

Master's Thesis

Weaponizing economic interdependence

A comparative study of China's and the United States' economic coercion against the EU and the EU's deterrence through the Anti-Coercion Instrument

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Summary

This thesis is a comparative case study examining how The People's Republic of China (China) and The United States of America (US) have weaponized economic interdependence to exercise economic coercion against the European Union (EU), how the EU has responded through its Anti-Coercion Instrument (ACI) and to what extent this response has strengthened the EU's ability to deter and respond to such strategies. It applies a *most different systems design* through the theoretical frameworks of weaponized interdependence and deterrence. Using dual-case mapping, it demonstrates how China and the US, as two distinctively different hegemons, weaponize their positions in the global economic network to exercise economic coercion. To better capture these dynamics, this thesis reconceptualizes the original chokepoint effect by introducing a *partial chokepoint effect* as an additional form of economic coercion. Drawing on empirical evidence, including official documents, expert interviews, and relevant literature, the thesis explores how differences in governance and institutional structures shape China's and the US's use of economic coercion as a foreign policy strategy. Additionally, through an abductive approach, it analyzes the EU's response, reconceptualizing deterrence as phases and introducing a third, intermediate phase – *deterrence by negotiation* - between deterrence by denial and deterrence by punishment.

In conclusion, the findings show that China has effectively leveraged its hegemonic position in the global economic network to deploy silent and disguised economic coercion via a chokepoint effect, whereas the US, despite its more centralized position, faces institutional constraints limiting its influence to a partial chokepoint effect. The US deploys a more explicit form of economic coercion, making it easier for the EU to prove and respond to through the ACI. The findings establish, that the ACI has strengthened the EU's ability to deter and respond to economic coercion to some extent, but its effectiveness varies depending on the country deploying economic coercion and the nature of bilateral relations. China ceased coercive measures shortly after the ACI's adoption, indicating successful deterrence by denial. In contrast, the US persisted, indicating the failure of deterrence by denial and thus transitioning into the deterrence by negotiation phase. Therefore, the ACI has yet to prove effective and deterring against the US as coercive measures remain active and deterrence by negotiation has not yet come to fruition.

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1.0 Introduction

The geopolitical changes of recent years, including the invasion of Ukraine, The People's Republic of China's (China) growing global influence and President Donald Trump's return to tariff based economic policies have collectively created new challenges for the European Union's (EU) competitive position. These factors have contributed to a changing understanding of security in the EU, making open strategic autonomy (OSA) an important priority for the Union. Concurrently, major players, notably the United States of America (US) and China, have also embarked upon a new era characterized by a strategic focus on reducing dependencies and strengthening their own industries. This raise concerns both within the EU and externally among researchers, as a world where most actors strive for strategic autonomy could potentially undermine multilateralism, interdependence and the rule-based-order that the EU has fought diligently to preserve.¹ In the context of this intensified strategic competition, China and the US are increasingly trying to exercise control over, influence or manipulate the economic relations that constitute the foundational structure of globalization and geoeconomics.² Economic relations are increasingly used as a tool to promote national interests, with national security and economic success guiding trade policy. This has led to a development where trade and investment policies are no longer just economic instruments; they have become essential elements in the geopolitical rivalry between states.³

The use of economic methods to achieve political objectives has been a well-established practice since ancient Greece. Historically, economic pressure has often been exerted on other nations during periods of open military conflict. However, following the two World Wars and the drafting of the United Nations Charter, the legitimate referral of military coercion by states has become increasingly uncommon. This limitation has fostered the development and application of alternative, less conventional forms of coercion, including economic sanctions, export controls, boycotts, and trade embargoes which takes shape of either silent, disguised or explicit economic coercion. In the 21st century, economic coercion has increasingly become a central tool in the arsenals at both multilateral and unilateral levels. Recent research indicates

¹ Luuk Molthof, Dick Zandee & Giulia Cretti, Unpacking open strategic autonomy: From concept to practice, *Clingendael Report*, November 2021, pp. 9-13

² Tobias Gehrke, FIIA Report, "Threading the trade needle on open strategic autonomy", IN; Niklas Helwig, Strategic Autonomy and the Transformation of the EU, April 2021, p. 94

³ *Ibid* & Sophie Meunier & Kalypso Nicolaidis, "The Geopoliticization of European Trade and Investment Policy", *Journal of Common Market Studies*, 57, 2019, pp. 103-106.

that open military confrontation largely has been replaced by economic coercion, thereby establishing a new form of power in state interactions.⁴

Numerous instances of economic coercion have been documented, from both China and the US, with China's coercive practices often characterized by a greater degree of covertness. A more recent example of Chinese economic coercion occurred in 2021 when Lithuania established a Taiwanese Representative Office (TRO) in Vilnius. This decision triggered a strong reaction from China that had significant consequences for global supply chains. Other EU countries were also affected by secondary sanctions as companies using Lithuanian products or components in their supply chains were also subject to the trade restrictions.⁵ While China's response to Lithuania illustrates how economic coercion can serve as a difficult-to-prove means of punishing actors and influencing global supply chains, the US has increasingly deployed similar strategies - albeit in a more explicit and traceable manner, making it easier to identify the connection between political objectives and economic measures. This became particularly evident on 21st of February 2025, when President Trump issued a memorandum which aim was to protect US companies against *overseas extortion*. While Trump stated the tariffs to be protective measures of US national security, it became clear that the memorandum was made to protect US big tech against the EU's Digital Market Act (DMA) and its non-compliance investigations into US big tech companies, Apple and Meta.⁶ On 12th of March 2025, President Trump deployed economic coercion against the EU under the veil of *reciprocal tariffs* to change the EU trade deficit. These tariffs hit the EU aluminum and steel export sector with 25 percent tariffs. Additionally, on 2nd of April 2025, what is now known as "US Liberation Day", Trump initiated a trade war on most of the world, hitting the EU with 20 percent tariffs. The case is presently still ongoing.

As economic coercion has become one of the most prominent strategies in the contemporary geopolitical competition, it poses a challenge to the interdependence and multilateralism that the EU has traditionally upheld. Consequently, the EU has faced growing pressure to develop autonomous and robust policy tools capable of addressing and strengthen the Union against

⁴ Marcin Szczepański, "China's economic coercion Evolution, characteristics and countermeasures", *European Parliament briefing*, November 2022, p. 2. (Available at: <https://tinyurl.com/bdwkceyr>).

⁵ Szczepański, *supra* note 4, p. 5.

⁶ Presidential Memorandum, "Defending American Companies and Innovators From Overseas Extortion and Unfair Fines and Penalties" *The White House*, February 21, 2025, (Available at: <https://tinyurl.com/77thfxzw>).

such external threats.⁷ Over the past decade, the most recent instrument being introduced is the legally binding Anti-Coercion Instrument (ACI), which was adopted in November 2023 and entered into force in December the same year. The ACI is designed to deter third countries from attempting to influence the policy choices of the EU or its Member States through trade and investment restrictions.⁸

Recent episodes of economic coercion targeting the EU - originating from both China and the US - have reignited debate over China's coercive diplomacy and sparked broader concerns about the state of transatlantic relations. In the academic and broader EU discourse, the ACI is often positioned as a cornerstone of the EU's pursuit of OSA and is seen as a potentially effective mechanism for responding to economic coercion. However, recent developments reveal an emerging chasm in political science research - both regarding the extent to which the ACI has strengthened the EU's ability to counter the coercion, and in how the instrument operates in practice depending on the source of coercion. Against this backdrop, this thesis seeks to investigate a central research question:

“How has the weaponization of economic interdependence enabled China and the United States to exert economic coercion against the EU, and how has the EU’s Anti-Coercion Instrument strengthened the Union’s ability to deter and respond to such strategies?”

Our contribution is twofold: empirical and conceptual. Empirically, we map out the positioning of two of the biggest economies and their opportunities for weaponization. By that, we demonstrate that China can weaponize economic interdependence not only asymmetrically but also through its central position in the global economic network. Additionally, we demonstrate that the US has not been able to weaponize its interdependence against the EU to that extent as is argued in the theory by Farrell and Newman. We also assess whether the ACI has enhanced the EU's ability to deter and respond to economic coercion from both China and the US. Conceptually, we contribute to weaponized interdependence theory by introducing the *partial chokepoint effect* and extend deterrence theory with the notion of *deterrence by negotiation*.

⁷ Meunier & Nicolaidis, *supra* note 3, pp. 103-106. & Gehrke, *supra* note 2, pp. 89-91.

⁸ Molthod et.al, *Supra* note 1, pp. 12-16.

To analyze and answer the research question based on our findings, this thesis is structured as follows: **Section two** outlines the current literature on the geoeconomic turn and economic coercion in different aspects. Building on this it identifies the specific chasm within literature surrounding the ACI and how the EU seeks to utilize its young instrument to strengthen it against economic coercion. While the literature on economic coercion seems abundant, the ACI's strengthening element of the Union's deterrence capabilities remain a scarcely researched topic. **Section three** presents the theoretical framework which integrates two complementary theories: weaponized interdependence and deterrence. The concepts of the two theories are introduced, as well as our contribution to expanding the theories. **Section four** consists of the methodological approach regarding research design and considerations for the case selection process, data collection, validity, and limitations. **Section five** contains the analysis, which in line with our two theoretical frameworks are split into two sections. Firstly, the two cases of economic coercion are analyzed and mapped within the theory of weaponized interdependence, to illustrate how and through which strategic nodes China and the US utilize economic interdependence to pressure policy cessation from the EU or its Member States. Secondly, the EU's response to each case of economic coercion via the ACI is analyzed through the lens of deterrence theory, using key concepts from selected scholars. Each section concludes with a comparative summary. **Section six** presents the discussion, drawing on the analysis' data to explore perspectives regarding the potential omission or activation of the ACI. **Section seven** concludes on our findings and summarizes how this thesis has answered the proposed research question. Lastly, **section eight** outline how the thesis can contribute to further research in the field.

2.0 Literature review

This literature review begins in section 2.1 by exploring research that deals with the geoeconomic turn that has shaped the international system over the past decade. The focus is especially on how Western states are being challenged by rising powers such as China, which has led to strategic adjustments to a new economic reality. This shift has resulted in growing protectionism and intensified rivalry - particularly between China and the US - where some scholars even describe the situation as the beginning of a new economic Cold War. Globalization is increasingly viewed not as a means of mutual interdependence, but as an instrument of political coercion. As a result, economic coercion has become a foreign policy strategy used more frequently to influence other states' decisions. Against this backdrop,

section 2.2 looks at key definitions of economic statecraft, economic sanctions and economic coercion while section 2.3 explores how economic coercion can be understood through the theory of weaponized interdependence. A clear chasm in the literature emerges here: although the theory offers useful insights into how states make strategic use of global networks and dependencies, it has not yet been applied systematically to the study of economic coercion - particularly in relation to Europe. Within this context, the EU appears as an important but relatively overlooked actor in the literature. The Union has been a target of economic coercion from both China and the US and has responded by developing the ACI. Sections 2.4 and 2.5 focus on the EU as a target of economic coercion and the development of the ACI, respectively. Here, a significant chasm in the literature is identified: it remains unclear whether the ACI possesses genuine deterrent capacity vis-à-vis great powers.

2.1 The geoeconomic turn and a potential economic Cold War

The literature outlines that the global economic order is undergoing significant transformation.⁹ Some scholars argue that this shift marks the decline of a period characterized by relative hegemonic stability under neoliberal globalization, and the onset of a new phase marked by relative instability. In contrast to earlier periods of global rivalry over supremacy and hegemony, the current struggles are not predominantly geopolitical, but are instead increasingly geoeconomic in nature.¹⁰ Dr. Libman shares this perspective and in 2022 he argued for the emergence of a new type of Cold War; one that unfolds within the economic domain due to the competition in market economies; an economic Cold War.¹¹ This perspective, however, is nuanced by the war in Ukraine, which illustrates that armed conflict has not been entirely replaced by economic rivalry. Still, the West's unprecedented use of sanctions to avoid direct military engagement with Russia highlights how geoeconomic instruments play a significant role in contemporary conflict.¹²

In this context, the growing tension surrounding the economic order has raised important questions, where countries find themselves grappling with the complexities of navigating these

⁹ Sarah B. Danzman & Sophie Meunier, The EU's geoeconomic Turn: From Policy Laggard to Institutional Innovator, *Journal of Common Market Studies*, 62(4), 2024, 1097-1115. & Milan Babić, Nana de Graaff, Lukas Linsi, & Clara Weinhardt, The Geoeconomic Turn in International Trade: Investment, and Technology, *Cogitatio Politics and Governance*, 21(9031), 2024, p. 1-10.

¹⁰ Alexander Libman, A New Economic Cold War? *Center for International Relations and Sustainable Development*, 21, 2022, p. 156.

¹¹ Babić et.al., *Supra* note, 9, p. 2

¹² *Ibid*

new geoeconomic dynamics. As Dr. Libman highlighted, the Western bloc faces a particularly challenging dilemma. If it seeks to combat the use of free trade and investment as instruments of power by authoritarian regimes, it will inevitably involve the imposition of restrictions on the global economy - an economic system that democratic states have both created and profited from. Paradoxically, however, advocates of free competition should not simply prohibit companies from certain countries from engaging in it and achieving success.¹³ Other scholars diverge from this perspective. Sociologist Ho-fung Hung suggests that rather than simply exploiting the global economic system, China has shifted the balance of power slightly, thereby creating new opportunities for other developing nations. According to Hung, this shift has allowed these countries to negotiate better terms in their relations with the US and the EU, ultimately challenging the West's historical dominance in global economic affairs.¹⁴

Regardless of viewpoint, the shifting geo-economic landscape has intensified internal tensions, as evidenced by the rise of economic nationalism within Western democracies. In 2019 German economist Daniel Gros identified an emerging trend of economic nationalism as a consequence of US President Donald Trump's protectionist trade conflict with China. Gros argued that economic nationalism is grounded in the belief that national security is compromised when a country's economy and military are heavily reliant on imports.¹⁵ This development illustrates the paradox faced by Western nations: despite their historical advocacy for global free trade, they have increasingly resorted to protectionist measures, complicating the ideals they have long championed.¹⁶ As anticipated both by Gros and Drezner, the US is undergoing further geoeconomic fragmentation as globalization is increasingly perceived as a threat.¹⁷ Economist Dani Rodrik argues that such a strategy is detrimental to the global economy, stating; "*Self-sufficiency is a path to economic decline. No country, even if you're the United States or China, can prosper without the world markets getting inputs from the rest of the world.*"¹⁸ This is in agreement with Gros, who argues that geostrategic endeavours aimed at reducing economic interdependence exert a far greater and more far-reaching economic impact than bilateral

¹³ Libman, *Supra* note, 10, p. 151.

¹⁴ Ho-fung Hung, *The China Boom: Why China will not rule the world*, 1st ed, 2015, p. 174.

¹⁵ Daniel Gros, "The Siren Song of Strategic Autonomy", *Project Syndicate*, November 2019 (Available at: <https://tinyurl.com/mvj3k234>).

¹⁶ Robin Pomeroy & Nathalie Marchant, Globalization tariffs and democracy: economist Dani Rodrik on why isolationism isn't the answer, *World Economic Forum*, 10 February, 2025, (Available at: <https://tinyurl.com/39dev3dn>).

¹⁷ Daniel W. Drezner, The Dangers of Misunderstanding Economic Interdependence, *Defending Globalization: Foreign Affairs*, CATO Institute, 12 September, 2023. (Available at: <https://tinyurl.com/yndjm465>).

¹⁸ Pomeroy & Marchant, *Supra* note, 16.

tariffs, as the latter can still create opportunities for alternative suppliers. He further contends that such strategies ultimately have a detrimental effect on economic growth and security, rather than a beneficial effect.¹⁹

As these debates unfold, scholars continue to explore different perspectives of these shifting dynamics. One such perspective is offered by Dr. Zeno Leoni, who, in 2025, builds upon Dr. Libman's argument by suggesting that the concept of a Cold War can be deconstructed in multiple ways, making it a flexible term that can be applied in various contexts. He argues that this conceptual elasticity allows the term to contribute to analyzing contemporary geopolitical dynamics, thereby providing insights into aspects of current great power competition. Leoni identifies four key similarities between the Cold War and the current US-China relationship. First, both reflect classic security dilemmas, though today's tensions center more on economic and technological rivalry than the threat of nuclear war. Second, there is a dynamic in which one country seeks to contain another, while the latter challenges the hegemonic power. However, Leoni notes that the existential fear of loss of life, as was prevalent during the Cold War, is absent in the current geopolitical climate. Third, both contexts involve discursive delegitimization of the opponent, though this is less intense today. Fourth, the relationship is marked by hegemonic competition, with China contesting US dominance in political, technological, and military spheres. However, Leoni notes that the scale of China's challenge and its willingness to escalate remain uncertain. He also underscores the difficulty of determining whether certain traits are differences rather than similarities, acknowledging the complexities of drawing definitive conclusions about these ongoing geopolitical shifts.²⁰

Despite the growing usage of the term *New Cold War* in political, journalistic, and academic circles, some argue that it is not possible to draw direct comparisons between the Cold War and the current US-China relationship. For instance, Xing and Meza contends that the current rivalry between China and the US represents a different type of competition, where the risk of actual war is lower, and the likelihood of limited cooperation is higher. Furthermore, they suggest that China does not necessarily seek to undermine the global dominance of the US, but rather aims to challenge US' efforts to achieve regional dominance in East Asia.²¹ Other critics

¹⁹ Gros, *Supra* note, 15.

²⁰ Zeno Leoni, *A New Cold War US - China Relations in the Twenty-first Century*, 2024, pp. 11-25.

