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# The Shift to a New Global Order:

## Companies and the European Union's Rising Geopolitical Muscle

by **Johannes Leitner & Hannes Meissner**

Along with geopolitical rivalry, the global economy increasingly turns into a battlefield. The US, China, and the EU are designing geoeconomic strategies which aim to exploit chokepoints to push through their own national interests. A recent example of how EU-based companies can get into the crossfire of the US-China conflict is the Dutch semiconductor company ASML. Technologically, ASML is one of the most advanced companies in the field of lithography, which is needed to produce cutting-edge computer chips needed for AI applications. The US has been aiming to contain China's ability to design and produce the latest-generation semiconductors and therefore imposed export restrictions on any technology that supports China's capabilities. Due to the US' extraterritorial impact of their policies, ASML had to substantially reduce its sales into China, which accounted for almost 36% of its total sales in 2024. >


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Another example refers to the German automotive industry which was hit by China’s export controls on rare earths and which negatively affected the supply chains of companies such as Mercedes, BMW, and Volkswagen.

The way the global economy works has fundamentally changed. For decades, companies operated in an environment where efficiency, scale, and cross-border integration were the main priorities. Today, economic relations are increasingly shaped by security considerations and power politics. This is no longer abstract geopolitics. It shows up in very tangible ways: sanctions, export controls, investment screening, forced supply chain adjustments, and targeted market disruptions used to influence political outcomes.

In this environment, companies are not bystanders. They are the channels through which economic pressure is applied and the first places where geopolitical risk materializes. Strategic decisions around sourcing, technology, capital allocation, and market access can now trigger regulatory intervention or become leverage points in international disputes. A little later than other huge economic actors, the European Union has reacted to this reality in its own way. Rather than relying on centralized, coercive state power, the EU primarily uses legal, regulatory, and market-based instruments to defend its interests. This approach is becoming more assertive as the pressure increases. External powers such as the US and China are more frequently targeting EU member states and sectors, deliberately exploiting Europe’s dependencies on critical inputs, advanced technologies, energy systems, and access to foreign markets.

At the same time, the EU has shown that it can act decisively when needed. The speed and scope of the EU’s sanctions response following Russia’s invasion of Ukraine demonstrated a growing ability to coordinate and deploy powerful economic measures under acute pressure. This leads to a simple but far-reaching conclusion: Europe’s geopolitical strength is now exercised largely through companies. Firms are expected to implement complex economic security rules, redesign supply chains for resilience, prevent sensitive technologies from flowing to the wrong actors, and absorb the financial and operational costs of geopolitical realignment. EU economic coercion tools are therefore not just instruments of foreign policy. Instead, they directly shape corporate strategy, investment decisions, governance structures, and long-term competitiveness.

## The EU’s Coercion Instruments Operate Through Corporate Behavior

Firms are compliance infrastructures, which means any regulation which is introduced by lawmakers with relevance to private business is exerted through firms. Sanctions, export controls, subsidy disciplines, and procurement restrictions are implemented by companies

> **The global economy is increasingly driven by security and geopolitics rather than efficiency alone."**

through screening, licensing, contracting, and reporting systems. By doing so, private companies are becoming the vein through which the EU's coercion instruments work. This expands the corporate governance perimeter into geoeconomic enforcement.

In addition to the above, firms are owners of strategic assets and vulnerabilities. Companies operating critical infrastructure, controlling key technologies, or anchoring supply chains become focal points of state security logic. This is especially pronounced in sectors such as semiconductors, digital infrastructure, pharmaceuticals, energy systems, and logistics. In this context the European banking industry is another good example. European authorities keep a close eye on financial institutions when it comes to securing sanctions compliance. This is because banks do manage the financial streams and flows which help or avoid circumventing sanctions. Additionally, the European company SWIFT, which runs the worldwide financial information system, is a critical player when it comes to enforcing sanctions and putting Russian banks into trouble once SWIFT was prohibited from offering its services to Russian financial institutions. Constructing a viable alternative to SWIFT is costly and needs time which makes it a perfect chokepoint.

Third, firms are geopolitical actors, often unintentionally. Their choices about sourcing, investment location, technology collaboration, and data governance can shift dependencies and alter the effectiveness of coercion. In a fragmented economy, resilience choices become power choices. Efforts to reduce these vulnerabilities have produced only limited results. In Germany, under the Scholz government, de-risking from China proved difficult to implement, as ministries disagreed on both its meaning and execution, while major German corporations effectively weakened the initiative by further expanding their engagement with China. By contrast, de-risking from the United States – described by incoming Chancellor Friedrich Merz on election night as an "absolute priority" – appears to be an even more challenging undertaking. Its political sensitivity and complexity were such that it was ultimately omitted entirely from the coalition agreement.

Again, companies are frequently caught in the crossfire over conflicting interests between political actors. And sometimes, firms follow their own, corporate foreign policy which might contradict the official position of the country vis-à-vis a third country.

## Weaponized Interdependence and Economic Nationalism

Two main approaches highlight the EU's recent developments in strengthening its geopolitical muscle: The first is weaponized interdependence, which highlights how highly centralized networks in finance, information, and technology create chokepoints that can be repurposed for coercion. In this view, states capable of asserting authority over pivotal nodes, such as payment infrastructures, industry standards, key technologies, and platform governance, can extract leverage by exclusion, restriction, or conditional access. The consequence is a world of offense-defense dynamics in economic networks, rather than a neutral arena of market exchange. The second is the resurgence of economic nationalism, in which industrial policy is increasingly justified through national (or collective) security objectives. Across major powers, industrial strategy and security are converging around technological leadership, supply chain resilience, and control of strategic sectors. The EU's approach is often referred to as less coercive than that of the United States or China, balancing openness with strategic autonomy. However, it is clearly moving toward a security-inflected economic governance model.

