspects of ISMs in the USA, China, and the EU in comparison.

	USA	China	EU
Dedicated team proactively mapping inflow of investments without waiting for the notification of companies/Member States	With limitations	No	No
Compulsory notification of FDI that might pose a risk to national security	Yes	Yes	With limitations
Possibility to apply regulation to already concluded investments	Yes	Yes	Yes
Power to block investments	Yes	Yes	No
System of sanctions in case of missed notifications	Yes	Yes	No
Ad-hoc independent agency in charge of screening and evaluating transactions	Yes	With limitations	No

Source: Ghiretti, F. (2021). Screening foreign investment in the EU – the first year.

Assuming that Member States continue to hold the exclusive competence over the decision of blocking FDI, what remains the most notable difference between the EU and its counterparts is the absence of an independent agency in charge of screening transactions in the EU and a system of sanctions in case of missed notifications.

The European Parliament has expressed its support for strengthening the FDI Screening Mechanism and match its influence with the USA's and China's ISMs. In addition, it has encouraged all countries to seek the harmonization of their systems, and even asked for allowing the Commission to have the power to block transactions centrally, with the permission of the Member States (Grieger, 2024).

5.3. Targets of the EU's FDI Screening Mechanism

To identify investments that require screening for potential impacts on public security or the interests of the EU, Article 4 of Regulation (EU) 2019/452 enumerates the following sectors:

a. Critical infrastructure regarding energy, transport, water, health, communications, media, data processing or storage, aerospace, defense, electoral or financial infrastructure, and sensitive facilities.
b. Critical technologies and dual use items, including artificial intelligence, robotics, semiconductors, cybersecurity, aerospace, defense, energy storage, quantum, and nuclear technologies as well as nanotechnologies and biotechnologies.
c. Supply of critical inputs, including energy or raw materials.
d. Access to sensitive information, including personal data, or the ability to control such information.

The FDI Screening Mechanism is quite comprehensive in terms of coverage of the ISMs of each Member State. As a result, the Commission is able to compile a diverse set of procedures and historical data from which each national government can draw on the experience of other countries. In addition, the Commission provides clear definitions of what may or may not constitute a threat to national security, overcoming the existing inconsistencies among the 27.

In determining whether a foreign direct investment is likely to affect security or public order, Article 4 of Regulation (EU) 2019/452 ordinates that Member States and the Commission may also consider, when:

a. The foreign investor is directly or indirectly controlled by the government, including state bodies or armed forces, of a third country, including through ownership structure or significant funding.
b. The foreign investor has already been involved in activities affecting security or public order in a Member State.
c. There is a serious risk that the foreign investor engages in illegal or criminal activities.

These criteria were widely debated and do not yet have a complete consensus. Moreover, there are already requests that parts of this legislation should be changed to cater to each stakeholder.

5.4. Specific cases in which has been used

This section of the case study will be directed at highlighting where the EU draws the line on whether an investment could potentially harm a Member State's national security or not. Two examples will follow of operations that could have likely felt under the umbrella of the FDI Screening Mechanism (as there is not a public source of operations investigated). These include the acquisition offer of a 9.9% stake in the Spanish telecommunications giant Telefónica by Saudi Telecom, and COSCO's proposal to acquire a 35% stake in the Port of Hamburg. Notably, COSCO is the same entity that previously acquired the Piraeus Port, marking another strategic move in expanding its presence in Europe and strengthening the BRI.

On September 5, 2023, Saudi Telecom made a bid for a 9.9% stake in Telefónica. Accordingly, the Spanish government not only activated its own vetting system to examine the transaction, but also notified the Commission to take a position or issue an opinion. Saudi Telecom, which is 64% owned by Saudi Arabia's Public Investment Fund (PIF), could then access sensitive defense data, given Telefónica's strategic importance, according to Spain's Defense Minister Margarita Robles (Muñoz, 2023).