²¹ Li Xing & Raúl B. Meza, "China-US rivalry: A new Cold War or capitalism's intra-core competition?", *Revista Brasileira de Política Internacional*, Vol 64(1), 2021, p. 1-20

raise methodological concerns about the analogy of the *New Cold War*. Emma Ashford and Matthew Kroenig argue that such comparisons often ignore the fundamental differences between the two scenarios, failing to recognize the key distinctions that are crucial to understanding each context.²²

As noted by Babic et al. there is a notable absence of the EU's role in the world's geoeconomic clash, as the literature often focuses solely on China and the US.²³ Despite the EU's status as one of the world's largest trading partners and its significant role in the global economy, its relative sidelining in the ongoing geoeconomic conflict can be attributed to several factors. As a multilateral institution centered around a single market, the EU is institutionally and politically less equipped than other advanced economies to navigate the new world of deglobalization, fragmentation, and the increasing prominence of economic statecraft.²⁴ This thesis aims to fill this research chasm by examining the EU's position and role in the geoeconomic rivalry, thereby providing a crucial perspective on a significant actor that is often overlooked or underestimated in the existing literature.

2.2 The concept of economic coercion in International Relations

As the global landscape increasingly experiences a geoeconomic turn, David Uren noted in February 2025 that the use of economic coercion has accelerated in parallel with globalization since the mid-1980s. He argued that the growing reliance on economic coercion as a foreign policy strategy has now become a symptom of the increasing instability within the global order.²⁵ Nicholas Mulder supports this assertion, noting that sanctions were deployed twice as frequently in the 1990s and 2000s compared to the post-World War II period (1950-1985) and that their usage was again doubled in the 2010s.²⁶

Understanding this rise in economic coercion as a foreign policy strategy requires a deeper look at how scholars have conceptualized and categorized the various ways in which economic tools are used in international relations. A key contribution in this regard comes from Daniel

²² Leoni, *Supra* note, 20, pp. 47-49.

²³ Babić et.al., *Supra* note, 9. p.3.

²⁴ European Commission, *EU Position in World Trade*, n.d. (Available at: <https://tinyurl.com/3naru955>). & Danzman & Meunier, *Supra* note, 9, p. 1097.

²⁵ David Uren, Economic coercion tests international organisations, *Australian Strategic Policy Institute: The Strategist*, 14 February, 2025 (Available at: <https://tinyurl.com/4ds9tep3>).

²⁶ *Ibid*

Drezner, who has defined the nuances between economic statecraft, economic sanctions, and economic coercion, recognizing their distinct roles in shaping foreign policy and international relations.²⁷ While he uses these terms interchangeably, he acknowledges that they are technically distinct. According to Drezner, *economic statecraft* encompasses the use of both incentives and sanctions as tools of foreign policy. In contrast, *economic sanctions* are characterized by trade-disrupting measures such as imposing economic restrictions on a target state. *Economic coercion*, on the other hand, refers to instances in which one or more states threaten or undertake actions to disrupt economic exchange with another state in order to compel a change in its political policies. Such disruptive measures may include trade sanctions, freezing of financial assets, manipulation of tariff rates, suspension of aid or boycotts.²⁸ This distinction is important for understanding the various mechanisms and strategies involved in the use of economic measures in international relations.²⁹

Building on these foundational definitions recent literature appears to adopt a similar definition of economic coercion. Elena McLean describes it as the; ‘‘*threatened or actual imposition of economic costs on one state by another with the objective of extracting a policy concession. Such a concession can require the coerced party to implement a policy that the coercer favors, or abandon a policy that the coercer opposes.*’’³⁰ The EU, under its ACI framework, also appears to share a similar understanding of the definition of economic coercion.³¹ Due to broad consensus across perspectives on the concept of economic coercion, this is the definition that will be used in this thesis.

As previously stated - with a particular emphasis on the EU - this thesis will examine how both China and the US possess the capacity to exert economic coercion against the EU, and how the Union, through its ACI can resist and counter such pressure. It is therefore essential to move beyond abstract definitions and instead analyze how economic coercion is practiced by states

²⁷ Daniel W. Drezner, *The sanctions paradox: economic statecraft and international relations*, Chapter I, 1999, pp. 2-3.

²⁸ *Ibid*

²⁹ *Ibid*

³⁰ Elena V. McLean, Economic Coercion, May 2021, p. 2. (Available at: <https://tinyurl.com/5t3hx4cn>). & Jacob Katz Cogan, “Two Approaches to Economic Coercion”, *Yale Journal of International Law*, 9 August 2024. (Available at: <https://tinyurl.com/ewz4cnbm>).

³¹ European Union Regulation, (EU) 2023/2675, *on the protection of the Union and its Member States from economic coercion by third countries*, 22 November 2023, article 2. para. 1. (Available at: <https://tinyurl.com/48dypn42>).

in international relations. A deeper understanding of how these strategies are operationalized in practice is crucial for assessing the EU's response through the ACI.

2.3 Economic coercion under weaponized interdependence

This rising trend of economic coercion and how states like China and the US are exercising it in practice can be understood through the lens of weaponized interdependence - a concept articulated by the scholars Henry Farrell and Abraham L. Newman. They argue that economic power is increasingly exerted not through military means, but via the strategic manipulation of information- and financial networks, thus fostering new forms of international rivalry. In other words, economic coercion is a strategy made possible by interdependence, allowing states to weaponize global connectivity to exert political influence. This theory complements the broader notion of geoeconomics, where economic instruments are deployed as strategies of political power, further highlighting the complex dynamics and challenges faced by nations navigating these intertwined economic and political landscapes.³² This development is echoed by Drezner, who, in 2023, noted a broader shift in perspective among Western scholars and policymakers. Whereas economic interdependence was once viewed as an unqualified good, it is now increasingly seen as something that can be weaponized.³³

According to Farrell and Newman, weaponized interdependence is primarily a political tool for states that maintain a hegemonic position within a global network. In this context, the EU and the US are seen as the primary hegemons, while China is acknowledged as a potential beneficiary of weaponized interdependence. This dichotomy is explained by the positions the US and its Western allies achieved through the post-war liberal order, which centrally positioned them within global networks - positions that states like China and Russia are now striving to attain.³⁴ Weaponized interdependence as coined by Farrell and Newman takes a predominantly realist outset. Liberal scholars have, however, argued for the interdependence to not take the shape of weaponization. More concrete, Robert Keohane and Joseph Nye in their paper on power balances and interdependence, argue that global networks make states' dependencies entangled in such a way, that they create reciprocal dependence which have a

³² Henry Farrell & Abraham L. Newman, *Weaponized Interdependence, How Global Economic Networks Shape State Coercion*, Chapter II, IN: Daniel W. Drezner, Henry Farrell & Abraham L. Newman, *The Uses and Abuses of Weaponized Interdependence*, 2021, pp. 47-53. & Danzman & Meunier, *Supra* note, 9, pp. 1098-1099.

³³ Drezner, *Supra* note, 17.

³⁴ Farrell and Newman, *Supra* note 32, pp. 33-43.

pacifying effect on otherwise viable coercive strategies.³⁵ While Farrell and Newman posits the US as the central hegemon in most networks of information and economic flows, Keohane and Nye suggest that in reality more networks exist, where the US does not hold the role of hegemon. This ultimately creates the reciprocal dependence and thus reduction in great-power dependence such as to the US.³⁶ Rather than looking at networks as centralized sites of control, Anne-Marie Slaughter suggests to look at globalization as the catalyst for the creation of decentralized networks which has the ability to foster cooperative diplomacy.³⁷ She explains power relations metaphorically as a web of connecting networks rather than asymmetric power-imbalances on a chessboard.³⁸ She builds on this metaphor by stating, that “*in such a network, power is “power with” rather than “power over.”*”³⁹ The web-like networks thus take another shape in terms of interdependence than the weaponizing element suggested by Farrell and Newman.

The role of revisionist states becomes particularly significant in the light of these developments, as they seek to alter the global order using economic power strategically. As Stacie Goddard explains, China falls outside the category of actors with hegemonic power, a variable central to the argument of Farrell and Newman. Instead, China leverages its position within the global supply chain as the world's largest export economy, increasingly competing for central positions traditionally held by the US and EU, particularly within the global financial network.⁴⁰ As Goddard states in her article, “*It is possible, if not likely, that China [...] can continue to challenge the status quo without resorting to military force and instead use instruments drawn from their economic, security and diplomatic networks*”.⁴¹ To further understand how China, as a revisionist actor, seeks to alter the hegemonic positions in global networks Thomas Cavanna examines China's domestic institutional power and legal jurisdiction, particularly through its weaponization of the Belt and Road Initiative. Cavanna argues that China's political authority is bolstered by “*Legal and regulatory institutions that*

³⁵ Robert O. Keohane & Joseph Nye, *Power and Interdependence*, Chapter X, Power; Interdependence and Globalism, World Politics in Transition, 1977, p. 253.

³⁶ *Ibid*

³⁷ Anne-Marie Slaughter, An effective world order, Chapter V, IN: *A new world order*, 2004, pp. 166-170.

³⁸ Anne-Marie Slaughter, Network Power, Chapter VII, IN: *The chessboard and the web: Strategies of Connection in a Networked World* 2017, p. 163.

³⁹ *Ibid*

⁴⁰ *Ibid* & Central Intelligence Agency, “Country Comparisons: Exports”, *The World Factbook*, n.d. (Available at: <https://tinyurl.com/46cvdmjr>).

⁴¹ Stacie Goddard, *The Road to Revisionism*, Chapter IV, IN: Daniel W. Drezner, Henry Farrell & Abraham L. Newman, *The Uses and Abuses of Weaponized Interdependence*, 2021, p. 95.

enable and optimize the weaponization of interdependence".⁴² He attributes this to China's "inherent centralization of power", which ultimately means that "Beijing's authoritarian regime can easily mobilize national resources, bend existing regulations, pass new legislation, and shape domestic perceptions to push strategic objectives without excessive domestic resistance."⁴³ China's rising position as an economic key actor increasingly enables it to weaponize interdependence, leveraging its authoritarian governance model. This system provides the Chinese Communist Party (CCP) with greater agency compared to its democratic counterparts, such as the US and the EU, where political norms and public opinion impose constraints on state actions.⁴⁴ However, while Goddard identifies potential entry points for the CCP to deploy interdependence as a tool in its foreign policy arsenal, Cavanna also notes that it is unlikely that China will achieve the same level of interdependence as the US, particularly in sectors such as financial messaging and communications.⁴⁵ More precisely, while China can weaponize its institutional and jurisdictional authority, its relatively limited hub positions - outside the global supply chain network - could impede its effectiveness in broader applications of interdependence.⁴⁶

This reconceptualization of economic interdependence - from a mutual benefit to a strategic tool of coercion - raises important questions about how key economic actors challenge the current rule-based order. It highlights the need to examine how these dynamics unfold in practice, and what implications they hold for key actors within the international system. With a focus on the EU, this thesis will later apply the concept of weaponized interdependence to analyze how both China and the US possess the capability to deploy economic coercion against the EU. Due to its position as a central global economic actor, the EU is particularly vulnerable to strategic manipulation through economic and financial networks. As Farrell and Newman's theory dates back to 2019 and China's economy has grown significantly since then, this analysis seeks to expand and update the theory in light of current developments.

⁴² Thomas Cavanna, *Coercion Unbound? China's Belt and Road Initiative*, Chapter XII, IN: Daniel W. Drezner, Henry Farrell, Abraham L. Newman, *The Uses and Abuses of Weaponized Interdependence*, p. 223.

⁴³ *Ibid*

⁴⁴ Cavanna, *Supra* note, 42, p. 226.

⁴⁵ Cavanna, *Supra* note, 42, pp. 229-230.

⁴⁶ *Ibid*

2.4 The EU's classifications of economic coercion

The EU recognizes the complexities of economic coercion and classifies its deployment into three distinct axes. These categories help us better understand how economic coercion can manifest in various forms, each with different implications for global governance and diplomacy.

The first type is *explicit coercion*, which the EU identifies as being carried out through formal measures. These actions are considered explicit since the coercive actions will appear as an official act of the state coercing, leaving no doubt to the targeted state, what sector or actor(s) is being targeted and sometimes even what policy change is desired for the coercive act to cease. The EU places the US as the primary user of explicit coercion particularly through its 1974 US trade Act aimed at influencing a foreign country to decrease or cease a certain political path considered undesirable by the US.⁴⁷ Tobias Gehrke, writes on EU's options against "*Trumpian Coercion*," that the explicit coercion seen by Trump, signals the willingness for the US to escalate the coercive measures even further should Trump not get his cessation from the EU.⁴⁸ While the EU refrains from mentioning China in relation to explicit coercion, Ljiljana Biukovic in her paper analyzing the China-Lithuania case, comments on China not resorting to explicit coercion on the grounds of Chinese diplomatic strategies to be historically grounded in informal acts.⁴⁹

The second type is *disguised coercion*, which operates under the disguise of legitimate legal or political instruments, that are abused to deploy economic coercion policies. These instruments and their policies are manipulated to enable the deployment of abusive policies to achieve specific political objectives in the targeted state. Disguised coercion allows states with less political leverage than e.g. the US to exert pressure on the EU, complicating the task of proving economic coercion through conventional channels such as the WTO as well as using the ACI framework.⁵⁰ The EU exemplifies disguised coercion under the Russian abuse of the Agreement on the Application of Sanitary and Phytosanitary Measures, which enabled Russia to ban Polish food imports after it sanctioned Russia for the 2014 annexation of Crimea. This

⁴⁷ Szczepański, *Supra* note, 4, p. 4.

⁴⁸ Tobias Gehrke, "Brussels hold'em: European cards against Trumpian coercion" *European Council on Foreign Affairs*, 20 March, 2025. (Available at: <https://tinyurl.com/psxbwyx9>).

⁴⁹ Ljiljana Biukovic, "The Lithuania China Row: The European Union's Search for a Strategy and Instruments to Deal With China", *Legal Issues of Economic Integration*, Vol 50(4), 2023, p. 407.

⁵⁰ Szczepański, *Supra* note, 4, p. 5.

would otherwise have been illegal under WTO law, as it is discriminatory in nature and in breach of the Most-Favored Nation agreement.⁵¹

The third and final type is *silent coercion*, often equated with boycotts. This form of coercion is informal in nature and is even more challenging to prove than disguised coercion, as it is a strategy deployed through domestic businesses and public rally-around the flag perceptions to achieve an effective boycott without fingerprints from the state. According to the EU, silent coercion is predominantly deployed by authoritarian regimes that possess significant control over public opinion and private actors, enabling them to mobilize and shape domestic norms in ways that encourage boycotts of foreign actors.⁵² According to Biukovic, this is the primary form of coercion that China deploys. She argues for disguised coercion to be easiest for the EU to prove in relation to the ACI compared to silent coercion. She elaborates on her point by looking at the ACI's article 2(1), and its definition of "*any action or actions of interference*," which could easier prove Chinese coercion than of silent measures.⁵³

William Piekos discusses Chinese coercion as also encompassing silent coercive traits. In contrast to the EU's definition - which emphasizes coercion carried out by Chinese private entities - Piekos highlights the central role played by President Xi and the CCP in shaping and directing these strategies. He argues that the CCP is capable of imposing state-level restrictions and boycotts while deliberately maintaining a lack of transparency, often denying that any formal measures are in place. This approach enables China to exert pressure without openly acknowledging coercive intent.⁵⁴ Piekos argues for China to do a mixture of the EU's definition of silent coercion and his own contributions. More precisely, he states that the CCP pressures private companies to remove its trade deals with the targeted country for increased plausible deniability with CCP fingerprints on the economic coercion. Combined with this, the CCP utilizes its massive influence over private entities within China under its state-owned enterprise

⁵¹ Marcin Szczepański, "EU Anti-Coercion Instrument", *European Parliamentary Research Service Briefing*, March 2024, p. 5. & "The Agreement on the Application of Sanitary and Phytosanitary Measures", *World Trade Organization*, n.d. (Available at: <https://tinyurl.com/ddx6dsw4>). & "Principles of the trading systems" *World Trade Organization*, n.d. (Available at: <https://tinyurl.com/4csr7m4e>).

⁵² Szczepański, *Supra* note, 4, p. 6.

⁵³ Biukovic, *Supra* note, 49, p. 408. & European Union Regulation (ACI), *Supra* note, 31, art. 2. para 1.

⁵⁴ William Piekos, "Investigating China's economic coercion: The reach and role of Chinese corporate entities", *Atlantic Council*, 6 November, 2023, (Available at: <https://tinyurl.com/3efzrjyd>).

(SOE) model, to exert more or less total influence over the corporate decision-making process.⁵⁵

2.5 Debating the actors of economic coercion against the EU

The EU institutional discourse often singles out China as the primary source of economic coercion. In a 2022 briefing on China's economic coercion, the EU calls itself "*the biggest global recipient of China's coercive diplomacy*".⁵⁶ However, several scholars argue that the US, not China, is the most frequent and impactful practitioner of economic coercion vis-à-vis the EU, both historically and in contemporary geopolitics. Drezner emphasizes that the US has a longstanding and systemic use of economic coercion, significantly more often than it has been on the receiving end of such tactics.⁵⁷ He points out that the structural concentration of power should be looked at to explain this argument, and that the US as a military- and economic hegemon seldom sees itself targeted, and thus have much more agency to be aggressive outwards.⁵⁸ Jacob K. Cogan, elaborates on this notion calling the EU and US' work against economic coercion from China for potential hypocrisy. While he acknowledges that China historically has abused its power to use economic coercion, both the US and the EU has done the same.⁵⁹ Furthermore, Cogan argues that evidence suggests that the Commission has presented statements to such an extent that it can be derived that it believes China and the US to be equally liable for economic coercion against the Union.⁶⁰ Cogan continues by elaborating on the argument of US economic coercion, stating that China has become increasingly vocal to attack the US by diplomatic channels, calling the US out for widely deploying economic coercion.⁶¹

Goddard argues that China faces issues for it to be able to deploy economic coercion to the same degree as the US and the EU. As China remains a revisionist state that, despite its continuous efforts to challenge the political status quo, faces limitations in its ability to exert control over key global sectors in comparison to its adversaries, namely the EU and the US.

