

BRIEFING  
PAPER

435

May 2026



# The EU's geoeconomic gap

Why policy potential misses the mark

Tomi Kristeri & Cordelia Buchanan Ponczek

**FIIA**

FINNISH  
INSTITUTE OF  
INTERNATIONAL  
AFFAIRS

**BRIEFING PAPER 435** May 2026

# The EU's geoeconomic gap

## Why policy potential misses the mark

### Summary

- Amid growing global geoeconomic pressure, the EU's dilemma to be an effective geoeconomic actor is not from a shortage of suitable instruments, but rather from the constraints that prevent their timely and consistent use.
- These constraints operate at three levels: first, external integration into the global economy makes geoeconomic action risky and its effects unpredictable; second, internal dynamics arising from 27 member states with divergent interests and exposures, as well as complex decision procedures, make collective resolve difficult; and third, the normative foundations that underpin the EU's vision for itself contradict the idea of a "geoeconomic Europe".
- The Briefing Paper uses four case studies – the Anti-Coercion Instrument, the EU–Mercosur agreement, foreign direct investment (FDI) screening, and the Industrial Accelerator Act – to illustrate how the EU's capacity to be an effective geoeconomic actor is limited by these persistent constraints.
- Realistic steps to strengthen the EU's geoeconomic agency include reducing information gaps among member states, clarifying when existing instruments can be activated, and using the EU's rule-based identity as a deliberate source of strategic credibility.

### Authors



**Tomi Kristeri**  
Research Fellow  
Global Security and Governance  
Finnish Institute of International Affairs



**Cordelia Buchanan Ponczek**  
Research Fellow  
Global Security and Governance  
Finnish Institute of International Affairs

## Introduction

The EU struggles to translate its geoeconomic power<sup>1</sup> into coherent geoeconomic action, despite its expanding economic security toolbox. This gap has become clearer as the international environment has shifted. The erosion of multilateral trade rules has exposed vulnerabilities in interdependence, while China, Russia and increasingly the US have shown greater willingness to use economic leverage to influence other actors.

In response, the EU has reframed its external-facing economic strategy around the reduction of strategic dependencies in critical sectors and the systematic management of security risks. It has done this while opting to remain open to global trade. In line with this approach, the EU has introduced new instruments ranging from investment screening to anti-coercion measures. On paper, the EU appears better prepared than ever to protect and defend its interests, but in cases where pressure has come to the fore, the resulting decisions – and action – have been slow, politically contested, or muted.

This Briefing Paper argues that the obstacle to greater EU geoeconomic agency is not a shortage of instruments but rather the constraints on their use. These constraints reflect structural trade-offs that are built into the EU model: the same openness, legalism, and multilevel governance that are important sources of the EU's legitimacy and enduring market power also hinder effective geoeconomic action.

The paper analyses the EU's economic security agenda through selected cases to explain why a growing toolbox does not automatically translate into geoeconomic leverage. It argues that this set of constraints reduces the EU's speed and flexibility in responding to geoeconomic threats and weakens its capacity to activate its geoeconomic power. Finally, the paper considers how the EU could exercise geoeconomic agency without sacrificing the rules-based and institutional features that provide the bulk of its geoeconomic strength.

## The geoeconomic turn

The EU is undergoing a structural shift in how it understands the relationship between economics and security. For much of the post-Cold War period, the EU operated within a system in which deep economic integration generated shared gains and tempered geopolitical rivalry. This led to assumptions that global trade liberalization, regulatory convergence, and institutionalized dispute settlement would align different national interests over time. This mirrored the EU's own integration process and could therefore be rationalized. The resulting economic interdependence was treated as a stabilizing force rather than a source of vulnerability. This framework was reflected in part by how the EU viewed and portrayed itself to other actors: as a “normative” or “market” power that shaped outcomes through regulation, trade agreements, and rule-setting rather than coercion.

Over the past decade, this system and these assumptions have come under sustained pressure. The security risks that can arise from interdependence have become more visible. Russia's weaponization of gas exports alongside its full-scale invasion of Ukraine demonstrated that trade relations do not

1 Christie, E. H., Wigell, M., & Kristeri, T. (2025) “Measuring geoeconomic power: An index for 41 major economies”. *FIIA Research Paper 1*. Finnish Institute of International Affairs. <https://fii.fi/en/publication/measuring-geoeconomic-power-an-index-for-41-major-economies>.

necessarily moderate conflict, but might constrain an actor's response instead. China's use of informal trade coercion, including against Lithuania, showed how economic pressure can be targeted at individual member states, with impacts that reverberate across the single market. In both cases, global economic integration functioned as a channel of foreign influence. This forced EU policymakers to acknowledge that economic flows outside the EU's borders bring significant security externalities.