Concerns have also been raised about Saudi Telecom's close relationship with Chinese manufacturer and retailer Huawei over the development of fiber-optic broadband (Pinedo & Carreño, 2023). These both circumstances would make any investment into critical infrastructure be suspicious of having a non-economic interest.

However, the Commission did not respond to the petition made on the European Parliament for an opinion, alleging that “the Commission is not in a position to comment on it” due to confidentiality concerns (Dombrovskis, 2023). In addition, the Commission did not formulate an opinion despite the fact that this deal:

- Felt within the scope of the FDI Screening Mechanism: critical infrastructure and technologies related to the defense and telecommunications sectors.
- According to Article 4 of Regulation (EU) 2019/452, likely affected security or public order because the foreign investor is directly or indirectly controlled by the government.

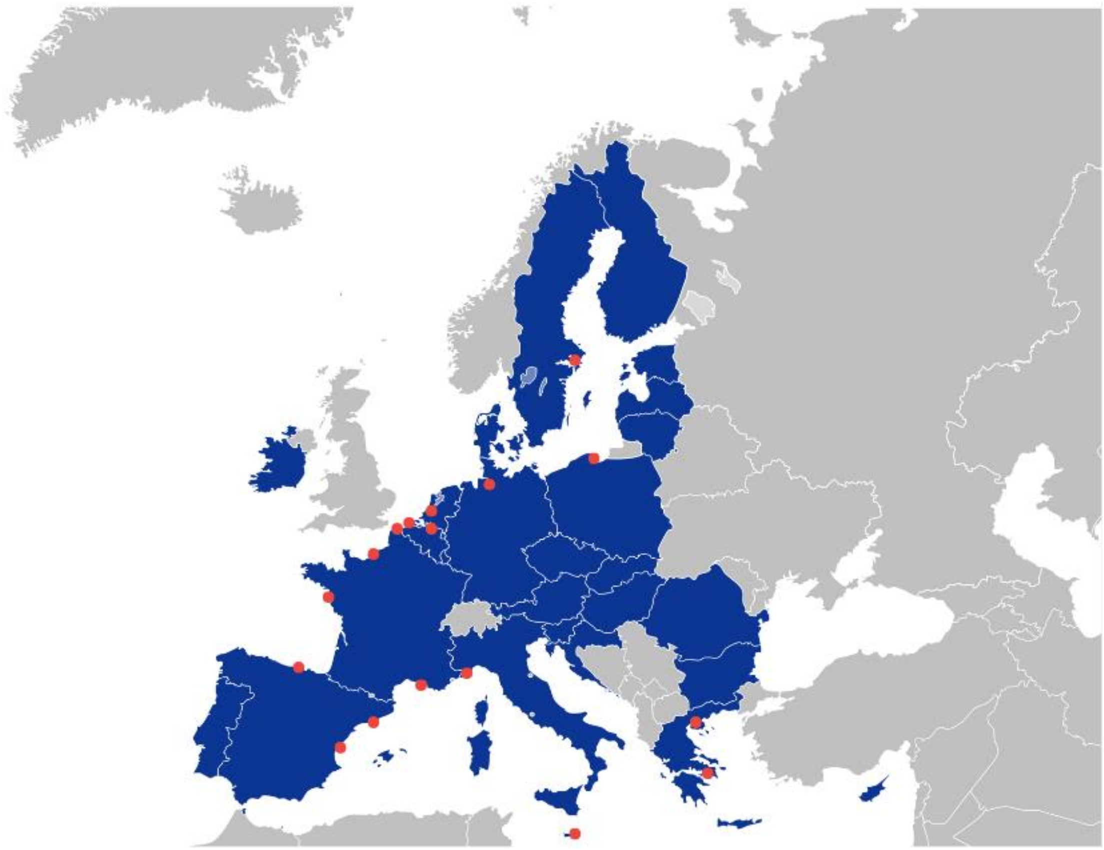
Telefónica’s case represents an example of a FDI transaction that could have been investigated by the EU’s FDI Screening Mechanism. Nevertheless, the Commission did not deem necessary to report an opinion on the deal despite of the clear signs that, in fact, the deal felt under the legislation’s umbrella.