⁵⁵ *Ibid*

⁵⁶ Szczepański, *supra* note, 4, p. 2. & Ursula Von der Leyen, "EU-China relations", *European Commission*, 30 March, 2023, (Available at: <https://tinyurl.com/4dd6ppmh>).

⁵⁷ Daniel W. Drezner, "The Uses and Abuses of Weaponized Interdependence", chapter I; IN, Daniel W.

Drezner, Henry Farrell & Abraham L. Newman, *The Uses and Abuses of Weaponized Interdependence*, p. 8

⁵⁸ Chien-Huei Wu, "The EU's Proposed Anti-Coercion Instrument: Legality and Effectiveness", *Journal of World Trade*, Vol 57(2), 2023, p. 300.

⁵⁹ Cogan, *Supra* note, 30.

⁶⁰ *Ibid*

⁶¹ *Ibid*

Farell and Newman argue that, due to these limitations, China often resorts to leveraging asymmetric interdependence or market power as a means of countering coercive tactics deployed by the US.⁶² They explain the duality of economic positions between China and the US as: *“The United States is capable of deploying weaponized interdependence because of its control of the key networks of globalization, While China (which was not fully integrated into the global economy when these networks were created) is not. Instead, China often relies on asymmetric interdependence or market power”*.⁶³ Farell and Newman further notes that they see a possibility for revisionist states in the future, to exploit asymmetric interdependence and potentially gain a sufficient power position inside a network where its domestic market becomes more interconnected and a suitable point for weaponization to such a degree that it no longer relies on bilateral dependencies, and can weaponize deeper within the network.⁶⁴ They largely use China for this potential future evolution, stating that *“China, which has little ability to use weaponized interdependence, frequently employs asymmetric interdependence against other states, threatening to deny market access to their firms if they take political decisions that the Chinese government does not like.”*⁶⁵

To summarize, the EU distinguishes economic coercion into explicit, disguised, and silent forms, linking the US primarily to formal coercive measures and China to informal strategies. While EU discourse often frames China as the main perpetrator, scholarly analysis presents a more nuanced view, with several experts identifying the US as the more frequent and systemic user of economic coercion. China's reliance on asymmetric interdependence contrasts with the US's capacity for weaponized interdependence, highlighting divergent structural capabilities in the exercise of economic pressure.

2.6 EU's geoeconomic turn - Open strategic autonomy and the ACI

As the EU has struggled with economic coercion originating from China and the US, it has become increasingly clear that the Union has needed a robust defensive framework. This need is further underscored by the structural dependencies the EU maintains with both powers, a point emphasized by Andreas Geiger. He argues that while China is often perceived as a threat to EU security, this perspective should be reconsidered mainly through the lens of

⁶² Henry Farell & Abraham L. Newman, “Weaponized Interdependence and Networked Coercion: A Research Agenda”, Chapter XVII, IN: Daniel W. Drezner, Henry Farell & Abraham L. Newman, *The Uses and Abuses of Weaponized Interdependence*, 2021, p. 312-315.

⁶³ *Ibid*

⁶⁴ Farell and Newman, *supra* note, 62, p. 314.

⁶⁵ *Ibid*

technological- and economic dependencies, with Chinese coercion primarily operating within these domains.⁶⁶ He suggests that a de-risking strategy aimed at reducing reliance on Chinese technology could potentially weaken the EU, as it remains highly dependent on Chinese technological imports, while dependencies in sectors such as agriculture or military are less critical. Furthermore, Geiger highlights that the EU's dependence on the US extends beyond technological or economic considerations, with a particularly strong reliance on US security with many EU members also having NATO membership, and thus are highly dependent on the US nuclear umbrella.⁶⁷ This, he asserts, is a key factor in shaping EU policy decisions, as the EU seeks to reduce external influence over its economic and market conditions in response to economic coercion from both China and the US.⁶⁸ As a result, the combination of external pressure and deep dependencies has pushed the EU to rethink its geoeconomic strategy. This shift became clear in 2017 with the launch of the Union's security doctrine, *Strategic Autonomy*, and was further redefined in 2021 into the concept of *open strategic autonomy*. Together, these changes marked a clear move away from the EU's earlier focus on liberal institutionalism and free-market principles.⁶⁹

The EU's doctrinal shift to a geoeconomic turn are described by Christian Freudlsperger and Sophie Meunier, which states, "*The EU had grown increasingly out of sync with the new reality of the world in which its partners and competitors, above all China, are not playing by the rules [...] to advance their own industrial and, sometimes, geopolitical interests*".⁷⁰ The increased influence of authoritarian powers (mainly China), and the protectionist shift in US foreign policy under the Trump administration aimed not only at US adversaries but allies alike, convinced EU policymakers to shift its policy of geoeconomics.⁷¹ This has led to a decisive geoeconomic turn, in which geoeconomics is no longer seen as separate from the security sphere. Instead, it has become a core component of the EU's OSA toolbox, whose aim is to safeguard the security and resilience of the Union.⁷² Historically, the EU has championed liberal economic principles, promoting open markets, free trade, and regulatory harmonization.

⁶⁶ Andreas Geiger, "The Revision of EU competition law under the EU strategic autonomy", *European Law Review*, Vol 44(11), 2023, pp. 1-3.

⁶⁷ *Ibid*

⁶⁸ Geiger, *Supra* note, 66, p. 1.

⁶⁹ Danzman & Meunier, *Supra* note, 0, p. 1097. & Christian Freudlsperger and Sophie Meunier, "When Foreign Policy Becomes Trade Policy: The EU's Anti-Coercion Instrument", *Journal of Common Market Studies*, Vol 62 (4), 2024, pp. 1-4.

⁷⁰ Freudlsperger & Meunier, *Supra* note, 69, pp. 1-3.

⁷¹ Geiger, *Supra* note, 66, pp. 1-2.

⁷² Danzman & Meunier, *Supra* note, 9, pp. 1097-1999.

Rather, the new unilateral doctrine of EU OSA, showcases that interdependence is an acknowledged source of power to be weaponized and exploited.⁷³ However, its geoeconomic turn reflects a shift toward a more realist approach, acknowledging the strategic use of economic power in a multipolar world. The increasing role of security considerations in trade policy - such as restrictions on foreign direct investment (FDI) in sensitive sectors - demonstrates this blending of economic and geopolitical logics.⁷⁴

The concept of Strategic Autonomy as a political orientation, has been a catalyst for discussion and disagreements. The notion of strategic autonomy emerged in 2013, when it was first used by the Foreign Affairs Council of the EU. Initially, the concept was referred to in the context of security and defense, but it has since expanded to other policy areas, including economic and trade policy.⁷⁵ Over time, there have been some concerns within the EU that this strategy could evolve into a protectionist trade policy.⁷⁶ However, in 2020 President of the EU Council, Charles Michel, rejected a direct correlation between autonomy and protectionism.⁷⁷ Further as a response to the internal and external concerns, the EU Commission introduced the concept of OSA which aims to enhance the EU's autonomy to pursue its own interests independently while maintaining collaboration with global partners.⁷⁸ Sabine Weyand, Director General of DG Trade has later, in 2021, echoed that: *“Open strategic autonomy is a mindset which means we act together with others, multilaterally, or bilaterally, wherever we can. And we act autonomously wherever we must,”* emphasizing the EU's own belief in the concept.⁷⁹ This strategy seeks to achieve a balance between an open and competitive EU that remains a significant player in the global economy, whilst also ensuring the protection of its citizens, businesses and standards.⁸⁰ Gros points out that the EU's argument seems harmless at first glance, but warns that this OSA approach could potentially evolve in an economic-nationalistic direction.⁸¹ Armin Steinbach nuances the argument by highlighting that the EU's use of rhetoric

⁷³ Danzman & Meunier, *Supra* note, 9, pp. 1098-1099.

⁷⁴ Danzman & Meunier, *Supra* note, 9, pp. 1103-1106.

⁷⁵ Nathalie Tocci, “European Strategic Autonomy: What It Is, Why We Need It, How to Achieve It” *Istituto Affari Internazionali*, 2021, pp. 7-8.

⁷⁶ Molthod et. al, *Supra* note 1.

⁷⁷ Charles Michel, “Strategic Autonomy for Europe” *European Council*, September 2020, (available at; <https://tinyurl.com/vjm66zxp>).

⁷⁸ European Commission, Consultation Note, “A renewed trade policy for a stronger Europe”, June 2020 (Available at: <https://tinyurl.com/2fzmu299>).

⁷⁹ Sabine Wayand, “The EU’s new trade policy” *Trade Talks Podcast*, Episode 148. January 2021 accessed 10 february 2025. (Available at; <https://tinyurl.com/3mtzj7sf>).

⁸⁰ European Commission, *supra* note, 78.

⁸¹ Gros, *Supra* note 15.

functions as a semantic instrument to counter and also allay trade restrictive concerns.⁸² Gehrke emphasises that the concept of OSA is inherently unclear and also lacks precision on how to balance autonomy and interdependence.⁸³

Despite criticism of the EU's relatively new strategic orientation - and perceptions of it as vague or ambiguous - the Union has remained firmly committed to pursuing its chosen path. As part of this continued commitment to addressing the evolving geoeconomic reality - and in the absence of international mechanisms for collective action - the EU introduced the Anti-Coercion Instrument in 2023 under the umbrella of its OSA. An instrument to address economic coercion affirming that while it was not specifically aimed at China, it was designed to help the EU respond to challenges similar to those posed by China globally.⁸⁴ In their 2024 briefing on the ACI, the EU mentions China as "*being a textbook case of a country deploying economic coercion,*" and are now calling Chinese practices of coercive diplomacy for economic coercion.⁸⁵ Albeit these mentioned views on Chinese statecraft could lead one to think that the recent policies concerning economic coercion was in fact created to combat Chinese influence within the EU, it appears to not be so clear. According to the EU, the creation of the ACI and ongoing legislative efforts to counter economic coercion were also driven by actions from the US, which the EU accuses of using coercive threats under Section 301 of the 1974 Trade Act.⁸⁶

Many scholars and the EU do not refrain from using the China-Lithuania case as the most prominent example of economic coercion against the EU. Many also argue that it is the reason why the ACI was adopted as the newest tool in the EU OSA arsenal. However, Wu challenges this view, suggesting that the EU's expansion of their geopolitical toolbox for economic coercion was primarily driven by the Trump administration's protectionist policies in 2018.⁸⁷ Wu further argues that the timing of the ACI's introduction - shortly after the China-Lithuania case - suggests that the EU seized the opportunity to create a robust tool to counter Chinese coercion while avoiding a direct confrontation with the US.⁸⁸ The EU itself remains cautious

⁸² Armin Steinbach, "The EU's turn to strategic autonomy; leeway for policy" *The European Journal of International Law*, Vol. 34(4), 2023, 975

⁸³ Gehrke, *Supra* note 2, p. 91.

⁸⁴ Szczepański, *Supra* note, 51, pp. 3-5.

⁸⁵ Szczepański, *Supra* note, 4, p. 5.

⁸⁶ *Ibid*

⁸⁷ Wu, *Supra* note, 58, pp. 298-306.

⁸⁸ *Ibid*

about specifying particular states within the regulation and instead refers to *third countries*, a decision that some scholars view is to protect the jurisdictional flexibility of the ACI.⁸⁹ This flexibility, especially in regard to the response measures outlined in Article 8 of the ACI ensures that the EU can adapt to various coercive practices.⁹⁰ Despite the long-standing nature of economic coercion as a state practice, the absence of international legal instruments in this domain has left the EU cautious in defining its stance. The position that the EU adopts on economic coercion will shape its future capacity to respond to such actions, determining what the Union can or cannot do in this area.

To summarize, in response to economic coercion from China and the US, the EU has undergone a geoeconomic shift with the launch of OSA. This marks a departure from its previous focus on liberal institutionalism. Dependence on both China and the US - technologically, economically, and in terms of security - has played, and continues to play, a central role in this development. The ACI, adopted in 2023, is a concrete instrument of this strategy, designed to strengthen the EU's capacity to respond to economic coercion regardless of its origin. As a relatively recent initiative, scholarly assessments of its effectiveness remain limited.

Summary

The global economy has shifted from a relatively stable neoliberal order to a comparatively unstable geoeconomic rivalry, particularly between China and the US – by some scholars described as a new economic Cold War. Economic coercion - in the form of trade sanctions, asset freezes, tariff manipulation, aid suspension, or boycotts - has become a central instrument of foreign policy. Both China and the US engage in weaponized interdependence, leveraging their control over global networks and dependencies to exert political pressure on other actors, including the EU. The US tends to deploy such measures explicitly, while China does so more disguised or silently. The EU finds itself particularly vulnerable, caught between these two great powers. In response, it has moved away from liberal economic idealism toward OSA - a strategy that integrates trade policy with security considerations. In 2023, the EU launched the ACI to defend itself against economic coercion by third countries and to enhance its geoeconomic agency. The ACI reflects the EU's ambition to deter and as a last resort counter weaponized interdependence.

⁸⁹ Wu, *Supra* note, 58, p. 301. & Paulette Scheuren & Nikolay Mizulin et.al. "European Commission Unveils Its Anti-Coercion Instrument Proposal" *Legal Update: Mayer Brown*, December 2021, p. 1.

⁹⁰ European Union Regulation (ACI), *Supra* note, 31, art. 8.

3.0 Theoretical framework

This thesis applies two theoretical frameworks – weaponized interdependence and deterrence theory – to analyze how states exploit economic dependencies as instruments of power, and how actors can respond to or counter such forms of economic coercion. Weaponized interdependence, developed by Henry Farrell and Abraham L. Newman, offers a framework for understanding how states control central positions in global networks – particularly China and the US – and how they can exercise economic coercion through their control over informational and financial channels. This form of structural power, however, raises the question of how the EU and its Member States can resist or deter such economic coercion. Deterrence theory provides a relevant framework for this analysis, through the concepts of *deterrence by denial*, *deterrence by punishment*, *risk calculation*, and *the credibility of deterrent strategies* as discussed by Michael J. Mazarr, Daniel Ellsberg, and Glenn Snyder. By combining these two theoretical perspectives, weaponized interdependence can be understood as a potential or actual threat, while the EU’s ACI represents a concrete deterrence strategy aimed at addressing and countering this form of coercion. The following theoretical framework is structured in two parts: first, weaponized interdependence and its key concepts are introduced; second, the relevant concepts of deterrence theory are outlined.

3.1 Weaponized Interdependence

The present landscape shaped by globalization and increased interconnectedness has enabled the fostering of strongly embedded networks which has created – and is continuously doing so – strong interdependencies between states. These interdependencies become apparent through global information- and economic networks. Farrell and Newman look at these networks as the generators of asymmetric power imbalances between states. These asymmetries in a globalized world allow for the creation of complex networks, some more connected than others.⁹¹ They posit that weaponized interdependence is a theory of strategies deployed by states, but, that the networks were not constructed as such tools of statecraft, but rather function as a reflection of business monopolies and historic capitalistic endeavors.⁹² Networks contain nodes, which are points within the contained network that actors use for exchanges of e.g. information or economic flows. These asymmetric network structures, where some nodes are much more connected than others, creates the potential for weaponizing interdependence.⁹³ As long as the

⁹¹ Farrell & Newman, *Supra* note, 32, p 21.

⁹² Farrell & Newman, *Supra* note, 32, p 28.

⁹³ Farrell & Newman, *Supra* note, 32, pp. 21-22.

entity is connected to other nodes and have utility within the network, the size of the actor is not crucial for achieving a node status under Farell and Newman's theory. Some nodes are inherently more connected than others and thus take the shape of a *hub*, where its embedded connectivity makes the information- and economic flows meet at these hubs to a much larger degree than of other network nodes. This makes the hubs vital for information exchanges within the network, and thus advantageous for states should they be able to access the power that the hub provides.⁹⁴ This is a key feature of weaponized interdependence, as Farell and Newman articulates, "*Network structures can have important consequences for the distribution of power*".⁹⁵ The reason that hubs become advantageous lies on the fact that hubs are located on the territory of a state. Should the state possess sufficient *domestic institutions*, *legal* and/or *physical jurisdiction*, and the will to weaponize, the state will be able to do such. The state will then be able to weaponize the hub in two ways, namely through a *panopticon*- and/or a *chokepoint effect*.

Panopticon effect

A state with hub control can utilize the hub's connectivity to other nodes within a network. Here, the state can access the hub and control and survey information flows for advantageous strategies. Through a panopticon effect, a state can utilize the hub to gain information on another actor, both on a private and state level, i.e. members of a terrorist organization or informational flows of state officials etc. and utilize the information gained to either pressure the actor, or for knowledge on what to target by means of a chokepoint effect.⁹⁶

Chokepoint effect

The state who can exert control of a hub can apply a chokepoint effect, either in extension of a previously applied panopticon effect, or in isolation. A chokepoint effect means that the state will be able to limit, or entirely deny, other nodes or node actors' access to the hub within the network, which dictates what informational flow and economic transactions are possible.⁹⁷

⁹⁴ Farell & Newman, *Supra* note, 62, p 309.

⁹⁵ Farell & Newman, *Supra* note, 32, p. 25.

⁹⁶ Farell & Newman, *Supra* note, 32, p. 29-30.