### **“The broader structure of the global economy has shifted towards greater state intervention and economic securitization.”**

Tangential to this, the broader structure of the global economy has shifted towards greater state intervention and economic securitization. China's state-led development model, which is characterized by extensive industrial subsidies, coordinated value-chain upgrading, and persistent overcapacity in strategic sectors, has intensified concerns about unfair competition and geoeconomic leverage. The US has expanded its own export controls, investment screening, and industrial policy. By taking these steps, the US signals that it, too, can and will treat trade and technology as instruments of strategic competition. Under the second Trump administration, in particular, trade policy has become openly nationalistic and coercive, as the US has deployed economic leverage against its adversaries and allies alike, including the EU.

Beyond this, the institutional foundations of the liberal trade order have weakened. The paralysis of the WTO Appellate Body and the stagnation of multilateral trade negotiations have undermined confidence in the rules-based system. This has incentivized states to opt for more unilateral instruments as a last resort because the lack of enforcement credibility encourages rule-breaking among states that might otherwise be compliant.

The EU has responded to these developments with new concepts of its international agency, such as “open strategic autonomy”, “de-risking” and “economic security”. These all refer to a combined approach of managing security risks produced by interdependence while remaining open to global

trade and investment flows. Its new measures in investment screening, export controls and anti-coercion reflect this strategic posture in action. However, the EU's geoeconomic turn is unfolding within its pre-existing institutional architecture, which was designed around legality, compromise, and durability rather than rapid response. This is compounded by deep integration into the global economy, in which action carries retaliation risks and costs that are unevenly distributed across the EU's member states.

### **Constraints and thresholds in the EU's geoeconomic (in)action**

The EU's geoeconomic agency ranges from rhetorical commitment to policy adoption and actual enforcement. In practice, a gap persists between the creation of new concepts and policy tools, and the constrained behaviour that the EU exhibits. The EU appears to have a high threshold to activate its geoeconomic toolset. Three categories of constraint – external, internal, and normative – shape when, whether, and to what extent those tools are deployed. They also help to explain why enforcement is often selective, even “à la carte”.

#### **External constraints**

The EU's prosperity and influence have largely been built on openness and predictability. These same features expose it to pressure from outside. The more integrated the EU is within global economic networks, arguably to its own benefit, the more others can exploit that position.

This creates costs on both sides of the decision, in what has been termed the economic security dilemma.<sup>2</sup> The decision to act through geoeconomic tools can provoke retaliatory responses, the effects of which can be difficult to predict and often spread across sectors in unanticipated ways. Choosing not to act, on the other hand, incurs its own costs, such as eroded credibility and continued vulnerability. Some measures that initially appear clear-cut become more complicated over time, for example by incentivizing third countries to develop means

2 Christie, E. H., & Wigell, M. (2025) “The economic security dilemma”. LSE Blogs. <https://blogs.lse.ac.uk/europpblog/2025/02/05/the-geoeconomic-security-dilemma/>.

to negate the intended effect. Meanwhile, the EU's member states and their populations still bear the political and economic costs of action.

If the burden of complying with EU regulations comes to outweigh the benefits of access to its sizeable market, middle powers may shift towards alternative partners. Likewise, over-regulation can establish barriers to market access and deter much-needed investment. The EU's weight in global economic relationships and as a market is not unconditional.

### **Internal constraints**

The EU's governance structure shapes its geo-economic capacity alongside external factors. The EU's competences are distributed across the Commission, the Council, the European Parliament, member states and various agencies. The Union's institutional structure is a source of legitimacy and legal robustness, but it also introduces sequencing problems, procedural requirements, and multiple veto points. Each of these can slow movement from rhetoric to policy and from policy to enforcement.

The creation or use of any new instrument must navigate a complex decision-making process in which outcomes are determined by qualified majority or unanimous voting. Such measures are subject to judicial review, and standards of evidence can be highly contested. These features create a double hurdle: the political compromise needed to adopt an instrument and the separate consensus required to activate it in practice. The former can be achieved in moments of broad agreement, whereas the latter is often more difficult when the concrete costs of action become apparent or can at least be wielded politically.

Enforcement also unfolds across 27 member states with distinct domestic political economies, threat perceptions, and risk tolerances. Economic coercion rarely imposes uniform costs; rather, its effects vary across member states. This generates asymmetries that can translate into domestic political contestation. As measures move from abstract policy to concrete implementation, resistance tends to become more organized. What registers as strategic necessity at the EU level may be politically costly

at the national level. Diverging interests make EU geoeconomic action contingent on a convergence of political will that cannot be assumed to be a constant.