Another example of the activation of the FDI Screening Mechanism was the acquisition of 35% of the port of Hamburg, Germany’s largest, by COSCO. This development presented an opportunity for the port of Hamburg to be in a better position to compete with other ports in Northern Europe and strengthen the relationship between Germany and its largest trade partner, China.

However, critics of the deal were found in the national sphere as well as at a supranational level. Both shared the opinion that it was an error to provide control of such an important infrastructure to COSCO, which had already acquired the port of Piraeus and non-controlling stakes in the ports of Rotterdam and Antwerp. This attempt clearly demonstrated the ambition of the Chinese government to further expand its presence in the trade in Europe, showcased by Figure 14.

Additionally, these parties lamented that Germany was once again making the same mistakes it had made in the past, especially with Russia and its dependence on its natural gas (Sullivan, 2023). The Commission sided with the opponents of the deal and even drafted a recommendation suggesting that Germany should block the deal on the basis of its own FDI screening mechanism. The German central government ignored this recommendation and accepted a modified proposal for the 25% of the port due to the economic upside of the deal and the tightening of economic relations with China (Poptcheva & Cañas, 2023) (Sullivan, 2023).

Figure 15: Ports where Chinese-backed companies have either controlling or non-controlling stake ownership.



Source: Own elaboration from Smit Jacobs, K. (2023). Chinese strategic interests in European ports.

This episode shows the last major problem with the FDI Screening Mechanism, that is, how Member States are ultimately responsible for the final decision. In this sense, the exclusive competence of Member States to authorize FDI makes it very difficult for the EU to harmonize national policies and establish general lines of action that serve the interests of the EU and not only those of the Member States. In this way, scenarios that undermine the strategic autonomy of the EU could be avoided and the sovereignty and independence of the 27 could be guaranteed.

5.5. Areas for improvement

After analyzing different dimensions, it can be concluded that the FDI Screening Mechanism has succeeded in encouraging those Member States that did not have an ISM to adopt one and establishing a common framework for cooperation between the Commission and the national governments. However, it does present a series of structural problems that prevent it from having an effective impact on EU policy.

First, in the absence of legislation to harmonize national practices, national policies do not address the same areas of concern. In other words, Member States do not analyze the same areas and are not equally rigorous in their analysis, which in some cases is driven by political or economic interests rather than national security or dependency concerns. This trend is detrimental to the cohesion of the Union and could allow the emergence of strategic weaknesses, such as that of Germany and its dependence on Russia.

Second, the confidential nature of the mechanism makes it very difficult to measure its real impact. At the moment, aside from issuing annual reports on its activity and comments on individual Member States, the EU does not inform the public about the activity of its FDI Screening Mechanism. Taking example from its global counterparts, the EU could opt to publish a list of blocked investments, like Canada (Bencivelli, Faubert, Le Gallo, & Négrin, 2023). Even in the scenario in which it does not, the responsible commission should publish justifications as to why it does or does not accept the operations it is investigating. This recommendation is in line with the idea of making public policy more transparent and providing certainty for companies that want to invest in our economy.

Third, the FDI Screening Mechanism does not issue opinions on enough deals, which affects notification rates, recommendations, and the purpose of being a collection of deals to take example from. As it has been demonstrated in this thesis, when a case clearly falls under the scope of a policy (remember Telefónica and Saudi Telecom), it should be investigated as any other and do not let political discourse interfere.

Fourth, recommendations are subject for the host country to abide. At the moment, Member States hold all the power regarding its infrastructure, and it will likely remain the same in the foreseeable future. Nevertheless, in the midst of the debate of whether EU Member States should cede more competencies to the EU, it can be noted that having a common ISM could be useful to prevent generating shared dependencies or allowing threats into individual countries.