⁹⁷ *Ibid*

Network dominance and hegemonic control

A node possesses far fewer connections, whereas a hub enjoys extensive connectivity with a multitude of nodes within the network. In global networks newly joined nodes are more likely to attach to strongly embedded nodes (hubs), thus contributing to the already disproportionate network dominance that the state who control the hub in question can exploit.⁹⁸ The disproportionate nature of the asymmetric network structure can be attributed to the actors' level of mobility and connectedness.⁹⁹ This ultimately means that the more network access a state enjoys, the more ties it has to other states or actors in the network. Inside the network, a hegemon or hegemons sit with autonomy over central hubs and the hub actors. Within the theory, a hegemon is defined as a state which can control policy choices by other states, through influence or control over hubs. These hubs, Farell and Newman argues, allow the hegemon to weaponize its position to gain an advantage over other actors within the network to achieve its strategic political aims.¹⁰⁰

Farell and Newman posits that it is only the US and the EU who holds sufficient power within certain networks to be considered hegemons and capable of weaponizing hubs.¹⁰¹ The US are ascribed to have a *"first-mover advantage in establishing the postwar liberal world economy"*.¹⁰² While economic statecraft and coercive actions does not rely solely on hegemons, states with *"political authority over the central nodes in the international networked structures through which money, goods and information travel are uniquely positioned"*.¹⁰³

3.1.1 Criteria to weaponizing interdependence: Domestic institutions and jurisdiction to deploy a chokepoint effect

The asymmetric characteristics of networks has produced a disproportionate balance of where hubs are located within a network. Farell and Newman's thesis that networks can be weaponized only by the US and the EU rests on this argument. More precisely, it is because the disproportionate nature of hub locations is strongly favored by the actors above.¹⁰⁴ Farell

⁹⁸ Farell & Newman, *Supra* note, 32, p 26.

⁹⁹ Goddard, *Supra* note, 41, p 93.

¹⁰⁰ Farell and Newman, *Supra*, note 32, p 42.

¹⁰¹ Michael Mastanduno, *Hegemony and Fear: The National Security Determinants of Weaponized Interdependence*, Chapter III, IN: Daniel W. Drezner, Henry Farell, Abraham L. Newman, *The uses and Abuses of Weaponized Interdependence*, p. 68. & Farell and Newman, *Supra* note 32, p. 43.

¹⁰² *Ibid*

¹⁰³ Farell and Newman, *Supra* note 32, p. 45.

¹⁰⁴ Farell and Newman, *Supra* note, 32, p. 31.

and Newman argue for two conditions to be required for a network hegemon to be able to weaponize interdependence. First, *“If they have appropriate domestic institutions, they can weaponize networks to gather information or choke off economic and information flows, discover and exploit vulnerabilities, compel policy change, and deter unwanted actions.”*¹⁰⁵ If the conditions are fulfilled the state will be able to weaponize its position and gain information about other hub actors within the network or deny them access. The degree of domestic institutional control matters greatly when determining the possible efficiency to which a state can deploy either the panopticon- and/or chokepoint effect. Political authority over domestic institutions determines a hegemon’s mobility in terms of its state-society relations which, depending on the degree of autonomy and normative trust from society, will enable the state to target other actors with respective degrees of impunity.¹⁰⁶ Additionally, the hegemon will need legal and/or physical jurisdiction over the hub, meaning that it enjoys physical access to the hub by hub location, and that there are sufficient legal instruments that allows the state to effectively seize control of the hub, or pressure/levy the hub actors who are mostly private entities, to act as instructed by the state.¹⁰⁷ Should the state fulfill the two aforementioned criteria, the state can weaponize its interdependence through the hub(s). The degree of impunity that a state can expect when applying a panopticon- and/or chokepoint effect can change from different hubs within a network, as the domestic institutions and public favoritism might not be linear for the entire network.¹⁰⁸

Strategic control of network hubs; variations in network power

Farell and Newman look at financial messaging and international communication to observe the abovementioned variation in control that states hold over certain hubs. Looking at the US as a network hegemon over financial messaging, they state that *“The US in combination with its allies, has sufficient jurisdictional grasp, and appropriate domestic institutions to oblige hub actors to provide it with information or to cut off other actors.”*¹⁰⁹ However, looking at internet communication, the US still have appropriate jurisdictional grasp and institutions to gain information through a panopticon effect, but lacks the domestic institutions and public

¹⁰⁵ Farell and Newman, *Supra* note, 32, p. 21.

¹⁰⁶ Farell and Newman, *Supra* note, 32, p. 32.

¹⁰⁷ Farell and Newman, *Supra* note, 32, pp. 30-32.

¹⁰⁸ Farell and Newman, *Supra* note, 32, pp. 40-41.

¹⁰⁹ Farell and Newman, *Supra* note, 32, p. 22.

acceptance to deploy a chokepoint effect unilaterally, thus showing the variation of weaponization efficiency.¹¹⁰

Network hegemon weaponizes interdependence by exploiting its position by choking off information or access to hubs within the network, controlling the degree of access by other actors, or denying it entirely.¹¹¹ Weaponized interdependence is a viable strategy for a state's economic statecraft unilaterally. There are arguably potential cooperative needs depending on the nature of the strategy, meaning it could also require multi- or plurilateral support.¹¹² The most prominent example of multilateral commitment to a chokepoint effect is that of the Society for Worldwide Interbank Financial Telecommunications (SWIFT). The two historical chokepoint strategies on Iran and Russia for its Nuclear program and the invasion of Ukraine respectively, was deployed by means of an extensive exclusion from the SWIFT network.¹¹³ According to Farrell and Newman, this was possible because of bilateral cooperation by two hegemon in two distinct hubs. Firstly, the US' central position in the global financial market with the US Dollar and its international banking power around the Dollar's global financial significance makes the US essential in economic chokepoints. And secondly, the EU's position as hegemon over central parts of the SWIFT network, as the EU holds physical jurisdiction over SWIFT as a hub within the global economy network. Hub hegemon enjoy asymmetric power imbalances to different degrees. The US remains the largest hegemon, by having *"occupied the hub [financial market] while most of the rest of the world is in the periphery, connected directly to the United States but not to each other"*.¹¹⁴

3.2 Deterrence

Deterrence theory in international security refers in simple terms to the science and practice of how threats from one party can convince another party to refrain from acting. The theory gained prominence during the Cold War era, when it was deployed as a military strategy, particularly in the context of nuclear deterrence. This form of deterrence, grounded in the balance of power and the threat of massive retaliation, is a key historical example of how the theory has been

¹¹⁰ *Ibid*

¹¹¹ Farrell and Newman, *Supra* note, 32, pp. 50-52.

¹¹² *Ibid*

¹¹³ European Commission "Ukraine: EU agrees to exclude key Russian banks from SWIFT" *Press release*, March 2022, (Available at: <https://tinyurl.com/ccwn3r8f>).

¹¹⁴ Thomas Oatley, *Weaponizing International Financial Interdependence*, Chapter VI, IN: Daniel W. Drezner, Henry Farrell, Abraham L. Newman, *The Uses and Abuses of Weaponized Interdependence*, p. 117. & Farrell and Newman, *Supra* note 32, pp. 33-43.

applied. However, while nuclear deterrence offers important insights, this section will explore the theory of deterrence in a broader context. The theory will be explained based on its basic principles and assumptions. However, in the subsequent analysis, we will consider the theory in a new and more modern light, as current developments - such as the increasing trend of economic threats - necessitate a revision of the original perspectives to better reflect the current realities and challenges that deterrence face today.

This section will provide a review of the key concepts of traditional deterrence theory as formulated by Michael J. Mazarr, Daniel Ellsberg and Glenn Snyder. However, the primary focus will be on understanding deterrence as more than just a statistical calculation. The combination of their theories offers valuable insights into how the EU's ACI can be understood as a spectrum of deterrence strategies. At the same time, they shed light on what defines effective and credible deterrence, as well as the behavioral patterns typically displayed by actors when confronted with such strategies.

3.2.1 Michael Mazarr - deterrence by denial & deterrence by punishment

Although the original conceptual foundations of deterrence by denial and deterrence by punishment were laid by Thomas Schelling, this thesis draws primarily on the more recent articulation of these concepts by Michael J. Mazarr. According to Mazarr, classical deterrence literature fundamentally distinguishes between two approaches: *deterrence by denial* and *deterrence by punishment*.

Deterrence by denial strategies seeks to undermine an *adversary's* confidence in achieving their objectives by making success appear unlikely or infeasible. In this sense, it is the threat of failure - rather than the threat of retaliation - that serves as deterrence. In practice, this strategy hinges on the capability or willingness to defend a particular commitment or area. Importantly, denial-based deterrence should not be understood purely in military terms. The theory explicitly allows for broader application - including in economic contexts - which makes it especially relevant for analyzing instruments such as the EU's ACI.¹¹⁵

Deterrence by punishment, on the other hand, differs from *deterrence by denial* by focusing on the threat of severe penalties - such as nuclear escalation or significant economic sanctions - that would be imposed if an attack were to occur. An aggressor may, however, question the

¹¹⁵ Michael J. Mazarr, "Understanding Deterrence" *Rand Corporation*, April 2018, p. 1-3

defender's willingness to impose the punishment, which is why credibility plays a crucial role in this strategy.¹¹⁶

3.2.2 Daniel Ellsberg about deterrence

Daniel Ellsberg analyzes how threats can be used as strategic tools in both economic and military contexts.¹¹⁷ *He defines it as "the art of influencing the behavior of others through threats".*¹¹⁸ He further emphasizes that the ability to exert coercion may be the most crucial form of power, as the power to compel others to act in a specific way through threats of punishment or negative consequences is a central factor when states or actors assess and adjust their power position in relation to other actors.¹¹⁹ To enhance the clarity of the theoretical framework, we have chosen to illustrate key concepts of Ellsberg's theory in an original figure, which is presented in this section.

The deterrence matrix

Ellsberg presents a simple matrix to demonstrate that the target of a deterrence strategy (the adversary) essentially faces two fundamental choices - compliance or resistance. However, Ellsberg notes that alternative options may apply to the specific context. The deterrer then decides whether to accept or punish the target's response.¹²⁰ The matrix is centrally positioned in figure 1, accompanied by the actors' decision-making processes, which are further explained in the accompanying text.

¹¹⁶ *Ibid*

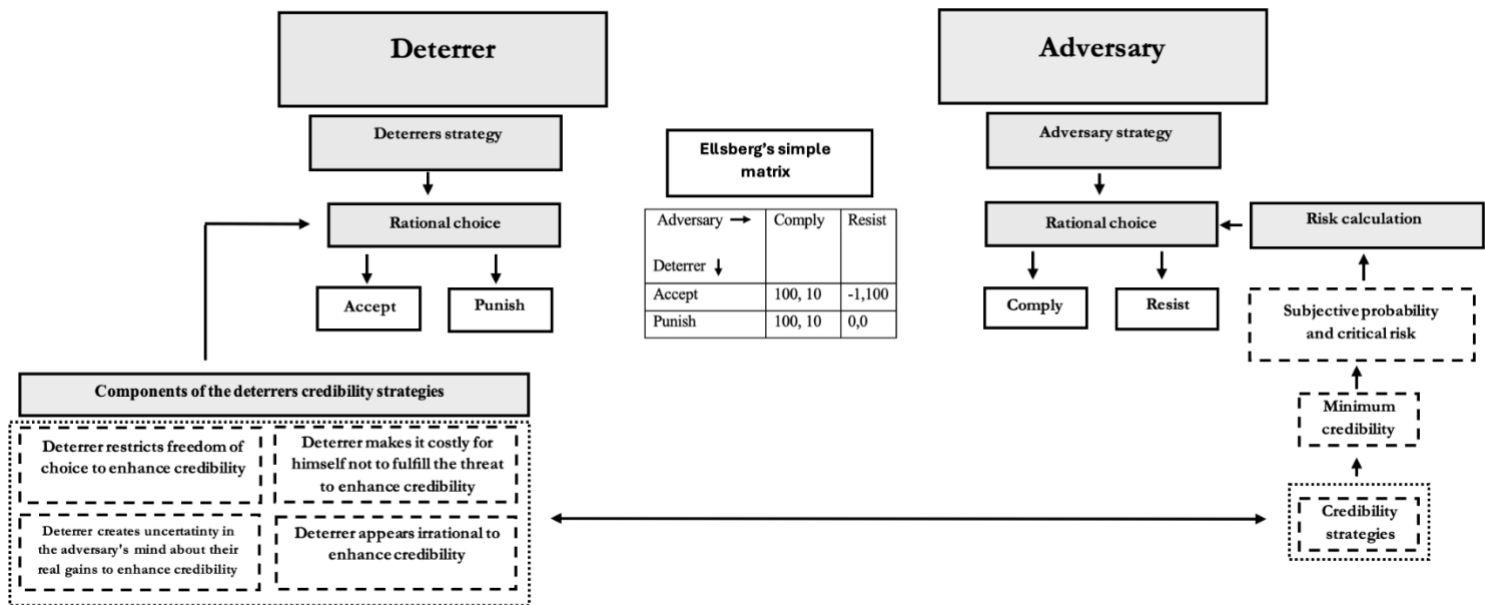
¹¹⁷ Daniel Ellsberg, *The Art Of Coercion: A Study Of Threats In Economic, Conflict And War*, *Lowell Institute Lecture*, 1959, p. 2.

¹¹⁸ *Ibid*

¹¹⁹ Ellsberg, *Supra* note, 117, p. 3.

¹²⁰ Ellsberg, *Supra* note, 117, p. 6.

Figure 1 – Ellsberg’s deterrence theory illustrated



Note: This figure illustrates only Ellsberg’s theory

The numbers in the matrix (used here for illustrative purposes) represent the payoffs for both the deterrer and the adversary. The numbers on the left of the decimal point correspond to the deterrers’ payoff, while those on the right correspond to the adversary’s payoff. It is important to note that the numbers cannot be directly compared between the two actors because of the subjective nature of the numbers; the numbers for the adversary are relevant only in relation to the other numbers for the adversary, and the same applies to the deterrer. Additionally, these numbers do not reflect concrete, objective outcomes, as they can vary depending on the specific context - whether it involves money, goods, violence, or another form of exchange. Instead, the numbers represent the actors' evaluations of these outcomes based on their own preferences.¹²¹

Rational choice

Ellsberg explains that the objective of deterrence remains consistent across all power dynamics: as a deterrent, the aim is to influence the adversary’s behavior in alignment with one's own interests. However, deterrence distinguishes itself from other forms of power in that it is not intended to influence behavior in general, but rather to shape what economists would define as

¹²¹ *Ibid*

rational decisions. This means that deterrence seeks to influence choices based on the individual's subjective expectations and preferences, considering the alternative actions and their respective outcomes.¹²² In this regard, Ellsberg places significant emphasis on the concept of *rationality* as a foundational premise for deterrence, yet he clarifies that in this context, it carries a technical and relatively narrow meaning. Here, *rational* does not equate to *reasonable*; rather, it refers to the idea that an actor's decisions are influenced by their current expectations about the outcomes of their actions and personal preferences. This is therefore illustrated from both the deterrer's and the adversary's perspectives in figure 1. These expectations and preferences may be irrational or unreasonable, but they can still be deemed rational from a technical perspective. In contrast, habitual or unreflective responses, which might appear *normal and reasonable*, can actually be classified as *irrational behavior*, as they lack active decision-making. In essence, only those who make active, reasoned choices can be subject to deterrence; thus, deterrence can only target actors who act rationally.¹²³

Subjective probability

Ellsberg underscores the significance of uncertainty regarding the adversary's choices and reactions, introducing the concept of *subjective probability* to capture this uncertainty, which is why it is connected to rational choice by the adversary in figure 1. Ellsberg conceptualizes probability not as an objectively measurable entity, but as a form of *uncertainty* or *degree of belief*. When the adversary is uncertain about the deterrer's potential actions, their decision-making is influenced by the subjective probability they assign to the threat. This probability reflects the adversary's personal expectation or belief about the likelihood that the deterrer will take a specific course of action. Ellsberg contends that an objective probability of the adversary's actions is unnecessary; rather, it is the actor's own judgment of that probability that matters. This assessment can be inferred from the actor's behavior and choices in other contexts, such as their willingness to place bets on certain outcomes. For a threat to be effective, the deterrer must ensure that the threat is perceived as sufficiently probable, even if it is not certain to be carried out. In Ellsberg's framework, the ultimate outcome is not determined by the threats themselves, but by how the actors perceive and respond to these threats, shaped by their individual expectations and preferences.¹²⁴

¹²² Ellsberg, *Supra* note, 117, p. 4.

¹²³ Ellsberg, *Supra* note, 117, pp. 4-5.

¹²⁴ Ellsberg, *Supra* note, 117, p. 8.

Critical risk

In the context of subjective probability, Ellsberg introduces the concept of *critical risk*. This risk indicates the maximum risk of punishment that the adversary is willing to accept in relation to the choice to resist. It could also be called; *willingness to resist*. This is illustrated within the same dotted box as *subjective probability*, reflecting its essential role in the risk calculation process preceding the decision. The critical risk depends on how the adversary evaluates the different options, such as *comply* or *resist*, and the gains or consequences that come with them.¹²⁵ However, this critical risk is affected by the minimum credibility that a deterrer needs to achieve for his threat to have an impact on the adversary.¹²⁶ Thus, the *minimum credibility* box appears below critical risk, with an arrow indicating its influence upward in figure 1.

According to Ellsberg, the central challenge in deterrence lies in the deterrer's attempt to influence the adversary's expectations. Once it is accepted that meaningful estimates of the adversary's critical risk can be made in different situations, it becomes crucial to understand the factors that cause this risk to fluctuate. This understanding is particularly important for the deterrer who benefits from a scenario in which their threat does not need to be entirely credible, yet the adversary still perceives the actual risk as exceeding the critical threshold. Ellsberg argues that the deterrer can decrease the adversary's perceived critical risk by threatening a harsher punishment than initially proposed, or conversely, increase the critical risk by offering a milder threat or reward.¹²⁷ Furthermore, as previously noted, deterrer's are aware that adversary's form expectations based on an analysis of the deterrer's past behavior. This includes factors such as how the deterrer has acted in similar situations with others or with the adversary themselves, whether the deterrer has a history of following through on threats, or whether the deterrer typically resorts to bluffing etc.¹²⁸

Credible deterrence

The primary challenge for the deterrer is convincing the adversary that the threat is credible. This can be difficult, as it may not always align with the deterrers interests to follow through on the threat. If the adversary resists, it could impose a financial or strategic burden on the deterrer, limiting their options. The deterrer's own potential gains can influence how the adversary perceives the situation, making it crucial for the deterrer to create the belief that the

¹²⁵ Ellsberg, *Supra* note, 117, pp. 10-11.