### **Normative constraints**

The EU's foundational normative architecture also constrains its geoeconomic agency. The EU was constructed as a multilateral project grounded in rule-of-law principles, procedural fairness, and the belief that disputes can be managed through multilateral institutions rather than unilateral responses. These values remain central to the EU's political discourse, self-understanding, and value proposition.

The effect is that geoeconomic tools must be legally justified, procedurally sound, and politically defensible. Any measure that appears discriminatory, disproportionate, or purely transactional risks undermining the EU's identity as a rule-bound actor. The EU therefore tends to prefer regulatory instruments over punitive ones. Even its more assertive measures are placed within legal frameworks and framed in the language of multilateralism.

These commitments make enforcement more difficult and generate trade-offs. As traditional allies embrace coercive economic strategies, the EU faces pressure to adapt. On the one hand, its consistency and predictability are assets – markets and potential trading partners value a counterpart whose terms of engagement are stable and transparent. On the other hand, coercive strategies, such as those of the US, have proven effective at securing favourable outcomes. The EU must find ways to assert itself without eroding the legal and multilateral foundations from which its authority derives, and without abandoning normative commitments that, in a more unpredictable world, are an important source of differentiation.

## **Case studies: EU economic security**

### **The Anti-Coercion Instrument**

The Anti-Coercion Instrument (ACI), adopted in late 2023, is the EU's response to economic coercion by third countries seeking to influence the sovereign decisions of the Union or its member states. Where



Building of the European Central Bank (ECB) in Frankfurt, Germany.  
Source: Jochen Tack, ImageBroker/Lehtikuva

coercion is established, the EU may impose countermeasures, including restrictions on trade in goods or services, public procurement, investment, or intellectual property.

The ACI emerged in response to the weaponization of interdependence and the weakening of multilateral dispute settlement. However, the same interdependent environment constrains its activation because any use of the ACI carries escalation risks and uncertain economic costs. The sweeping US tariffs imposed in 2025 would have appeared to be a textbook case for the ACI's use, yet it was never formally invoked,<sup>3</sup> reflecting how concerns about triggering a broader trade conflict and imposing asymmetric costs

across member states combine to push the threshold for activation well above what the legal text alone would suggest.

During negotiations, the ACI was presented as a strictly defensive tool, consistent with international law, rather than as a strategic instrument. Future activation will depend on legal and ethical defensibility, which narrows the conditions under which the instrument can be used and places a burden on decision-makers to justify the costs of the instrument's use.

To address concerns about overreach, the design of the ACI includes demanding evidentiary standards, requirements for diplomatic engagement, and proportionality assessments. The Council must determine by qualified majority that coercion has occurred before countermeasures can proceed. Given differing member state exposures, sectoral interests, and tolerance for retaliation, this creates the potential for distributional conflict and multiple veto

<sup>3</sup> The dispute was ultimately resolved through the Turnberry agreement before the Council determination stage was reached. See also Kristeri, T. (2025) "The Trump-EU trade deal: A geoeconomic stress test the EU failed". *FIIA Comment*. <https://fii.fi/en/publication/the-trump-eu-trade-deal>.

points. Third countries may anticipate such internal bargaining and tailor coercive measures accordingly to “divide and conquer”.

The result is an instrument that remains unused. The Commission’s preferred explanation is that the instrument retains deterrent value simply by existing. The procedural and political barriers mentioned above have made non-use the path of least resistance, and “deterrence” risks masking inaction in strategic language. It is hard to maintain that an instrument that cannot be activated is truly a credible deterrent against economic coercion.

### **The EU–Mercosur trade agreement**

The EU–Mercosur agreement is a comprehensive trade deal between the EU and Mercosur<sup>4</sup> that would create one of the world’s largest free trade areas by reducing tariffs and expanding market access. Although the political negotiations have concluded, the agreement has not yet been signed or ratified. Its prolonged trajectory illustrates how the EU’s geoeconomic initiatives encounter internal political and institutional constraints even when the strategic incentives – such as the diversification of trade partners and expanded market access – are strong.

The agreement has faced relatively limited external structural obstacles. For export-oriented sectors, Mercosur represents a growth market, and in a fragmenting global economy the deal serves as a diversification and hedging instrument. The erosion of multilateral trade governance, tensions with the US, and China’s expanding role in Latin America have reinforced the rationale for concluding the agreement. In this sense, the broader geoeconomic environment has supported the case for adaptation rather than obstructed it.