5.6. Policy implications

After analyzing the FDI Screening Mechanism, there are several policy implications that can be identified, both positive and negative. These implications will be categorized into three groups: economic, governance, and geopolitical.

5.6.1. Economic

The FDI Screening Mechanism allows for increased control over investments made within the EU's territory. While this provides a political advantage, **it may deter foreign investments**, particularly from countries with limited capital. As screening tightening continues to increase, more and more companies are finding hurdles to invest in the EU. This could provoke scenarios where certain industries inside the Union could be underfunded, even whole economies.

The FDI Screening Mechanism may have an economic negative side effect in form of retaliation, which could harm political relations and result in economic disadvantages too. According to a study by Felbermayr, Gans, Mahlkow, and Sandkamp (2021), the EU's GDP would decrease by 0.8% (equivalent to 131bn EUR in 2019) due to the decoupling of the EU’s economy, while retaliation from China would result in an additional 1% decrease in the EU's GDP (equivalent to 170bn EUR).

To address this, a potential solution would be to establish a private investment fund that could step in if a foreign transaction is blocked. An example of such vehicle can be found in the European Fund for Strategic Investments (EFSI), which concluded in 2020, and had the objective of canalizing public funding towards private strategic projects (European Council, n.d.).

As it is, one of the critiques of the FDI Screening Mechanism did not evaluate enough transactions. In this regard, stablishing a stricter regulation could have more negative economic implications. These would be in form of higher administrative costs and increased compliance costs of the acquirer company, which could harm European business (Sunesen & Hansen, 2018).

5.6.2. Governance

The FDI Screening Mechanism plays a good role in harmonizing national mechanisms. For a policy that is crucial to foster equality and symmetry among states, communication is really effective in carrying out this type of policy. Moreover, it would also bring about alignment of interests in policy matters vis-à-vis third states. However, **at the moment there is not enough consensus existing regarding the EU-wide FDI Screening Mechanism**, as portrayed by Figure 15.

Figure 16: National Preferences for the EU-wide Investment Screening Mechanism.

Oppose	Somewhat Oppose	Neutral	Somewhat Support	Support
Cyprus	Belgium	Bulgaria	Denmark	Austria
Estonia	Czech Republic	Croatia	Lithuania	France
Greece	Finland	Slovakia	Spain	Germany
Hungary	Latvia	Slovenia		Italy
Ireland	Luxembourg			Poland
Malta	Netherlands			
Portugal	Romania			
	Sweden			

Source: Chan, Z. T., & Meunier, S. (2022). Behind the screen: Understanding national support for a foreign investment screening mechanism in the European Union. The review of international organizations, 17(3), 513-541.

Following the Brexit and Covid-19 pandemic episodes, **the state of EU governance remains uncertain**. While the EU has gained relevance in national politics, **national governments are hesitant to cede more sovereignty to the EU in favor of their own power**. It has been suggested that the EU could gain importance in fiscal matters, due to the mutualization of EU debt, or even to safeguard the EU project towards the future. The debate on the FDI Screening Mechanism is not isolated from this dichotomy. Currently, Member States hold the power of decision regarding FDI. However, transferring competences in this area could promote symmetry in the single market and clarify regulations for investing in the EU.

It is essential for the EU to reach out to national governments and discuss what is the best solution not only for them, but also for companies that want to invest in the continent. In a global economy as competitive as the one we are in today; regulation must be tailored to ensure national security as well as economic openness. The basis for de-risking is right here: making security compatible with economic development and trade.

The point where the EU draws the line that reconciles these two factors will therefore have to be applied to other policies that aim at de-risking and are under OSA. Additionally, these variables must be considered for the expansion project that the EU has been involved in since its foundation. Countries seeking to join the European Union must adhere to these standards to prevent any weak links within the EU market. Regarding for instance Ukraine's candidacy for EU membership, the country's current economic and infrastructural needs make it vulnerable to accepting foreign capital from any source.