¹²⁶ Ellsberg, *Supra* note, 117, p. 12.

¹²⁷ Ellsberg, *Supra* note, 117, p. 19.

¹²⁸ Ellsberg, *Supra* note, 117, pp. 18-20.

threat is real, even if fulfilling it may not be in their best interest. Given these potential gains, it would be clearly irrational for the deterrer to execute the threatened punishment if the adversary does not comply. Ellsberg argues that this is not an exception, but rather the norm. In many cases, a threat becomes implausible because carrying it out would be costly or irrational for the deterrer. This dynamic, in which the deterrer seeks to make the threat appear credible despite its impracticality, accounts for the most paradoxical and defining characteristics of threat behavior.¹²⁹

There are four strategies through which a deterrer, or an adversary making counter-threats, attempts to enhance the credibility of their threat enough to justify taking a costly action. These four deterrence strategies are presented on the deterrers side in figure 1. Since a minimum level of credibility is required for a deterrent to influence the adversary - and this credibility for the adversary is shaped by the deterrer's strategies - an influence box is placed beneath *minimum credibility* on the adversary's side both linked upward and connected to the deterrer's credibility strategies (see figure 1).

The first deterring strategy involves the deterrer restricting his own ability to back out of the threat by limiting his freedom to choose. By making it impossible for himself to avoid carrying out the threat, the deterrer can increase its perceived likelihood. For example, he might delegate control over the punishment to a subordinate or an ally whose interests are different and who may be more inclined to execute the threat.¹³⁰ Another tactical approach, which also contains a paradox, is that the deterrer can make it costly for himself not to fulfil the threat. While it may be rare that he can tie his hands completely, he can still make it financially unattractive to break the promise. This makes it less tempting to break the promise as it may become irrational to do so, thereby increasing the chance that the adversary will believe his threat.¹³¹ Specifically, the deterrer may make a deal with a third party to inflict punishment if the adversary chooses to resist, making him liable to pay a fine or be sued if he does not carry out the threat. Alternatively, he can stake his honor, reputation or prestige - if he has any of these - on carrying out the threat.¹³² These two tactics are basic, but they have some limitations when it comes to making threats that can be perceived as self-destructive credible.¹³³ According to Ellsberg,

¹²⁹ Ellsberg, *Supra* note, 117, p. 21.

¹³⁰ Ellsberg, *Supra* note, 117, p. 24.

¹³¹ Ellsberg, *Supra* note, 117, pp. 25-26.

¹³² Ellsberg, *Supra* note, 117, p. 27.

¹³³ Ellsberg, *Supra* note, 117, p. 28.

there are two additional tactics that can be effective; in the third tactic, the deterrer can create uncertainty in the adversary's mind about their real gains, making the adversary doubt what actions would actually be rational for the deterrer. Finally, a deterrer can appear irrational, which can be an effective strategy in certain cases. To achieve this goal, it may be necessary to exhibit irrational behavior, for example by being unpredictable, inconsistent or by showing unusual unreasonable expectations or preferences.¹³⁴

Ellsberg emphasizes that it can also be risky to commit to the most credible threats if there is a chance that they are not credible enough - and this risk will always be present. Threats can fail for several reasons, such as if the deterrer has misunderstood how seriously the adversary views the consequences of the threat. For example, the adversary may have a higher risk perception than the deterrer has anticipated, which may affect his reaction. In addition, the threat may fail if the adversary does not consider the threat credible and therefore does not believe that the deterrer will carry it out. Another possible reason could be that the adversary acts impulsively or irrationally, making it difficult for the deterrer to predict how the threat will affect his decision. Finally, the threat can fail if the adversary is already committed to acting in a different way, in which case he will not react the way the deterrer wants.¹³⁵

3.2.3 Glenn Snyder about deterrence

Glenn Snyder's contribution to deterrence theory expands upon Daniel Ellsberg's work on coercion and threats in economic conflict and war. Snyder defines deterrence as; *''one deters another party from doing something by the implicit or explicit threat of applying some sanction if the forbidden act is performed, or by the promise of a reward if the act is not performed.''*, to which he commented that deterrence does not depend solely on military force and can therefore also manifest itself through economic means, such as threats of trade restrictions.¹³⁶ He describes deterrence as a dynamic process that can take place both prior to and during an armed conflict, in which the deterrer's actions aim to influence the intentions of the adversary - both violent and non-violent.¹³⁷ Moreover, deterrence depends on the overall expectations of costs and benefits held by the party being deterred. These expectations are influenced not only by the deterrer's strategy, but also by various external factors, including political, economic,

¹³⁴ Ellsberg, *Supra* note, 117, pp. 32-33.

¹³⁵ Ellsberg, *Supra* note, 117, p. 37.

¹³⁶ Glenn H. Snyder, "Deterrence and Defense: A Theoretical Introduction, Chapter I, IN: *Deterrence and Defense: Toward a Theory of National Security*, 1961, p. 9.

¹³⁷ Snyder, *Supra* note, 136, p. 11.

and psychological conditions.¹³⁸ For the sake of simplicity, figure 1 based on Ellsberg's theory is expanded in this section, thereby integrating the theories into a single framework. This becomes figure 2.

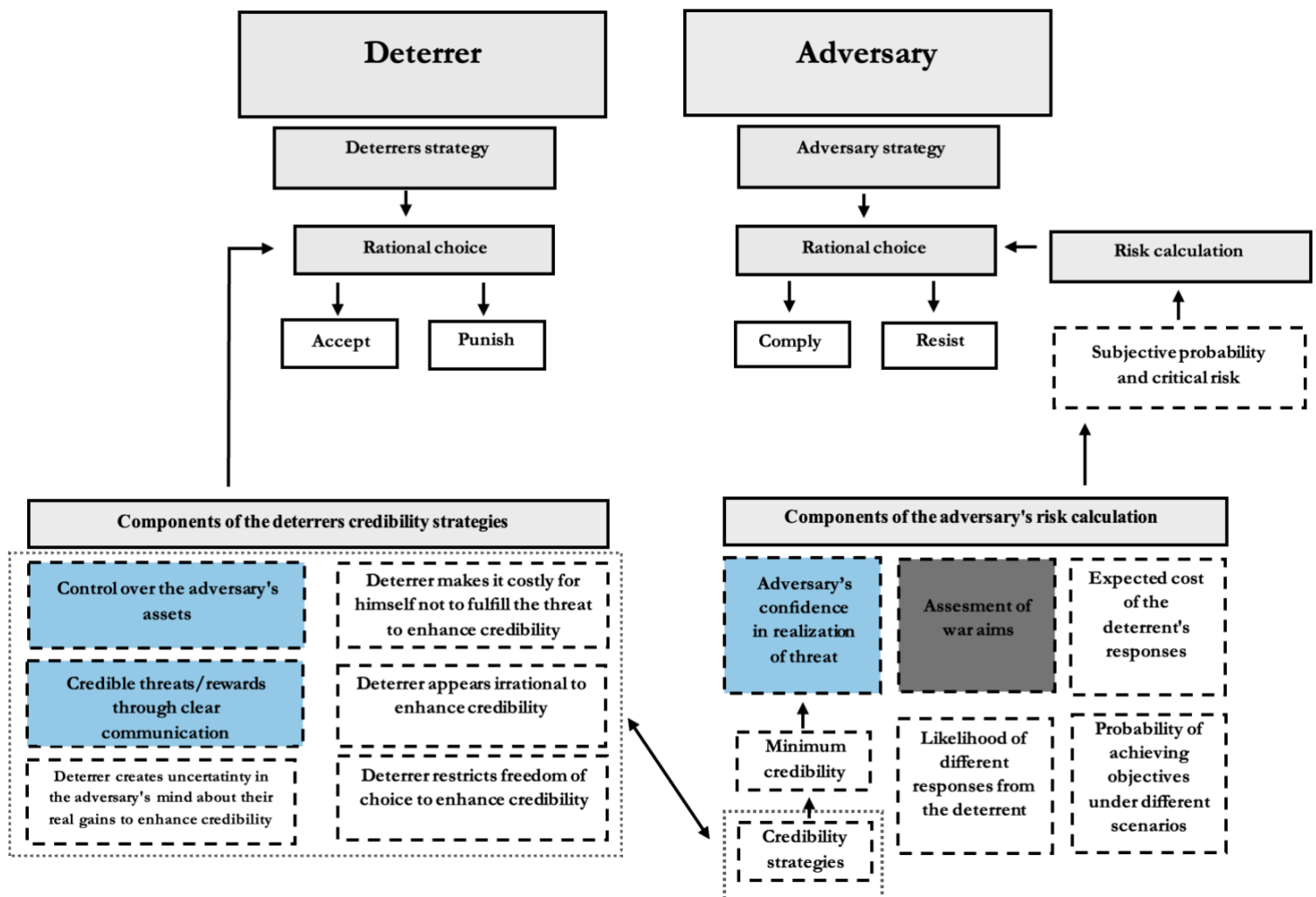
Effective deterrence

Snyder mentions three key factors for effective deterrence, the first of which involves the deterrer having control over the adversary's assets. This simply means having the power to influence the adversary's current and future resources or advantages. Another key factor is credible threats or rewards, which means that the deterrent clearly communicates that it will punish or reward the adversary according to their actions. The third key factor is the adversary's confidence that the threat or reward will be realized. The effectiveness of deterrence depends on the adversary's belief that you will act as stated. Importantly, however, these three factors do not follow a strictly logical premise structure and therefore effective deterrence does not require all factors to necessarily be present at the same time.¹³⁹ The first two key factors are located on the deterrent side and are marked in blue in the now expanded figure 2 below. These factors are part of the deterrent's credibility strategy. However, the third factor is located on the adversary's side and is also marked in blue. This factor is directly influenced by the deterrent's credibility strategy and is therefore placed in this context.

¹³⁸ Snyder, *Supra* note, 136, p. 10.

¹³⁹ *Ibid*

Figure 2 – Deterrence framework: Overview over Ellsberg and Snyder’s theories



Note: This figure 2 represents a combination of Ellsberg’s and Snyder’s concepts. As such, both theoretical frameworks are integrated into a single analytical model. The white boxes with solid lines present an overview of how decisions appear externally, whereas dotted white and blue boxes reveal the underlying processes that inform these decisions.

Risk calculation

Building on these key factors, Snyder also emphasizes that the likelihood of an attack by the adversary depends on four key elements that together make up the adversary's *risk calculation*. These elements include; assessment of their war aims, the expected cost of the deterrent's responses, the likelihood of different responses from the deterrent, which also includes ‘no

response' and the probability of achieving their objectives under different scenarios.¹⁴⁰ This is illustrated in figure 2 on the adversary's side, which highlights the components the adversary evaluates - along with their confidence in the threat's realization - before assessing subjective probability and critical risk, and ultimately making a decision. As the focus of this thesis lies within the geoeconomic sphere, it is not meaningful to apply the criterion of *assessment of war aims* and thus it is marked dark grey. Consequently, this dimension will not be included in the subsequent analysis.

Uncertainty in judgements

Following Ellsberg, another key component Snyder highlights is the uncertainty in judgements. The factors that influence the decision-making process of both the deterrent and the adversary are highly subjective and characterized by considerable uncertainty. They cannot be precisely measured, but can only be assessed through estimation and analysis, where intuition and contextual understanding play a central role rather than exact quantitative measurements.¹⁴¹ Moreover, both parties lack accurate information about the other's risk calculation, creating an underlying uncertainty about how the other party will react. There is therefore an element of guesswork in both parties' thought processes and choices. Snyder argues that this cycle of uncertainty stops once the attack is launched. At this point, the deterrent will choose the response that either results in the lowest cost or the greatest gain.¹⁴²

Summary

Globalization has created complex networks with asymmetric connections, where certain states controlling central nodes (hubs) have disproportionate power over global information and economic flows. According to Farrell and Newman, states that control these hubs and possess sufficient domestic institutions and legal and/or physical jurisdiction can leverage their position through two strategies; the panopticon effect, which involves monitoring and gathering information through the hub to gain strategic advantages, and the chokepoint effect, which restricts or fully denies access to the hub for other actors, thereby controlling information flows and economic transactions. Only the US and the EU qualify as network hegemony with adequate power and control over key hubs to exercise such economic coercion. The US holds a particularly strong position due to its dominance in the global financial system, exemplified

¹⁴⁰ Snyder, *Supra* note, 136, p. 12

¹⁴¹ Snyder, *Supra* note, 136, p.13.

¹⁴² Snyder, *Supra* note, 136, p. 14.

by the central role of the US Dollar, and often cooperates with the EU, which controls critical hubs such as the SWIFT network. This network asymmetry grants these hegemon unilateral strategic economic power that can be used to pressure or influence other states. We apply this theory to examine how the US exploit its central position in global networks to weaponize interdependence and exercise economic coercion vis-à-vis the EU. Furthermore, the framework is used in the analysis to illustrate how China, in the current geopolitical context, possesses the emerging capacity to deploy similar strategies of network-based coercion, potentially on par with the US, in its relations with the EU. While the theory of weaponized interdependence is centered around the two strategies, namely a panopticon- and chokepoint effect, our analysis seeks to contribute to these strategies by arguing for an additional strategy available for states. We contend that the chokepoint effect should be reconceptualized not as a binary strategy, but as a spectrum - where partial chokepoints can serve as effective strategies of economic coercion. Building on this, we apply deterrence theory to analyze how the EU seeks to counter economic coercion through its relatively new instrument, the ACI. Mazarr's conceptualization of deterrence offers a valuable lens through which the ACI can be understood as a spectrum of deterrence strategy. In our analysis, we adopt this framework to conceptualize the ACI in distinct phases, while also proposing an additional phase, deterrence by negotiation, to contribute to Mazarr's theory. The theories of Ellsberg and Snyder offer valuable understanding of the assessment processes and behavioral patterns within deterrence scenarios. The expanded figure 2 has been developed to illustrate these latter theories, integrating both theoretical frameworks into a unified analytical model.

4.0 Methodology

The following section outlines the methodology used for this thesis. The thesis is structured around a comparative analysis of two case studies, which examine instances of the EU being subjected to economic coercion by both China and the US, as well as the EU's deterrence against such coercive measures. This section begins by outlining the overall research design, followed by a detailed explanation of the case selection process. Subsequently the data collection is outlined, including the gathering and utilization of primary and secondary sources as data, as well as data-collection around deterrence as a concept. The section concludes with a discussion of the thesis's limitations and validity.

4.1 Research design

This thesis conducts a comparative in-depth case study through an abductive approach of China's and the US' use of economic coercion against the EU and how the Union responds through the ACI. The cases are situated within a time frame of five years, spanning from 2020 and until present time (2025). Both cases examine the phenomenon of economic coercion and the corresponding deterrence effort. This period captures the lead-up to the coercive acts, the EU's negotiation and adoption of the ACI, its entry into force, and subsequent developments up to the present day. This aligns with Robert K. Yin's conception of case studies as investigations of contemporary phenomena situated in real-life contexts.¹⁴³ The comparative case study approach, in contrast to the single case study approach, involves the examination of multiple cases within a unified analytical framework. This allows for a broader understanding by comparing and contrasting different situations, thereby enabling the identification of patterns and variations across cases.¹⁴⁴

This thesis seeks to address a central chasm in the literature, which is twofold, structured around two core questions grounded in the theoretical framework of weaponized interdependence and deterrence theory. First, we seek to assess how weaponized interdependence has enabled China and the US to exert economic coercion against the EU within the global economy network. This network is chosen because both incidents of economic coercion was deployed within this. Second, we seek to understand if and how, the ACI has functioned as an effective deterrent against economic coercion from these great powers and contributed to strengthening the EU's resilience in the face of such pressures. However, we have assessed that the theories within their conventional frameworks have not been able to sufficiently explain what has been observed empirically in both cases and have therefore chosen to expand them. While weaponized interdependence centers on the panopticon and chokepoint effects, this analysis introduces the concept of a *partial chokepoint* effect. Unlike China, which can deploy full chokepoints due to its authoritarian structure, the US is institutionally constrained and thus limited to a partial application - evident in its approach toward the EU. To assess the ACI's deterrent potential, we propose a conceptual framework consisting of three analytical phases: deterrence by denial, deterrence by negotiation, and deterrence by punishment. Introducing *deterrence by negotiation* as a novel

¹⁴³ Robert K. Yin, *Case Study Research: Design and Methods*, Vol 3. 2003, p. 13

¹⁴⁴ Robert Agranoff & Beryl A. Radin, "The comparative case study approach in public administration", *Research in Public Administration*, Vol 1, 1991, p. 204.

addition, we capture the EU's use of diplomatic engagement prior to the implementation of formal countermeasures. This framework provides the basis for our analysis of the EU's deterrent position and the strategic calculations of China and the US in response.

4.2 Case-selection: China and the US

The two cases have been selected based on a *most different systems design*, as China and the US differ significantly on key parameters such as system of governance, their respective approaches to foreign policy and the nature of their economic and security relations with the EU. What connects them - and makes them comparable - is their use of economic coercion against the EU.¹⁴⁵ Furthermore the cases were selected based on the argument, outlined in the literature review, that both China and the US have been central drivers behind the creation of the ACI. Selected cases involving these two actors allows for the exploration of contrasting outcomes. Figure 3 presents an overview of the key differences between China and the US, highlighting the comparative factors relevant to the analysis.