For companies, the implication is structural as corporate decisions must reconcile two competing logics, i.e. global efficiency and political-security constraints. Firms become both objects of policy (regulated, screened, restricted) and instruments of policy (expected to enforce sanctions, comply with export controls, and operationalize resilience).

## The EU's Economic Coercion Toolkit: From Deterrence to Countermeasures

The EU's economic coercion toolkit has expanded rapidly. Its instruments differ in function: some deter coercion, some

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retaliate, and others reduce vulnerability by shaping market structure. Together, they form a layered architecture of detection, attribution, escalation management, and economic response.

## Anti-Coercion Instrument (ACI): A Rules-Based Retaliatory Framework

The EU's flagship response to coercion is the Anti-Coercion Instrument (ACI), established as a framework to protect the Union and member states from economic coercion by third countries. It defines coercion as pressure exerted through trade or investment measures intended to force policy change, and it sets out procedures for EU assessment and response, including the possibility of countermeasures affecting trade, services, investment, or procurement. The ACI is designed primarily to deter and obtain cessation of coercion, with countermeasures framed as a last resort. In effect, this means that if a third country imposes economic measures (tariffs, sanctions, blocking market access, etc.) on an EU member country, the EU can rightfully impose countering activities on the third country. In 2021, Lithuania was experiencing high economic pressure from China because Lithuania announced deepening its ties with Taiwan. Shortly after, Lithuanian firms reported problems renewing contracts with their Chinese customers, seeing their shipments being processed with delay in China and experiencing increasing red tape.

Analytically, the ACI matters because it attempts to solve a credibility problem common to regulatory powers: deterrence requires believable willingness to act. The ACI creates a legalized pathway from identification to response, potentially shortening the gap between coercion and EU action relative to slower multilateral dispute settlement. For companies, the ACI is double-edged: it can protect EU interests, yet countermeasures may disrupt supply chains, market access, and contracting if sectors become targets of EU retaliation.

## Blocking Statute: Countering Extraterritorial Sanctions Pressure

A second coercion-relevant instrument is the EU Blocking Statute, aimed at protecting EU operators from the extraterritorial application of certain third-country laws. The instrument seeks to nullify the effect of specified foreign judgments within the EU, enable recovery of damages, and prohibit compliance with listed extraterritorial measures unless authorized. This addresses a key mechanism of coercion: forcing firms to choose between conflicting legal regimes.

In practice, the Blocking Statute illustrates the EU's structural dilemma: it can legislate constraints on corporate compliance behavior, but firms' risk calculations are shaped by exposure to foreign enforcement and market dependence. The statute therefore works less as an absolute shield than as a governance signal, asserting EU legal sovereignty while exposing the need for stronger operational mechanisms to sustain corporate resistance under pressure. When President Trump re-introduced economic sanctions against Iran during his first presidency, the EU ruled that its companies must not follow the US sanctions against Iran. Theoretically a powerful instrument, it partially failed in practice due to the US de-facto power, which the EU could not stand up to.

## International Procurement Instrument (IPI): Market Access as Leverage

Public procurement is a major lever in the EU's geoeconomic repertoire. The International Procurement Instrument (IPI) aims to improve reciprocal access to procurement markets by enabling the EU to investigate restrictive third-country practices and, if needed, to impose measures limiting access of third-country goods, services, or operators to EU procurement. This turns procurement openness into conditionality in that market access becomes a bargaining instrument. In 2024 the EU conducted an investigation into EU medical devices market access in China to determine whether China applied policies to the disadvantage of EU suppliers. Subsequent to the investigation which confirmed uneven treatment of EU suppliers, the EU introduced measures to restrict market access for Chinese firms thus trying to incentivize China to abolish their discriminatory policies versus EU firms.

For companies, IPI-style leverage has two strategic effects. First, it can protect EU firms from discriminatory foreign procurement regimes by creating credible negotiation pressure. Second, it increases compliance complexity for contracting authorities and bidders, potentially altering competitive dynamics in sectors where third-country

> **"Companies are no longer bystanders in geopolitics – they have become the frontline where economic power, and political conflict intersect."**

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suppliers play a major role. Either way, companies become the operational interface of coercion policy through eligibility, sourcing, and tender strategy.

## Foreign Subsidies Regulation (FSR): Disciplining State-Backed Competition

Economic coercion often works indirectly through subsidized market capture and dependency creation. The Foreign Subsidies Regulation (FSR) addresses distortions caused by subsidies granted by non-EU governments by empowering the Commission to investigate and remedy distortive financial contributions affecting the Single Market, including in acquisitions and public procurement contexts. It closes a regulatory gap: EU state aid is scrutinized, while foreign subsidies previously were not.

From a coercion perspective, the FSR is not retaliation, but prevention: it reduces vulnerability created by strategic subsidization that can hollow out domestic capacity or lock in dependence. For firms, the FSR introduces new transaction and tender risks, reshaping due diligence and disclosure requirements and integrating economic security into competition and procurement compliance. In 2024 the EU initiated an inquiry into foreign subsidies of wind turbine companies facilitating wind farms in Europe. The inquiry led to an in-depth investigation starting in February 2026. The final outcome of the investigation is not yet clear, but at least the EU shows it takes economic coercion seriously.

The EU has rightly started to equip itself with the tools needed in today's global economic reality which is increasingly characterized by fragmentation and trade conflicts. Their effectiveness, however, still needs to be proven as most of these tools have only been introduced recently. Their effectiveness will not only depend on the design of the instruments, but also on the EU's willingness and power to enforce them even under the effect of countermeasures which might similarly hurt certain European industries or companies and thus provoke lobbying against the EU's geoeconomic tools.

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