5.6.3. Geo-politics

The FDI Screening Mechanism is yet another way in which the EU is attempting to set economic or regulatory standards. The **EU's ability to set standards or practices is one of its strengths**, and examples of this can be found in environmental and technological regulation. These practices established in the EU tend to spread to other economies and can be seen as a source of "soft power". This is what it has been coined as "the Brussels Effect" by Columbia Law professor Anu Bradford. As she argues in one of her articles, while economists or national security experts might not understand such power, companies (such as Apple, Google, or Monsanto) can definitely feel the pressure from these practices (Bradford, 2012).

Although being established much later than its competitors, FDI regulation could also serve as a benchmark for the rest of the world. In this way, the EU could remain competitive by not having to deal with deals involving state-owned entities.

Aside from the previous, the most obvious geopolitical implication is that **the FDI Screening Mechanism effectively reduces dependence on third countries** by ensuring that they do not acquire vested interests in companies or sectors that could affect the national security of Member States. At a time when economic and political interests are so intertwined, this policy is more than necessary to ensure security within the EU and avoid losing leverage with the EU's counterparts.

Nevertheless, it is important to note that this policy could go further in its task of protecting the EU's interests. That is, it could cover more areas than national security, such as dependence on third states. For instance, having a team analyzing the risks of the dependence of a particular CRM and investigating for potential opportunities for trade with other partners or substituting that with another resource.

As argued in the State of the Question of this paper, the EU's dependence on technology, resources and defense is quite serious. Well, broadening the scope of the regulation or adding key dependencies to the criteria of screening could help to **gain sovereignty by continuously assessing the dependencies that exist in the Union** and formulating responses to overcome them.

Doubling down on the FDI Screening Mechanism, making it stricter, would be a clear way of announcing that the EU is also embarking on a **journey dominated by political assertiveness**. In the face of pressure from China and growing tensions in the Middle East, this position would break with the primary role the EU has had since its inception: that of a conciliatory entity. This new position could damage the EU's diplomatic relations and threaten its position in the international landscape, leaving the way open for other emerging powers to take its place, such as India, Brazil, South Korea, or others.

Moreover, a tightening political landscape regarding its security and defense might enhance alliances such as the one with NATO. After years of European counties not abiding to the 2% of GDP threshold spending in defense, the war on Ukraine and the conflict in Gaza has motivated countries to bump up their military budgets overall. This, along with policies that protect the majority of NATO members' security interests might result in **improved relations and consolidating the alliance**.

Finally, carrying on with a policy of FDI Screening will have the side effect of diversifying the suppliers of critical resources for the European economy and **fostering new geopolitical relationships**. So far, ASEAN countries have been the main beneficiaries of the EU's shift towards de-risking (Jash, 2023), probably because of their intent of keeping economic ties as pillars of their development, instead of economic alignment; closeness to China and ease of switching production infrastructure.

6. Discussion: what is de-risking and how can it be improved

After analyzing both theoretical and practical approaches to de-risking, it is now proper to define what is the EU's stance on it. According to what has been researched, the EU's positions itself on de-risking as to:

Reduce economic dependencies and mitigate external threats through policies that focus on reducing the role of few foreign countries in trade, defense, and natural resources. At the same time, de-risking also implies boosting the European budget and human capital to develop cutting-edge technologies to catch up (and potentially compete) with the US and China.

In paper, this strategy could direct the EU into a new era where technological innovations and new economic ties are the key drivers of development. Since the EU cannot face other powers in terms of producing basic goods or services at competitive prices, it would have to be added-value services and disrupting goods that could propel the EU moving forward.

Despite all the effort from its institutions, the EU has recently reduced its ambitions in de-risking as a way to yield to Member States (Bermingham, 2024). The point is that passing new regulations that limit both incoming and outgoing trade (remember the Export Controls regulation), diminishes Member States' ability to conduct business with whomever they choose in order to protect their sovereignty. This may not be a sacrifice that some states are willing to make. Most EU countries rely on key resources from specific countries and maintain close trade relationships with a select few that they are unwilling to alter.