Figure 3 – China/US differences

	US	China
Approaches to foreign policy (coercion)	Explicit coercion and protectionist diplomacy	Silent / disguised coercion and wolf-warrior diplomacy
System of governance	Federal democratic government	Authoritarian single-party Communist
Economic relationship	Historical key economic ally to the EU	Systemic rival and competitor to the EU
Security relationship	Historical key security ally to the EU	Minimal security relations to the EU

Note: Our own figure, which highlights the distinct characteristics of China and the US, illustrates why the selected cases are relevant for comparison.

In the context of weaponized interdependence, relevant factors to compare include the approaches to foreign policy and the system of governance (see figure 3). The first factor

¹⁴⁵ Lotte B. Andersen, Kasper M. Hansen & Robert Klemmensen, "Forskningsdesign", Chapter III, IN: "metoder I statskundskab", Vol 4, 2025, pp.91-92.

outlines how the two cases differ in exerted economic coercion as described in the theory section. This differentiation can be seen by China deploying informal coercive actions where the US deploys a more explicit approach. Second, their respective system of governance allows for the comparison of the deployed coercive acts versus what their respective systems allows. Economic and security dependency are two additional factors to analyze the EU's deterrence potential via the ACI. The EU maintains fundamentally different relationships with China and the US - China being a systemic rival and the US a historical ally.¹⁴⁶ This distinction is reflected in their levels of economic interdependence, with the EU being more deeply integrated with the US economy than with China's, as well as in the security domain, where the EU and the US share alliances and institutional ties that are absent in the EU-China relationship. Comparing these factors across the cases in relation to weaponized interdependence and deterrence enhances the validity of the analysis and enables a more precise assessment of China's and the US's capacity to exercise economic coercion, as well as the effectiveness of the ACI as a deterrent across varying contexts.¹⁴⁷ This case selection strategy aligns with Yin's logic for multiple-case study designs, which should either (a) predict similar results or (b) predict contrasting results for predictable reasons – the latter being the strategy for case-selection in this thesis.¹⁴⁸

4.3 Data collection

4.3.1 Measuring foreign policy

The analysis focuses on two key policy areas, foreign- and security policy, and economics, as these represent the primary arenas in which economic coercion and corresponding deterrence strategies unfold. Both areas are central to the exercise of geoeconomic power: the economic domain encompasses trade, investment, and supply chain dependencies that can be leveraged coercively, while the foreign policy and security domain reflects how such actions intersect with broader geopolitical alignments, threat perceptions and deterrence. Analyzing both dimensions provides a more comprehensive understanding of how states signal intentions, exercise economic coercion, and respond to coercive measures.

¹⁴⁶ European Union, "Implementation of the common security and defence policy", *annual report, 2023*, (Available at: <https://tinyurl.com/469kff8u>). & European Commission, "Commission reviews relations with China, proposes 10 actions", *Press Release*, 2019, (Available at: <https://tinyurl.com/2exzc9hh>).

¹⁴⁷ Andersen et.al., *Supra* note, 145, p. 91-92.

¹⁴⁸ Yin, *Supra* note, 143, p. 47.

Foreign and security policy strategies are typically formulated and discussed in closed forums, such as formal meetings like working party meetings, ministerial or ambassadorial, and informal diplomatic consultations. However, to some extent they can be derived from the open policies, rhetoric and behavior of political parties or governments.¹⁴⁹ As direct access to these arenas is limited, this thesis relies on publicly available sources such as official policy documents, public statements, recognized news outlets, political formal and leaked rhetoric as well as political behavior to infer the foreign and security policy strategies of relevant actors. As outlined above, the thesis has a dual analytical focus: first, mapping the US's and China's capacity to weaponize economic interdependence, and second, assessing EU's deterrence strategy through the ACI against both actors. To examine the potential for weaponized interdependence and to evaluate the EU's deterrence strategy, both explicit and implicit actions undertaken by China and the US will be analyzed in relation to the EU. Historical patterns of signals and state behavior will also serve to assess the credibility and potential effectiveness of the EU's deterrent stance under the ACI.

4.3.2 Measuring deterrence

As noted by Debra Rose effective deterrence strategies require nations to communicate it. States can signal deterrent intentions through both direct and indirect channels, often using a combination of oral, written, and visual communication. Direct channels can include, but are not limited to, diplomatic and presidential statements, or regulations passed in international forums such as the EU etc. Indirect channels, on the other hand, might involve public speeches by political leaders or written documents on e.g. national security strategies. In this thesis, such signals are used to help interpret how different actors have responded to or attempted to shape the deterrence dynamics in the selected cases.¹⁵⁰ The communication process involves an inter-relationship between several key components: a sender, a message, a receiver, and the receiver's interpretation, which is often expressed through some form of feedback. While all elements are important for successful communication, feedback plays a particularly crucial role in confirming whether the message has been received and understood as intended.¹⁵¹

¹⁴⁹ Andersen et.al., *Supra* note, 145, p. 133.

¹⁵⁰ Debra K. Rose, "Only in the mind of the enemy: Can deterrence be measured?", *National Defense University*, 2011, p. 9. (Available at: <https://tinyurl.com/4t52s6rv>).

¹⁵¹ *Ibid*

However, in deterrence, direct feedback from the targeted actor is rarely provided, making it difficult to determine whether the deterrent's message has had the intended effect. When communicating indirect deterrence messages, there is also a risk that the intended recipients may not receive or correctly interpret the message. Cultural differences and divergent interpretations of language, symbols, or strategic behavior can lead to miscommunication or misperception, further complicating the effectiveness of deterrence signals. The combination of limited direct feedback and the potential for misinterpretation or non-reception thus poses a significant challenge to evaluating whether deterrence efforts are successful. Consequently, it becomes necessary to rely on indirect indicators and alternative forms of feedback to assess the effectiveness of deterrence communication.¹⁵² Building on this complexity, an additional challenge lies in the very nature of deterrence itself: It can fundamentally only be measured negatively - through the absence of actions. As such, establishing causal relationships for events that do not occur becomes inherently problematic. Consequently, demonstrating a direct correlation between the deterrent effect of the ACI and the behavior of China and the US presents a methodological challenge. Nonetheless, this thesis seeks to explore such a correlation.¹⁵³

4.3.3 The semi-structured interview

We chose to conduct expert interviews as a qualitative method to gain in-depth insights from individuals with substantial knowledge of their respective fields, to support our analysis. We conducted a total of five interviews with experts, each specializing in the foreign policy of either the EU, China, or the US – see figure 4 below. We reached out to a total of 15 researchers to ensure coverage across all relevant fields. However, we only received responses from those represented in the thesis.

A semi-structured interview guide was used, allowing us to tailor specific questions to each expert's field of specialization. The semi-structured format enabled flexibility during the interviews, allowing us to adjust the order of topics and questions, as well as explore new and relevant areas brought up by the interviewee.¹⁵⁴ The interview questions were broadly organized into five thematic categories: (1) the EU's open strategic autonomy and geopolitical

¹⁵² *Ibid*

¹⁵³ Vesna Danilovic, "Conceptual and Selection Bias Issues in Deterrence", *Journal of Conflict Resolution*, vol 45(1), 2001, p. 102.

¹⁵⁴ Steinar Kvale & Svend Brinkmann, "Udførelse af et interview", Chapter VII, IN: "Interview: Det Kvalitative forskningsinterview som håndværk", Vol 3(4), 2015, pp. 177-178.

position, (2) the ACI as a deterrence instrument, (3) institutional and implementation-related challenges, (4) the EU's relationship with the US, and (5) the EU's relationship with China.

Figure 4 – Expert interview overview

Name	University	Position	Expertise field	Interview length
EU policy expert 1	Danish University	Professor	EU politics	22 min.
EU policy expert 2	Danish University	Post Doc	EU politics	34 min
EU law expert	Danish University	Professor	EU law	38 min
China expert	Danish University	Professor Emerita	China in foreign policy	40 min
US expert	Danish University	Professor	USA in foreign policy	51 min

All interviews were conducted between April 16 and May 5. Most interviews were conducted via telephone, and one took place in person, depending on the availability of the experts, whose busy schedules we adapted to. Each interview lasted a maximum of 60 minutes, and we alternated between the roles of interviewer and note-taker. At the beginning of each interview, we asked for consent to take notes and clarified that the participation and answers would be used anonymously. We were aware that conducting interviews by phone meant that non-verbal cues were largely absent, which may limit the ability to fully interpret the interview dynamics.¹⁵⁵

4.4 Limitations

In any research, some limiting factors will exist which must be acknowledged. Our research design holds some limitations that demand attention to acknowledge possible biases and limited data within certain sections of this thesis.

Firstly, as Josephine did her internship at the Permanent Danish Representation to the EU, we hoped to be able to utilize her contacts to get expert or elite interviews from EU diplomats that had worked directly with the drafting and adoption of the ACI. Unfortunately, however, as the EU is allegedly informally discussing the invocation of the ACI currently, the diplomats that we had interview appointments with had to cancel. We therefore deemed it unlikely that we would find any other diplomats who would be able or willing to discuss the EU's ACI with us

¹⁵⁵ Steinar Kvale & Svend Brinkmann, "Tematisering og design af en interviewundersøgelse", Chapter VI, IN: *"Interview: Det Kvalitative forskningsinterview som håndværk"*, Vol 3(4), 2015, p. 205

given its recent relevance. Additionally, the five experts that we interviewed were all Nordic scholars. While it might not explicitly translate to a Western bias, it is highly likely that the qualitative data responses would have been more mixed would we have had expert interviews with American and Chinese scholars as well.

Lastly, we acknowledge certain limitations with our selection of cases. For a better applicability of this thesis for future research, a broader case selection would have situated the thesis more precisely. However, since the ACI remains a very new instrument which has yet to be activated, cases with high applicability and corresponding applicable scholarly work results in very few selectable cases. We have therefore chosen the Chinese case, even though it occurred prior to the ACI entering into force, because of the substantial work on the case, and the fact that the case is widely argued for being the catalyst for the rapid development of the ACI. The US case has been selected because of its relevance given it is still ongoing, and that the tariff policy that Trump has introduced, has questioned the future of the transatlantic alliance. The US case, albeit not yet finalized and thus not possible to conclude on like the one of China, is vital for situating the thesis with the recent developments between the EU and the US and will hopefully allow for the thesis to be used for further research when the case concludes. Moreover, as previously noted in the methodology section, a limitation also lies in the availability of measurable data from deterrence scenarios. It is inherently difficult to draw definitive conclusions about behavior related to deterrence, as deterrence is measured negatively - that is, through the absence of action. Such absence is often only observable through access to formal channels and closed forums.

4.5 Validity

The validity of a research study is imperative for its relevance and integrity in the academic world and for its usefulness in applications in the future.¹⁵⁶

¹⁵⁶ Rose McDermott, "Internal and External Validity", Chapter III, IN: James N. Druckman et.al., *Experimental Political Science*, 2011, p. 27.

Internal validity

Internal validity is often defined as; ‘*inferences about whether the observed covariation between X and Y reflects a causal relation from X to Y*’.¹⁵⁷ Naturally, it is impossible to determine with absolute certainty whether a deterrence strategy has directly caused changes in an adversary’s behavior. Nevertheless, we argue for a relatively high degree of internal validity in our analysis, as we have identified clear correlations between the EU’s deterrence strategy and the behavior of both China and the US - and vice versa. Weaponization of interdependence is clearly measurable given the fact that a restriction of hubs has either taken place or not. This allowed us to clearly map weaponization events and correlate those events to deterrence signaling to prove a causal link. This is supported by a clearly structured chronological timeline, in which we link the actions and reactions of the actors with accompanying arguments that establish plausible causal correlations.

In addition, we conducted expert interviews that not only enrich the analysis with substantive and disciplinary depth but also reinforce our arguments. Each expert was asked a core set of questions, followed by tailored questions adapted to their individual academic backgrounds. Moreover, the empirical foundation of the thesis rests on primary and secondary sources such as official state and institutional documents, legal blogs, and peer-reviewed journal articles. We have also explicitly acknowledged the methodological limitations of the study. On this basis, we believe it is reasonable to argue that we can assess whether or not the ACI has strengthened the EU’s ability to resist economic coercion from China and the US - while acknowledging that this conclusion may be challenged by other researchers.

External validity

External validity is often defines as; ‘*the degree to which a causal relationship found in a given study generalizes across various persons, settings, treatments, measures, and so forth*’.¹⁵⁸ As previously noted, our external validity is strengthened by the comparative analysis of China and the US across selected factors, as this allows for an indication of whether the ACI may serve as an effective deterrent against actors that share similar characteristics. However, it remains difficult to fully generalize the findings due to the highly context-specific nature of the cases examined, which means that further research is needed.

¹⁵⁷ María J. Buedo & Federica Russo, “Experimental practices and objectivity in the social sciences” *Synthese*, vol 199, 2021, p. 9554.

¹⁵⁸ *Ibid*

Summary

This thesis applies a comparative case study, through an abductive approach, where we analyze China and the US' use of economic coercion against the EU between 2020 and 2025 – and how the EU has responded via the ACI. By drawing on and expanding the theories of *weaponized interdependence* and *deterrence*, the thesis introduces the concepts of a *partial chokepoint effect* and the *deterrence by negotiation* phase to more accurately capture the dynamics and causal correlations. The cases of China and the US are selected based on a *most different systems design*, given their significant differences in governance, foreign policy approaches, and bilateral relations with the EU. However, both have applied economic coercion on the EU, making them suitable for comparison. The empirical foundation consists of diverse primary and secondary sources as well as five expert interviews, as access to EU diplomats proved unattainable. The analysis evaluates the deterrent effect of the ACI across three phases and acknowledges the methodological challenges of measuring deterrence, which often relies on the absence of action. This will help prove a causal link between events and deterrence signals. On this basis, we argue for a certain degree of both internal and external validity - while recognizing the limited generalizability of the findings, which invites further research.

5.0 Analysis

5.1 Situating China in the global economy network

Since Farrell and Newman in 2019 conceived the theory of weaponized interdependence, a lot has happened on the global stage, and particularly within the global economy. At the time, China was deemed one of the three actors capable of weaponizing its interdependence against other actors, albeit Farrell and Newman only credited China for being able to weaponize its own domestic market. This was only possible through bilateral dependence in what they call asymmetric interdependence, where a country is only able to apply single target strategies by utilizing bilateral pressure and not through means of a global network as also mentioned in the literature review.¹⁵⁹ However, this analysis argues that China's growing revisionist ambitions to challenge the status quo of Western-dominated hubs of the global economic network have elevated its economic power to a point where it no longer relies solely on bilateral pressure.¹⁶⁰ More specifically, the following mapping of China's role within the global economy network

¹⁵⁹ Farrell and Newman, *Supra* note, 62, p. 312.

¹⁶⁰ Goddard, *Supra* note, 41, pp. 84-85.

and the hubs within the Chinese mainland under its control, combined with the economic coercion case against Lithuania and other EU Member States, will aim to show that China does in fact possess the ability to weaponize interdependence within the global economy network. They have in other words, ascended to position where it now to some extent alike the EU and US can – and has – enjoyed asymmetric network structural advantages as a hub hegemon and are able to weaponize its interdependence.¹⁶¹

Since the Secretary General of the CCP and the current president of China, Xi Jinping assumed his role of president in 2013, China has become a highly centralized autocracy, which Xi and the CCP controls with an iron fist.¹⁶² The 2017 Regulations on *Safeguarding and Enhancing Centralized and Unified Leadership* and the 2018 National People’s Congress decision to abolish the two-term limit for presidency has made Xi the authoritarian ruler of one of the largest countries in the world. A country which he controls with deep autonomy and domestic impunity.¹⁶³ What this means for weaponizing hubs comes when applying the two conditions put forth by Farell and Newman in the case of China.

In order for a state to effectively utilize its hub position within a network, it must have appropriate domestic institutions and a sufficient degree of physical and/or legal jurisdiction over the hub which will be weaponized. As China remains a revisionist actor based on the argument that it enjoys few, if any, central hub position in global networks, mainly being within the global economy network, an argument could be made similarly to that of Farell and Newman, that China can only utilize its political power through asymmetric bilateral dependencies. However, as described by Cavanna, China and “*Its inherent centralization of power, Which President Xi Jinping has enhanced in recent years*” now means that “*China has legal and regulatory institutions that enable and optimize weaponization of interdependence*”.¹⁶⁴ What this means in terms of weaponization of interdependence in relation to Chinese hub control, is that China has seen a steady increase in CCP centralization since 2013, and alongside that centralization, globalization has allowed China to become increasingly vital for the global economy. Since the conception of weaponized interdependence in 2019, China’s GDP increased from \$14.2 trillion to \$17.8 trillion. The Chinese economy has

¹⁶¹ *Ibid*

¹⁶² Kevin Rudd, “Ideological change under Xi and changes in Chinese domestic policy”, Chapter V, IN: *On Xi Jinping: How Xi’s Marxist Nationalism is Shaping China and the World*, 2025, pp. 108-109.