The main constraints have been internal. Member states differ sharply in trade exposure and sectoral interests. Industrial exporters such as Germany and Spain have generally supported the agreement, while countries with politically powerful agricultural sectors, including France, Ireland, and Austria, have opposed it. Farming organizations have framed the deal as a direct threat to domestic producers, which has turned ratification into a politically sensitive issue. These distributional conflicts have complicated

coalition-building in the Council and have required sustained intergovernmental bargaining brokered by the Commission.

Institutional rules have amplified these tensions. While trade policy largely falls under EU competence, the agreement is classified as “mixed”, which means that it requires approval by the Council and the European Parliament, as well as ratification by national parliaments. These multiple veto points allow governments to use ratification as leverage for concessions. In response, the Commission has pursued a “splitting” strategy to separate EU-only provisions from those requiring national ratification. The European Parliament’s decision to refer the agreement to the Court of Justice for legal review has resulted in further delays and legal uncertainty.

Normative considerations have raised the threshold for approval. The EU’s self-image as a leader in climate and sustainability has made environmental standards central to the debate. Concerns over Amazon deforestation have reframed the agreement as a test of coherence with the EU’s environmental legislation. Sustainability commitments have therefore become politically necessary for ratification and have served as a driver of the above-mentioned Parliament decision.

### **Foreign direct investment screening**

The EU’s foreign direct investment (FDI) screening regulation, operational since 2020, creates a cooperation mechanism for reviewing foreign investments that may affect security or critical technologies. In addition to this, each member state has its own national FDI screening regulations. The EU-level framework aims to coordinate and harmonize national screening systems and facilitate information-sharing. This reflects an awareness that foreign acquisitions in areas such as critical technologies, infrastructure, and energy can create strategic dependencies or security vulnerabilities.

The EU built a system of coordination rather than a centralized enforcement tool. Final decisions on FDI screening rest with member states, although the Commission and other member states may issue opinions on controversial outcomes. Recently, a requirement has been introduced that member states must provide explanations for decisions that significantly differ from EU guidance. Nevertheless, divergent threat perceptions, economic exposures,

4 Composed of Brazil, Argentina, Uruguay, and Paraguay.

and domestic political economies produce variation in implementation. Some member states apply screening robustly, while others interpret risks more narrowly. Cross-border projects and technologies, such as energy infrastructure, can fall into grey areas. A comparison of Finnish and Swedish screening practices illustrates how even closely aligned countries can maintain divergent threat perceptions, institutional structures, and approaches within the same EU framework.<sup>5</sup>

Structural tensions also complicate the instrument's effectiveness. Member states compete to attract foreign capital, and overly restrictive screening can deter investment or create regulatory burdens that outweigh security benefits. Conversely, insufficient screening risks strategic vulnerabilities. The EU's approach attempts to manage this tension through procedural coordination rather than overt restriction, resulting in a mechanism that institutionalizes security concerns without guaranteeing uniform enforcement, leaving gaps that are difficult to close without deeper integration. From a normative perspective, FDI screening is in tension with the rules-based, open economic order, as it subjects market access to discretionary assessments of "security". While presented as a targeted safeguard, FDI screening introduces conditionality and can create ambiguity between cases where precaution is warranted and those that are simply economic protectionism or even corporate opportunism.

### **Industrial Accelerator Act**

The EU's Industrial Accelerator Act reflects a shift towards demand-side industrial policy within its geoeconomic agenda. The policy is designed to support production in strategic sectors through measures such as "Buy European" provisions, preferential procurement, and coordinated investment. The aim is to actively shape the market, strengthen industrial capacity, and reduce external dependencies.

The vision is there, but its effectiveness is constrained by the same structural, institutional, and normative tensions that characterize the EU's broader geoeconomic toolkit. On the external side,

there are risks of retaliation from trading partners – in the form of a tit-for-tat subsidy escalation – and it may undermine the EU's position within open global markets. Internally, member states differ in industrial structure, fiscal capacity, and exposure to global supply chains, which complicates any prospective agreement on the scope and intensity of intervention. Similar to FDI screening, competition among member states that prioritize domestic production can lead to divergence from those that do not. Countries with strong export-oriented industries or limited fiscal space may resist more protectionist or subsidy-heavy approaches.

As with the other examples, the instrument has an uneasy relationship with the EU's normative position. Measures such as "Buy European" provisions risk conflicting with single market principles and international trade obligations. This raises questions about coherence between the EU's economic security ambitions and its identity as a rules-based actor. As a result, while the Industrial Accelerator Act signals a growing willingness to engage in strategic industrial policy, its design and implementation remain cautious, which reflects unresolved tensions between competitiveness, openness, and cohesion.