Due to the differences between states, decision-making regarding the strategic development of the Union power must primarily rest within the EU. While trade-related policies are challenging to legislate due to each country's unique needs and competitive advantages, the EU maintains exclusive competence over the trade policies of its Member States. Therefore, in the long term, the EU should harmonize legislation to protect the European economy and encourage technological development. Furthermore, it should encourage Member States to establish provisions in line with de-risking.

To achieve de-risking as defined, the EU needs to prioritize its own economic and military security more assertively. Member States are limited to short-term policies that depend on the fluctuations of the global economy, whereas the EU could impose long-term roadmaps to ensure the strategic independence necessary to compete with world powers and emerging economies. This **dissonance between Member States and the Union**, as has been made evident in this paper, represents **the greatest challenge for the implementation of effective de-risking**.

There are other aspects before the EU that could facilitate or weaken its current position in relation to the de-risking it wants to carry out.

6.1. Enlargement

The issue of enlargement creates both an opportunity and a risk for the EU with respect to its strategic autonomy. During the last decade, the EU has frozen its annexation process, with Croatia being the last country to officially join in 2013. This was presumably done in order to "strengthen" the Union from within, following the carousel of incorporations that took place in the 21st century (Juncker, 2014). Despite of having the UK leaving the EU a couple of years later, the same approach was held.

All changed on February 24, 2022, with the Russian invasion of Ukraine. Since then, the narrative around enlargement has fundamentally changed and it is now a topic of discussion evolving several countries, including Ukraine. It is now more common to see support for the EU enlargement than it was in the last years, as a means for reinforcing the European project from the exterior.

At this time, the following countries are candidates to enter the EU: Albania, Bosnia and Herzegovina, Georgia, Moldova, Montenegro, North Macedonia, Serbia, Türkiye, Ukraine, and Kosovo is a potential candidate (European Commission, n.d.b). Besides Türkiye which it is not expected to join the EU anytime soon, this set of countries all fall in either of two categories: being a Balkan country or having deep ties with Russia, culturally or politically. These circumstances make it relatively harder for them to access the Union, being unresolved political issues for the former (such as the conflict between Serbia and Kosovo or Bosnia & Herzegovina's separatist uprising of the Serbian Republika Srpska region) and Russian involvment (such as Moldova or clearly Ukraine), which is uniquivoquelly uncompatible with the European standards (Schug, 2024).

This is the first drawback in relation to EU enlargement. Most countries are not yet at acceptable levels of democracy or have political disputes that prevent them from being formally considered for EU membership. The EU has three alternatives:

A. Giving no candidate an EU membership in the foreseeable future
B. Incorporating candidate states gradually, prioritising those that have fulfilled the established standards.
C. Lowering the standards for annexation or make concessions to allow accession states, such as Ukraine.

While there is some hesitation among the larger states that EU enlargement could lead to a shift in EU decision-making dynamics, there is a strong economic argument for pursuing this initiative and its potential to help the EU pursue its de-risking strategy. For instance, Ukraine has the largest gas reserves in Europe after Norway, which if tapped, could help the EU in its transition by eliminating coal and oil. In addition, Ukraine also produces a vast amount of grain that could benefit consumers and competition within the single market (Dušek & Caruana Galizia, 2024).

6.2. Expansion of the EU Budget

The ongoing debate regarding the European budget has been a topic of discussion for several years. Currently, with the exception of pandemic-related needs, the European budget has remained unchanged since the 1980s, amounting to 1% of the EU's GDP (Buti, 2023). Of this amount, the majority goes to cohesion funds, destined to reduce inequalities among Member States, and to the Common Agricultural Policy.

The current structure and allocation of funds do not accurately reflect the reality of the EU's involvement. In the last decades, increased interdependencies and the need for escalating efforts to compete in global markets have hampered the EU. Those are the reasons why in order to fully support common development and promote the single market, the European budget must be adequate for the task. In other words, it would be very hard to suceed at achieving de-risking utilizing current means.