¹⁶³ *Ibid*

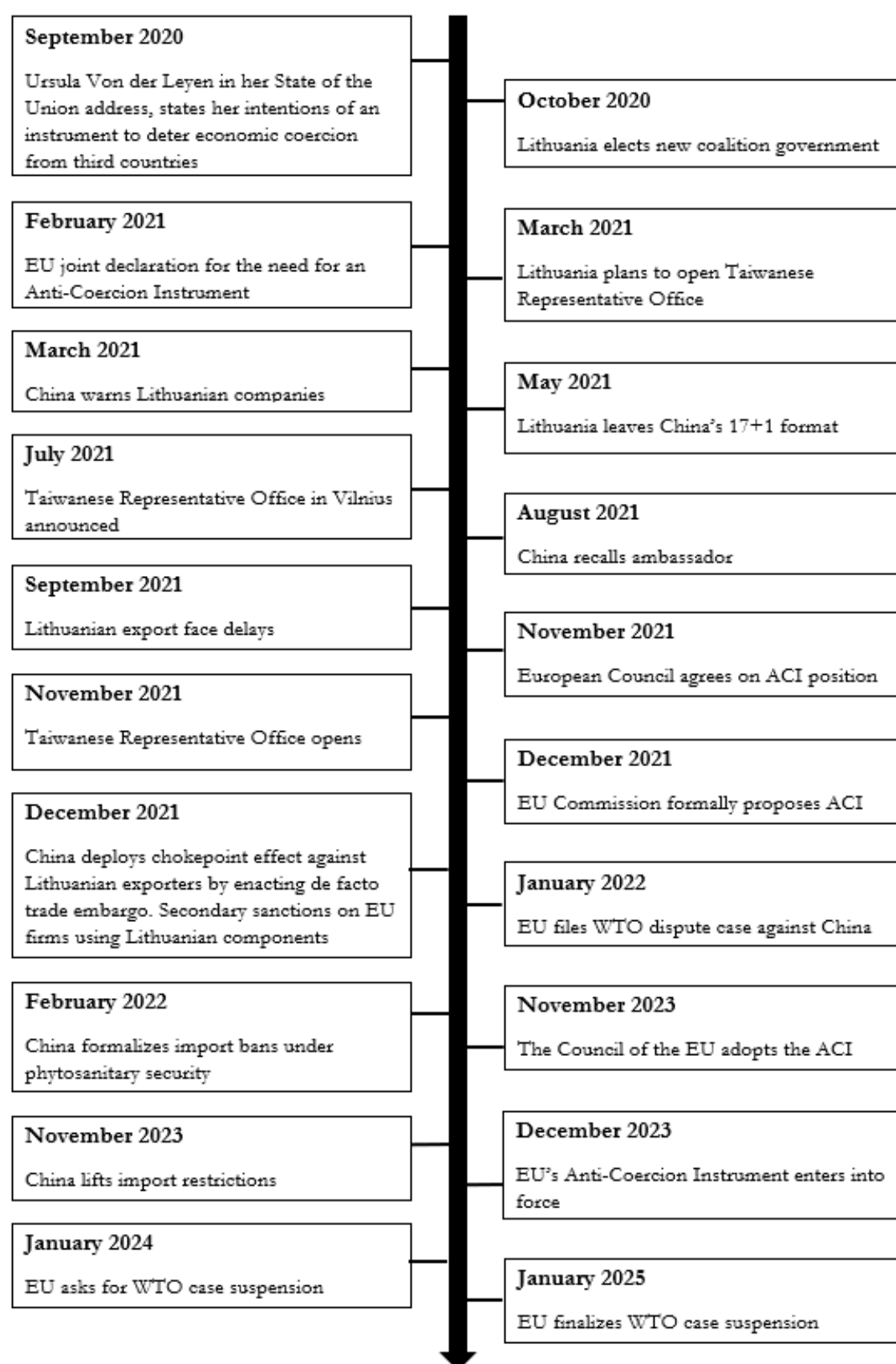
¹⁶⁴ Cavanna, *Supra* note, 42, p. 223.

thus witnessed a boom in relevance and market power, and thus can be argued for to be a far more important economic player than it was in 2019.¹⁶⁵ The CCP essentially enjoys a top-down total control of domestic institutions and simultaneously holds complete physical and legal jurisdiction as long as the hub in question have sufficient ties to the Chinese mainland that makes such control possible. When looking at these criteria for China, it becomes apparent that Xi's China can use weaponized interdependence as economic statecraft without worrying for missing legislative or regulatory mechanisms. In other words, if some element of control over a hub is missing and needed to weaponize, it will be created.

The following section will be a detailed case study of the 2021 event where China deployed economic coercion against Lithuania. This was possible due to the unique hub position China holds within the global economy network, which ultimately allowed them to weaponize Lithuania's, and in extension the EU's, interdependence to Chinese businesses and import/export facilities. The timeline figure below includes events back to the year 2020, prior to the actual case which unfolded in 2021. It does so to cover the basis of important events which led up to the point where China deployed economic coercion, to better understand the China-Lithuania relations and what led to the increased diplomatic tensions. Therefore, the timeline of the case spans from October 2020 until its conclusion in January 2025. For an overview prior to the analysis, please see figure 5 below.

¹⁶⁵ China GDP 1960-2025, *Macrotrends*, n.d. (Available at: <https://tinyurl.com/33btr28x>).

Figure 5 – China v Lithuania case timeline



Note: Our own figure.

5.2 China v EU

5.2.1 The coercive acts

Diplomatic relations between China and Lithuania began to deteriorate as the months went by since Lithuania in March of 2021 announced its plans of opening a Taiwanese Representative Office (TRO). In the following days after the announcement, Lithuanian companies would report that they had received letters from the Chinese ambassador to Lithuania, warning them of potential economic implications should their government go through with the opening.¹⁶⁶ Looking at economic coercion and its definition pursuant to what would later become the ACI's article 2, such actions by a state official constitutes a threat of economic coercion, as the goal would seem to be a forced policy change by the government in Vilnius.¹⁶⁷ Why this matters, is of the causality between a future ACI and Chinese decision making when deploying economic coercion as a political strategy. While the ACI had not yet been formulated, it would later be built on the principle of economic coercion being a breach of the principle of non-intervention, a cornerstone of international law. The 1986 judgement from the International Court of Justice, ruled against the US in the *Nicaragua v. United States of America*.¹⁶⁸ While the court remained vague and did not provide a legal judgement on whether or not economic coercion was prohibited under international law, the court confirmed that "*The principle of non-intervention involves the right of every sovereign State to conduct its affairs without outside interference [...] coercion is forbidden*".¹⁶⁹ Additionally, the Court found that the US trade embargo on Nicaragua was a breach of the non-intervention principle because of its design to pressure Nicaragua into policy cessation. While the ACI was not yet EU law or had been sent through the proper EU channels to be discussed, the rulings of the ICJ should be seen as a legal guideline for both for the workings on the ACI, but also for how to navigate the economic coercion seen by China.

Commission President Ursula Von der Leyen, stated in September 2020, that the EU were negotiating a future instrument to deter and as a last resort respond to economic coercion

¹⁶⁶ Wendy Cutler & Shay Wester, "Resilience & Resolve: Lessons from Lithuania's Experience with Chinese Economic Coercion, *Asia Society Policy Institute*, April 2024, (Available at: <https://tinyurl.com/2fc6axb2>).

¹⁶⁷ European Union Regulation (ACI), *Supra* note, 31. Art. 2.

¹⁶⁸ International Court of Justice, *Military and Paramilitary Activities in and against Nicaragua*, June 1986, (Available at: <https://tinyurl.com/2xjzva56>).

¹⁶⁹ International Court of Justice, *Reports of Judgements, Advisory Opinions and Orders*, June 1986, Para. 205. (Available at: <https://tinyurl.com/3m5arkm4>).

against the Union or a Member State.¹⁷⁰ In May 2021, one month after the declaration of intentions of the TRO opening, Lithuania decided to leave the 17+1 Forum of Cooperation, a multilateral foreign policy strategy for China towards the Central and Eastern Europe.¹⁷¹ However, diplomatic relations reached an all-time low when the newly elected Lithuanian government coalition in November 2021, publicly announced the formal opening of the TRO in Vilnius. Albeit this sort of installation bears no official sovereign resemblance, the 20 other TRO's around the world have one distinct difference. They are called *Taipei* instead of *Taiwanese*, as a symbol of the host state's adherence to the One-China policy, officially recognizing Taiwan as a part of China, and not a sovereign state. This deviation from Lithuania's official declarations on the status of Taiwan to be recognized as a part of China, was seen by China as a clear violation of the One-China Policy, and thus a diplomatic provocation.¹⁷²

Almost overnight following the opening of the TRO, Lithuania experienced a full-scale exclusion from the Chinese market by means of silent coercion. More concrete, it disappeared from the Chinese customs system, making import paperwork impossible to complete. Additionally, pending shipments were not being cleared and new applications from Lithuanian companies were denied. Supply chains were also heavily affected, as China expanded its trade restrictions to cover all EU Member States, whom companies had Lithuanian products within its supply chain, effectively threatening the EU single market structure.¹⁷³ The weaponization of Chinese-Lithuanian trade interdependence was labelled as a textbook economic coercion case by German and French EU officials.¹⁷⁴ Furthermore, the Trade Commissioner at the time, Valdis Dombrovskis, stated that "*China put in place coercive measures against Lithuania*", and Von der Leyen affirmed that "*China [...] has also ramped up its policies of disinformation and economic and trade coercion. We saw it when China responded to the opening of a Taiwan*

¹⁷⁰ Ursula Von der Leyen, "State of the Union 2020: Letter of Intent", September 2016, p. 5. (Available at: <https://tinyurl.com/5eh2c75c>).

¹⁷¹ Simona Taravella, "Central and Eastern Europe Between China and the EU", *European Guanxi*, February 2021, (Available at: <https://tinyurl.com/2br6wn7t>). & Jakob H. Vela & Suzanne Lynch, "Brussels Playbook: China tests EU unity – Russia 'Dead end' - Defensive Union. *Politico*, January 2022, (Available at: <https://tinyurl.com/43cumy8x>).

¹⁷² Ministry of Foreign Affairs: The People's Republic of China, "Foreign Ministry Spokesperson's Remarks on Lithuanian Foreign Ministry's Demand for Chinese Diplomatic Personnel to Leave the Country Within the Time Required", December 2024, (Available at: <https://tinyurl.com/bdyz7b29>).

¹⁷³ Szczepanski, *Supra* note, p. 4. & Matthew Reynolds & Matthew P. Goodman, "China's Economic Coercion: Lessons from Lithuania", *Center for Strategic & International Studies*, May 2022, (Available at: <https://tinyurl.com/4ewfj7fe>). & Cutler & Wester, *Supra* note, 184. &

¹⁷⁴ Vela & Lynch, *Supra* note, 171.

Office in Vilnius by taking retaliatory measures against Lithuania and other European companies".¹⁷⁵ Additionally, the Lithuanian Foreign Minister, Gabrielius Landsbergis officially asked the EU for assistance and to "*intervene on its behalf [...] in a diplomatic dispute over relations with Taiwan*".¹⁷⁶ Landsbergis went on stating, that "*it is hard to not see that these recent measures by the People's Republic of China are a continuation of the politically motivated economic coercion*".¹⁷⁷ Also, according to the former Secretary General of NATO and former Prime Minister of Denmark, Anders Fogh Rasmussen, China has become the most sophisticated actor to deploy economic coercion as parts of its foreign policy, and argues for Lithuania and the EU to have been preparing for possible coercive measures from China, which had been building up. However, the sophistication from the CCP made it evident that the EU had not anticipated coercive measures to such an extent.¹⁷⁸ While there are several cases of Chinese economic coercion against an EU member, the Lithuanian case stands out as it marks a shift in Chinese wolf warrior diplomacy willingness, as it saw the CCP targeting not just Lithuania as a sovereign state, but the EU as an institution through it.¹⁷⁹

To summarize, China targeted Lithuania by means of silent economic coercion. The CCP did so by the nature of economic interdependence, which allowed China to weaponize this interdependence as economic statecraft to try and force Lithuania to change its policies towards Taiwan. The strategies by China have been labelled as economic coercion by the EU, and Lithuania has obtained assistance from a collective EU, in standing firm against Chinese foreign pressure. The way it became possible for China to deploy economic coercion in such a fashion was through two hubs which China holds total control over given its institutional structure. The following section will outline the hubs weaponized by China, and how they were weaponized.

5.2.2 The global economy network: China and the EU

European export nodes

¹⁷⁵ European Commission, "Statement by Executive Vice-President Valdis Dombrovskis on Launch of Case at WTO. January 2022, (Available at: <https://tinyurl.com/yc8mtc3v>). & Von der Leyen, *Supra* note, 170.

¹⁷⁶ Stuart Lau, "Lithuania asks EU for 'strong reaction' to Chinese pressure", *Politico*, December 2021, (Available at: <https://tinyurl.com/59xrhwy8>).

¹⁷⁷ *Ibid*

¹⁷⁸ Anders F. Rasmussen & Ivo Daalder, "Memo on an 'Economic Article 5': To Counter authoritarian Coercion", *The Chicago Council on Global Affairs*, June 2022, pp. 4-5. (Available at <https://tinyurl.com/ykjbfrja>).

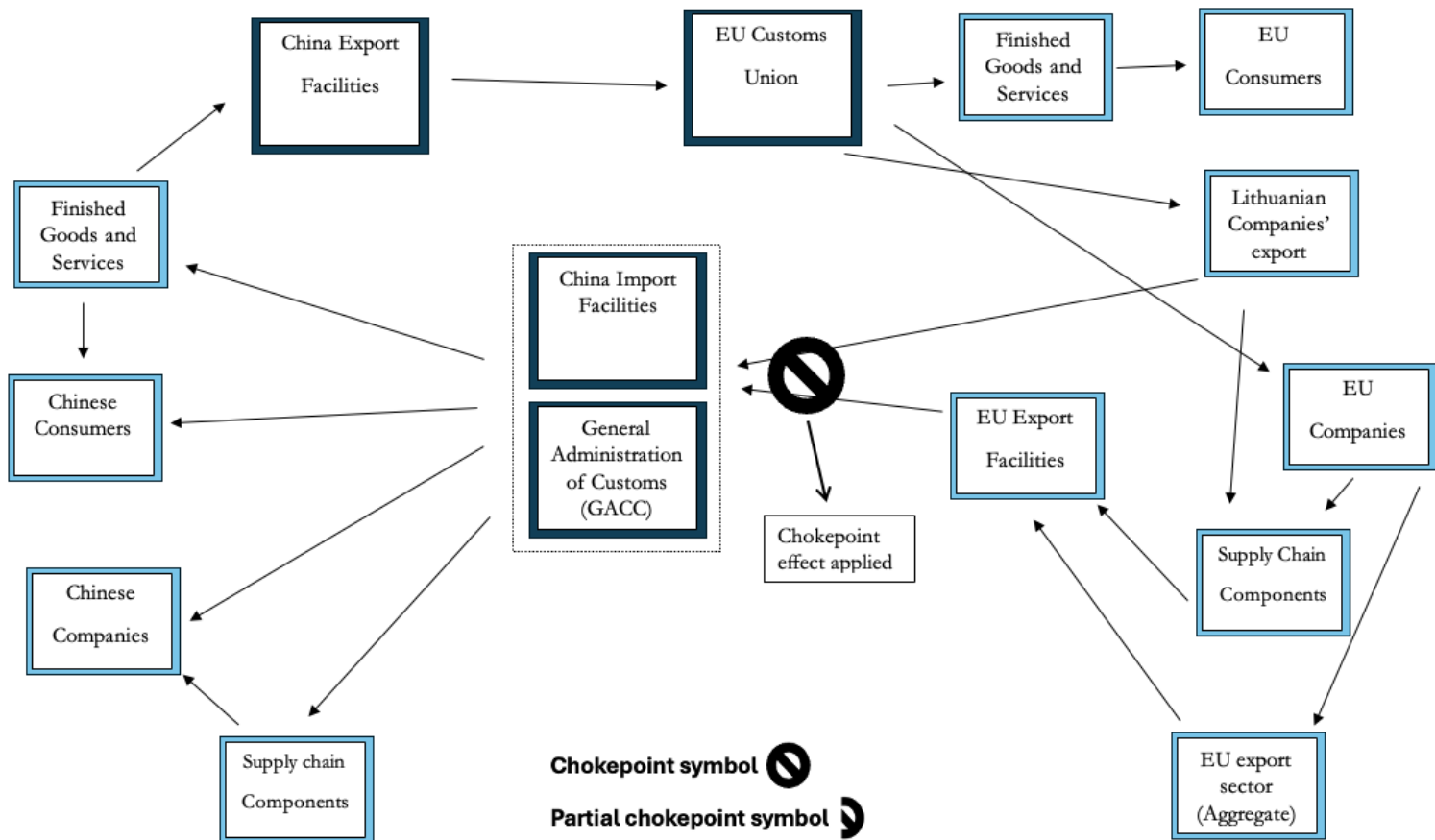
¹⁷⁹ Biukovic, *Supra* note, 49, pp. 400-406.

While Lithuania and the EU has a multitude of nodes connected to Chinese nodes, two were particularly targeted. As illustrated in the China network mapping (see figure 6 below), two of the nodes appearing are the Lithuanian companies' export node (Lithuanian export node) and the EU export facilities node. The Lithuanian export node - simplified for illustrative purposes – represents all sectors and its respective companies' export to China. This overview should therefore be understood as a simplified mapping which, in reality, significantly underrepresents the number of connections from EU nodes to Chinese nodes. The Lithuanian export node is comprised mainly of the sectors; wheat, wooden furniture, and advanced laser technology, which were the sectors mostly affected by the Chinese chokepoint effect.¹⁸⁰ The EU export facilities node bears similar simplistic illustrations, as this node is to be seen as an aggregate of the EU single market export nodes from all EU members and their individual sectors' companies, except Lithuania, which to some degree use Lithuanian components. The weaponization of this node was seen as a clear strategy in economic coercion against Lithuania, as China extended its coercion to apply a chokepoint effect against the entire EU company export regime, that had Lithuanian components to broader target the EU.¹⁸¹

¹⁸⁰ Cutler & Wester, *Supra* note, 166.

¹⁸¹ Stuart Lau & Barbara Moens, "China's trade attack on Lithuania exposes EU's powerlessness", *Politico*, December 2021, (Available at: <https://tinyurl.com/4z4v5xuv>).

Figure 6 – China network mapping



Note: Our own figure

Chinese hubs and how they were weaponized

The Chinese weaponization was deployed through two Chinese hubs, which both were decisive in utilizing a chokepoint effect against Lithuania and the EU. One of the hubs is the Chinese Import Facilities, which generally cover its ports and train lines (see figure 6 above). This node has achieved hub status based on its deep embeddedness within the global economy network, as China has risen to become one of the most interconnected markets in the world.¹⁸² China is a large manufacturing country and its import facilities are thus connected to such an enormous number of nodes within the network, that Farrell and Newman’s argument of China to only be able to asymmetrically weaponize, can now be contested.¹⁸³ The argument for China having

¹⁸² Brian Hart, “How is China Influencing Global Maritime Connectivity?” *Center for Strategic and International Studies*, May 2021, (Available at: <https://tinyurl.com/47rz9fwn>). & Stuart Lau, “How little Lithuania dragged the EU into its showdown with China”, *Politico*, October 2021, (Available at: <https://tinyurl.com/57wnyhmk>).