### **Policy implications**

The cases examined above share a common pattern: the EU succeeds in constructing instruments that address concerns about economic security and geoeconomic risks, but then struggles to deploy them consistently or credibly. Several adjustments are within reach.

First, the EU should invest in shared threat assessment and negotiation. While much of the divergence in member states' willingness to use geoeconomic tools is rooted in genuine differences, it also reflects varying threat perceptions and a lack of coordination. The EU can counter this by building common conceptual frameworks, pooling information-gathering and analysis, as well as constructing fora for discussion and deliberation. Such steps can reduce information asymmetries and gaps in perceived interests that have allowed distributional conflicts to block collective action. They might also bring member states into closer alignment on economic security questions.

5 Kauppila, L. & Cappelin, B. (2023) "The China dilemma in foreign direct investment screening: Comparing the Finnish and Swedish approaches". Swedish National China Centre. Finland is in the process of amending its regulations on FDI screening.

**“The EU’s geoeconomic predicament is not due to a lack of instruments or ignorance of the problem. Rather, it lies in the gap between policy and implementation.”**

Second, the EU should pursue clearer, pre-agreed activation thresholds for instruments such as the ACI. Vague criteria for determining that coercion has occurred create uncertainty that third countries can exploit and internal opponents can use to delay responses. More explicit thresholds – backed by action if those lines are crossed – would reduce the space for procedural lag and obstruction and strengthen the credibility of the instrument’s deterrent effect.

Third, the EU’s normative commitments can and should be treated as a strategic asset. The consistency and predictability of the EU’s rules-based internal market are increasingly valued by partners navigating a more coercive global economy. Making this a deliberate feature of the EU’s economic security strategy could turn a constraint into a building block for geoeconomic power and security. The EU should think innovatively about avenues for normative outreach in various domains, such as Global Gateway or development aid.

Progress on all three fronts is likely to be uneven. The Commission’s Joint Communication on Economic Security, introduced in December 2025, takes meaningful steps towards pooling threat analysis and building a more anticipatory framework across member states. Yet the document failed to deliver a promised Economic Security Doctrine that would provide clearer guidance on when to deploy existing instruments, meaning that the EU continues to approach coercive threats without agreed response criteria. And while the EU has built up “partnering” as a pillar of its economic security strategy, operational steps are not yet aligned with this logic, as seen in the “Buy European” provisions in the Industrial Accelerator Act, which risk undermining the EU’s attractiveness as a stable, open market.

## Conclusions

As this Briefing Paper has explored, the EU’s geoeconomic predicament is not due to a lack of instruments or ignorance of the problem. A toolbox of instruments exists, strategic awareness has grown, and the language of economic security now permeates EU policy debates. The problem lies in the gap between policy and implementation. Deep embeddedness in global economic networks, a governance architecture designed for consensus and legal durability, 27 member states with divergent interests and exposures, and a foundational commitment to rule-bound behaviour all constrain the conditions under which instruments can be used. The result is a Union that is better at constructing defences than deploying them.

This is not an argument for abandoning the EU model in favour of unilateralism. The procedure-based system that slows geoeconomic action is the same system that gives EU decisions their legitimacy and durability. In an increasingly unpredictable world, the normative commitments that constrain the conditions for coercive action are an increasingly valued source of differentiation, when contrasted with actors that use them sporadically and capriciously. The question is whether the EU can learn to overcome their unduly restrictive effects, and whether it can reduce the internal coordination costs that currently prevent collective resolve at times when it is increasingly required. ●

BRIEFING  
PAPER

**435**

May 2026

ISBN 978-951-769-855-9

ISSN 1795-8059

Language editing: Lynn Nikkanen

Cover photo: Christian Ohde, Mauritius Images / Lehtikuva

This publication is part of the research project “Power Politics by Economic Means: The Goeconomics Research Initiative (GERI)”, funded by the Research Council of Finland.

**IIA**  
FINNISH  
INSTITUTE OF  
INTERNATIONAL  
AFFAIRS

Arkadiankatu 23 b  
POB 425 / 00101 Helsinki  
Telephone +358 (0)9 432 7799  
[www.iiia.fi](http://www.iiia.fi)

The Finnish Institute of International Affairs is an independent research institute that produces high-level research to support political decisionmaking and public debate both nationally and internationally.

All manuscripts are reviewed by at least two other experts in the field to ensure the high quality of the publications. In addition, publications undergo professional language checking and editing. The responsibility for the views expressed ultimately rests with the authors.

While all FIIA publications are freely accessible, they may not be republished, in whole or in part, without prior written permission from the Institute.