The idea of promoting a public investment fund that covers companies in the event of blocking or mitigating transactions could be an initiative that could fit the EU’s ambitions regarding its strategic autonomy. This would be positive because not only do companies rest assured of being properly financed, but also the EU guarantees strategic sovereignty over its private sector.

In order for the EU to increase its budget, the following are some ways it can do so (European Commission, as cited on Buti, 2023):

- Fees obtained from the Carbon Border Adjustment Mechanism
- Revenues derived from the sale of emissions allowances
- A contribution based on the profits of large corporations

Apart from those mentioned, a fiscal union seems to be the quickest way to financial willpower and a suitable instrument to boost defence spending, research and development or mutualized debt. However, this proposal faces a lot of resistance from the Member States that do not want to further integrate the EU economy and governance, mainly the Central and Northern economies.

6.3. Integration

Aside from the debates around enlargement and the expansion of the EU budget, there is another common topic that monopolizes the theoretical discurse of the EU. That is, the phenomenon of integration. Despite having undergone transformations over the decades (mainly through the treaties of Rome, Maastricht, and Lisbon), the EU may not be designed to function properly in this current international context. The reasoning behind this proposition is that the mechanisms of integration adopted during the 1980s and 1990s are not longer adequate in light of the drastical changes in the geopolitical scenario, and the incresed international interdependence ever since (Sandbu, 2024).

Politicians and thinkers aligned with a pro-European stance have been advocating for years a consolidation of the EU through greater integration. This demand became more prominent after the Brexit process, which marked the first major setback for the European project since its foundation. Accordingly, this perspective proposes further integration as a means of dissipating doubts about the EU project and of preventing potential losses that could have harmful consequences for the country in question and the wider EU.

Two voices calling for further EU integration are Italy's two former prime ministers, Enrico Letta, and Mario Draghi. Letta and Draghi point out that it is precisely those sectors that are currently most strategic for national security, such as defense, telecommunications, and energy infrastructure, in which the EU is not integrated. This reality, in turn, has led the EU Member States to compete individually in these sectors with continental markets such as the US and China (Sandbu, 2024). Thus, combining efforts and centralizing the decision-making process could help the EU de-risk itself from its counterparts as it could benefit from greater bargaining power.

One of the available options to achieve greater integration is the already discussed fiscal union, as a way of aligning countries economically. Furthermore, there are other non-economic ways to harmonize European policies, such as the integration on the sectors of defense or technological development.

For instance, with regard to defense, there is already a precedent of border integration in the form of Frontex, and an institution that brings together the majority of Member States, such as NATO. These realities, in addition to serving as a preliminary step, would also make it possible to view integration as a natural step towards greater cohesion in defense policies. Searching for common ground and synergies should be the route for Member States to pursue this objective, leaving national and short-sighted ambitions aside.

7. Conclusion

The EU is facing many challenges due to its reliance on third states to sustain its economic output and its generated vulnerabilities, which comprise CRMs, defense capabilities, and advanced technologies, among others. In this scenario, the main priority of the EU should be tackling the vulnerabilities highlighted throughout this thesis and, subsequently, searching for alternatives that could reduce its dependence on foreign actors as well as develop the internal market as a means of economic growth. These lines of action will undoubtedly determine the EU's policy agenda moving forward, which will make de-risking an even-more important concept in the future.

This thesis has taken as its premise the use of the FDI Screening Mechanism as a tool to assess the effectiveness of the de-risking that the EU is carrying out. Theoretically, the European de-risking strategy was designed with the aim of achieving strategic autonomy; however, in practice, this action is not delivering on its objective.

Evidence gathered to support this proposition, as seen in the case study about the FDI Screening Mechanism, leads to the conclusion that de-risking, as defined by the EU, is not quite being implemented. Instead, a kind of " decaffeinated de-risking" seems to be taking place, in which the will of the European institutions clashes with the national interests of Member States. In many of the cases that target the EU's dependencies and vulnerabilities, a dichotomy is formed between the economic argument and the security argument. While the EU institutions look after the latter, it is the former that ends up weighing on decisions taken at the European level. This situation further distances the EU from its competitors, as these actions could be better coordinated at the EU sphere than at the state level.

Although it has helped to draw the full picture around the EU's stance on de-risking, the case study was nothing short of presenting various points where it felt short of its purpose. The lack of empirical data regarding the EU's FDI Screening Mechanism made the analysis lack quantitative output to draw conclusions from and the examples selected to perform the case study, while representative of the EU's current framework and its most prominent reality, might not represent the overall performance of the instrument. In addition, the political landscape is a dynamic environment, which makes hard to make definitive statements about specific situations, as they are affected by multiple factors. This thesis was focused on analyzing geopolitical and economic aspects; however, it could have included other fields of study that could have enrichen the analysis, for example, the social aspect or the environmental case for de-risking.

What it can be drawn from the study is that in the European case, with a single market in which internal competition is the basis of the economy, differences in national policies can generate distortions that lead to greater differences between EU countries. Said distortions add to the already-existing unbalances within the EU zone, which has failed to establish a model of real cohesion among its Member States. The difference in policies do not only apply to the ability to attract foreign investment, but also to the export of goods and services, differences in the wealth of each country, their socio-economic level, etc.

At this point, it should be stressed that the initiatives being taken by the EU through OSA are positive and that they are aimed at addressing the security concerns raised by the Union. Examples of such policies are the Export Controls or the CHIPS Act. However, there seems to be a weak link between what the EU considers to be a risk and what a Member State considers to be a risk. Going back to the theory of securitization, it is relatively straightforward to understand that the audiences that cater to national governments and those that serve the EU (in theory) should be the same, but they are not.

While the EU sees itself as eminently outward-focused, dealing with issues such as climate change, trade agreements, or its migration policy; Member States are more concerned with day-to-day needs, such as inflation, unemployment, or social inequality. Therefore, for de-risking to take place effectively, one of two things is needed: an alignment of objectives between the EU and Member States, or a greater transfer of competences from the Member States to the EU.

Given that the second option will not likely happen anytime soon, and the challenges that will arise due to the relentless competition for resources and power, the EU project must be kept under constant review. To face its future as a bloc, the EU must address, negotiate, and solve issues as one entity. The contrary would not be as beneficial, as independent countries would experience a sharp decrease in their bargaining power in front of third states. This thought would have likely influenced the creation and development of regional organizations such as ASEAN or MERCOSUR, which benefit from greater leverage in their trade discussions acting as a common front, rather than by separate.

In a period characterized by the assertiveness of the major state actors, the EU is being threatened to be left behind. Long gone are the years of strategic multilateralism when free trade and friendly relations were rewarded. This new stage of IR is being led by the assertiveness of national governments, which are under increasing pressure to defend their national interests and project their power (as China does commercially or the US does militarily). In this context, the EU must change its attitude and adjust to reality. With policies that are conservative of the status quo, or that do not consider changes in the international political paradigm, it will not be able to achieve strategic autonomy.

Although it has been demonstrated that the EU lacks a the political infrastructure to achieve its desired strategic autonomy through de-risking, this thesis leaves open questions than can be subject of a new thesis. Further lines of investigation could be pursued in line with a cost-benefit analysis of the implementation of de-risking to determine its underlying economic rationale. Studies on the economic impact of decoupling have been conducted; however, there is little to no bibliography that analyzes the quantitative aspect of de-risking. In addition, the debate on de-risking admits other variables that have not been discussed in this paper, such as the environmental argument for de-risking, or whether de-risking could harm the decarbonization process of the EU, and the social aspect of de-risking, as a means for tackling existing disparities between countries or even social classes.

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