¹⁸³ Hart, *Supra* note, 182. & Francios de Soyres et.al., “From partner to rival: The sectoral evolution in China’s trade”, *Voxeu Column*, April 2025, (Available at: <https://tinyurl.com/uwbbehdm>).

been able to weaponize a network and not just bilateral channels require more attention. First, as our China expert stated in her interview, China's targeting of Lithuania is more complex than a diplomatic retaliation towards its One-China policy. What this means is, that China saw the Lithuanian actions as a possibility to test the unity and resilience of the EU as a Union. They did so by targeting Lithuania directly, but equally harshly hitting EU Member States' companies with the same level of trade embargo, by disguise of using Lithuanian components.¹⁸⁴ In other words, the import facilities hub were used by China to test its wolf warrior diplomacy against the EU, and whether or not the EU under its OSA doctrine would act on the silent economic coercion directed against it, or simply let Lithuania fend off China by itself.¹⁸⁵

The import facilities hub was crucial in China's test of weaponizing interdependence against Lithuania and the EU's single market, as this was one out of two hubs where a chokepoint effect was deployed as illustrated in figure 6 by the chokepoint symbol. Briefly looking outward from the Chinese mainland, it becomes apparent that China has influence in ports far beyond its own borders. A recent study combined with official information from COSCO Shipping, the Chinese state-owned shipping corporation, shows China having influence in 39 ports globally by COSCO alone.¹⁸⁶ However, while this may be the case, the silent economic coercion against Lithuania and affiliated EU members did not bear any evidence of those ports being used.¹⁸⁷ The CCP do, however, hold physical and legal jurisdiction over the ports and railway systems within the Chinese mainland. They obtain this via its state-owned enterprises (SOE), which operate as listed companies but are majority owned by the CCP through its state-owned Assets Supervision and Administration Commission of the State Council (SASAC). The SASAC are directly under the supervision of the State Council, and thus functions as a convenient tool for the CCP to weaponize enterprises.¹⁸⁸ With 80 percent of global trade travelling by sea, and 90 percent of China's total trade going through its state controlled ports,

¹⁸⁴ China expert interview

¹⁸⁵ Peter Martin, "Understanding Chinese 'Wolf Warrior Diplomacy'", *National Bureau of Asian Research*, October 2021, (Available at: <https://tinyurl.com/2nt445xp>).

¹⁸⁶ Cosco Shipping, "Corporate Profile", n.d. (Available at: <https://tinyurl.com/5ewj5sar>). & Athanasios Pallis & Jean-Paul Rodrigue, "Port Authorities", Chapter VIII(II), IN: Theo Notteboom, Athanasios Pallis & Jean-Paul Rodrigue, *Port Economics, Management and Policy*, Vol 2, 2022. Sec 3-5.

¹⁸⁷ *Ibid*

¹⁸⁸ Clark Banach & Jacob Gunter, "Mapping China's global port network: on the backfoot in 2024, but still well entrenched", *Merics*, November 2024, (Available at: <https://tinyurl.com/2h6m7b5x>).

the CCP has a unique possibility to weaponize the hub and deploy a chokepoint effect.¹⁸⁹ The fact that the CCP under this assumption can control all imports and exports from Chinese ports, and that according to Vida Mackikenaite, almost all of Lithuania's import/export relationship with China travels by sea, a chokepoint effect by the CCP would have a definitive success rate.¹⁹⁰ Accurately so, Lithuania's exports to China dropped 91.4 percent from the previous year. Albeit the Chinese-Lithuanian bilateral trade relationship are negligible in terms of % of annual trade, the case of economic coercion via this hub, showed that China was adamant in stopping a tendency of increased diplomatic relations between Lithuania and Taiwan. And that China's domestic institutional structure and its autocratic regime which grants it jurisdiction over the hubs enabled it to happen.

The second hub, which is closely aligned with the first hub, is the Chinese General Administration of Customs (GACC) (see figure 6 above) which jurisdiction lies under the Chinese Ministry of Commerce. The theory of weaponized interdependence remains evasive of whether or not a state entity such as the GACC can be a hub. However, as has become evident in the case of China's economic coercion against Lithuania, this was one of the nodes which were directly weaponized by a chokepoint effect and therefore it is grouped together with the China import facilities hub where the chokepoint symbol appears with an arrow into these hubs. Evidence shows the chokepoint effect by denial of custom clearances of Lithuanian companies, refusals of new clearances, and the refusal to clear already paid for goods ready for export to Lithuania. By continuing the path of the CCP's domestic control, the GACC's handling of all shipments entering and exiting China, makes it a key global trade node, and therefore should be categorized as a hub within the global economy network. Additionally, it is directly tied to the import facilities hub, where in the case of Lithuania, both Lithuanian companies and EU companies with Lithuanian components, was denied at the Chinese ports, albeit them having the proper paperwork from the GACC.¹⁹¹ Exporters must appear in the GACC's database for shipments to be accepted at the Chinese import facilities hub, and thus the GACC enabled Chinese chokepoint effects on Lithuania – and EU by extension – to be in

¹⁸⁹ Jeanne-Mây Desurmont, "The Geopolitics of Chinese-owned Ports", *Bloomsbury Intelligence & Security Institute*, October 2024, (Available at: <https://tinyurl.com/2hv4hvwmm>). & Zongyuan Zoe Liu, "Tracking China's Control of Overseas Ports", *Council on Foreign Relations*, August 2024, (Available at: <https://tinyurl.com/3wrskpdm>).

¹⁹⁰ Vida Macikenaite, "Lithuania's Unforeseen Asymmetrical Interdependence Trap with China" *The Prospect Foundation*, August 2024, (Available at: <https://tinyurl.com/y7whhnwu>).

¹⁹¹ Lau & Moens, *Supra* note, 181.

theory largely successful.¹⁹² The access to data on Chinese trade to such a degree, makes the GACC able to obtain information and leverage such information through a panopticon effect with high success. China does, as stated earlier, in many ways, function as the world's manufacturing center, a position within the global economy network that makes China's leverage all more efficient should they decide to apply a chokepoint effect like the one witnessed on Lithuania.¹⁹³ Additionally, and more relevant for this analysis, this knowledge allows the GACC and therefore also the CCP, to better realize what key sectors or direct companies to target, to best coerce another actor through a chokepoint effect.

Such a weaponization become possible only by the nature of the CCP's authoritarian centralized topography, as Xi sits at the heart of the CCP, he does not need a national security threat for him to be able to restrict a country as seen in the case of Lithuania. The fact that China historically has punished actors for policies or statements not in the interest of the CCP, has shown China's ability to contain public unhappiness to a minimum when enacting policies that affect Chinese consumers negatively. A historical example of this could be that of Chinese state-run media in 2019 effectively mobilized a campaign to support the ban of the US National Baseball League in China after its CEO published a pro-Hong Kong tweet.¹⁹⁴ Having a unique ability to assemble a rally-around the flag effect – e.g. through its intensive state-media campaign to label Lithuania as “*a pawn of the United States*.”¹⁹⁵ China is arguably the only nation with sufficient hub control that can initiate a full import/export embargo with minimal domestic backlash, or should a backlash take form, that too would be controllable as historically evident.¹⁹⁶

In summary, the Import Facilities and the GACC hubs were weaponized by China in its economic coercion against Lithuania. Specifically, those hubs were directly weaponized through chokepoint effects. China's use of these hubs fulfilled both conditions outlined by Farrell and Newman, thereby constituting successful weaponization. Additionally, the top-

¹⁹² Farrell and Newman, *Supra* note, 32, pp. 31-33.

¹⁹³ Walid Hejazi & Bernardo Blum, “What makes China so attractive to manufacturers?”, *World Economic Forum*, June 2023, (Available at: <https://tinyurl.com/jp89pv8v>).

¹⁹⁴ Jennifer Pan & Margaret Roberts, “These 3 factors explain why the NBA and other companies struggle to push back against Chinese censorship”, *The Washington Post*, October 2019, (Available at: <https://tinyurl.com/577v39f2>). & Tanja Porčnik, “NBA Controversy underscores China's bullying tactics”, *Fraser Institute*, October 2019. (Available at: <https://tinyurl.com/56htsz4w>).

¹⁹⁵ Cutler & Wester, *Supra* note, 166.

¹⁹⁶ *Ibid*

down centralized governance of the CCP make China enjoy total physical and legal jurisdiction of both the GACC and the Chinese Import Facilities hub within the Chinese mainland.

5.2.3 From silent to disguised coercion: EU challenges and the WTO

Where it becomes evident, that China sought to weaponize its hubs for political objectives, is how it targeted the EU single market through a Lithuanian embargo, by means of silent coercion. The deployment of silent coercion through the weaponization of Chinese Import Facilities and the GACC hub, was a difficult case for the EU to navigate. As the EU puts it “*a distinct characteristic of Chinese coercion is that it happens behind the curtains.*”¹⁹⁷ This meant that it was challenging for Lithuania – and the EU – to find a solution that combatted the economic coercion as it was deployed by silent and informal means. As mentioned by Biukovic, at the time there were no international instrument to address economic coercion as a breach of international law and thus navigating and addressing collective response measures were severely challenging.¹⁹⁸

Prior to the ACI, the EU mainly resorted to a patchwork of instruments, as they had no dedicated instrument that neither conceptualized economic coercion nor addressed it with agency. The EU relied on the Common Foreign and Security Policy (CFSP) and the Blocking Statute, albeit the latter was made – and used – only for cases against US sanctions aimed at Iran. CFSP policies on economic coercion would be ambiguous as they require unanimous adoption by all Member States, and are carried out through intergovernmental cooperation, thus not akin the ACI which is controlled by the Commission under granted authority.¹⁹⁹ Prior to the ACI, addressing Chinese silent coercion thus appeared challenging. As mentioned by Biukovic, under economic coercion as a state strategy, China has historically denied weaponizing its interdependency between the targeted state to economically coerce it. In the case of Lithuania and the two abovementioned hubs, China has been able to apply informal restrictions by going through private Chinese entities, with either a majority CCP ownership, or by institutionally controlling the import/export licensing through its GACC without domestic backlash.²⁰⁰

¹⁹⁷ Szczepański, *Supra* note, 4, p. 1.

¹⁹⁸ Biukovic, *Supra* note, 49, p. 392.

¹⁹⁹ European Commission, “*Common Foreign and Security Policy*”, n.d., (Available at: <https://tinyurl.com/8624fwud>).

²⁰⁰ Biukovic, *Supra* note, 49, pp. 408-409.

Having argued for Chinese coercion to be difficult to prove in court such as a WTO mechanism, the EU remains adamant that economic coercion has been deployed by China. Several EU officials commented on the conflict, e.g. now EU Commissioner for Economy and Productivity, Valdis Dombrovskis, who in 2022 stated that “*China put in place coercive measures against Lithuanian exports and against exports of EU products containing Lithuanian content.*”²⁰¹ And German and French Officials stating that “*China’s actions were an asymmetric economic attack.*”²⁰² The absence of official policy adoptions from Beijing – a key characteristic of silent economic coercion – made it difficult for bilateral solutions, and even more difficult for a WTO dispute case to be started, which the EU tried.²⁰³

Trade disputes amongst members of the WTO are to be arbitrated and solved through official WTO mechanisms. However, this has been increasingly difficult since the US has de facto paralyzed WTO courts with the refusal of new appointments of judges.²⁰⁴ As explained previously, the preliminary discussions of the ACI had been underway when China deployed economic coercion against Lithuania (see the timeline in figure 5). The wish for the EU with its ACI is to deter economic coercion, and in a worst-case scenario, respond to it. Before its final step of response measures, negotiations and bilateral arbitration are the primary diplomatic solutions to be tested in hope of a de-escalatory path. Dispute settlement through arbitration and negotiations are the cornerstone of WTO dispute mechanisms, and thus, with a functioning WTO body, an instrument such as the ACI should not be relevant against another WTO member. However, reality has worked out differently. This is based on the fact that the EU argues that economic coercion falls outside the jurisdiction of the WTO and thus cannot rule on a dispute which has economic coercion as a core element. This can be seen as one of the reasons as to why the ACI now appears as EU law.²⁰⁵ Why it has come to this, can be analyzed by the fact that while recognizing the paralysis state of the WTO, the EU still referred China to the court for its coercive measures against Lithuania.²⁰⁶ The referral of China can

²⁰¹ European Commission, *Supra* note, 175.

²⁰² Vela & Lynch, *Supra* note, 171.

²⁰³ *Ibid*

²⁰⁴ Gizem Demirel, “The twisted future of the multi-party interim appeal arbitration (MPIA) at the World Trade Organization”, *International Trade Law & Regulation*, Vol 28(3), 2022, pp. 1-3. & Szczepański, *Supra* note, 51, p. 2.

²⁰⁵ Freya Baetens & Marco Bronckers, “The EU’s Anti-Coercion Instrument: A Big Stick for Big Targets”, *EJIL: Talk!*, January 2022, (Available at: <https://tinyurl.com/3tjz5vwz>).

²⁰⁶ European Commission, “Measures concerning trade in goods and services”, *WTO Dispute Settlement Case – Launched by the EU*, n.d. (Available at: <https://tinyurl.com/5n77ybrj>). & European Commission, “EU refers China to the WTO following its trade restrictions on Lithuania” January 2022, (Available at: <https://tinyurl.com/bdvup8ce>).

perhaps be seen as the EU extending some sort of olive branch of a “last chance” to the multilateral dispute solving doctrine, before the ACI would be finalized and they would undertake the task themselves, and fight off Chinese pressure unilaterally.²⁰⁷

The referral of China to the WTO remains questionable, however, as economic coercion remains outside the WTO scope, and thus in principle cannot be examined by either the paralyzed Appellate Body or the “temporary” placeholder, the Multi-Party Interim Appeal Arbitration Arrangement.²⁰⁸ Economic coercion is a contested topic within international law, and at its core operates around politically motivated actions against another state, a field which is outside the jurisdiction of the WTO. The WTO would thus have two obstacles to tackle should it deal with such practices. One, as a ruling body, the question of whether economic coercion constitutes a prohibited act would need to be crystal clear for the principle of non-discrimination to not be breached by the court itself. Second, the EU’s only option is to prove just that, that China breached the principle of non-discrimination.²⁰⁹ This could be done through i.e. article XVII 1(a) of the General Agreement on Tariffs and Trade, of non-discrimination, where the EU would have to argue – and prove – intent from China.²¹⁰

Intent remains elusive in this case though, as China deployed economic coercion under what is the EU’s definition of silent coercion, and that the coercive actions was delivered informally and made ambiguous to argue for being linked to the Lithuanian decision of opening the TRO. The contracting parties were at a diplomatic impasse, as China described the accusations in the referral as “*pure fabrication*”.²¹¹ While on the other hand EU calling for the cessation of Chinese “*discriminatory practices*”.²¹² Arguably, while China in all likelihood are aware of the WTO’s paralysis, and China’s possibility for invoking the WTO’s safeguard measures for national security measures – which would easier legitimize its case – the referral of China to the WTO had an effect. As mentioned by our China expert in her interview, instead of this being a case of Chinese wolf warrior diplomacy silencing the EU and leaving Lithuania out to dry, the EU stood up for its member, and made clear, that economic coercion would not be

²⁰⁷ Biukovic, *Supra* note, 49, pp. 393-394.

²⁰⁸ Demirel, *Supra* note, 204, pp. 1-4.

²⁰⁹ Gabrielle Marceau & Julian Wyatt, “Dispute Settlement Regimes Intermingled: Regional Trade Agreements and the WTO”, *Journal of International Dispute Settlement*, Vol 1(1), 2010, pp. 76-79.

²¹⁰ General Agreement on Tariffs and Trade (GATT), *World Trade Organization*, 1947, Art. XVII. Para. 1(a). (Available at: <https://tinyurl.com/mrawp5tc>).

²¹¹ Philip Blenkinsop, “Lawmakers clear EU to retaliate against economic coercion” *Reuters*, October 2023, (Available at: <https://tinyurl.com/49e9t9k6>).

²¹² European Commission, *Supra* note, 206.

tolerated.²¹³ Adding to this argument, our EU policy expert in his interview outlined a perspective around the EU assistance to Lithuania and the WTO referral as the EU increasingly daring to “*show its teeth to China*”.²¹⁴

To further build on this argument, we need to look at the Chinese shift in coercive measures. While the case was being formulated within the WTO, the EU stated that China “*suddenly formalized complete import bans [...] using phytosanitary arguments for doing so*”.²¹⁵ This could give rise to the thought that formal import bans would prove intent from China, and that the EU would then have a stronger case in proving such before the WTO court. However, this was not the case, as this was a well thought act from the Chinese side, to shift away from denying obvious restrictions on trade done by silent coercion. This was an alteration in what has historically been seen as Chinese WTO behavior, as the EU mentions that China withdraws its measures for two reasons. First, the targeted country complies with Chinese demands and changes its policies to suit the given red-line policy from the CCP. Second, the WTO rules against Chinese measures, ruling them in violation of WTO principles. History shows that China more often than not, follows the rulings of the WTO, should the court rule against their favor.²¹⁶ Neither option one or two can be applied in this case, as instead China shifted strategy to that of disguised coercion, under the veil of phytosanitary security.²¹⁷ This meant that China had a stronger standpoint within the WTO, and could argue for the restrictions to be needed for agricultural security, and not a breach of either article XVII:1(a) nor article I:1 regarding a breach of non-discrimination.²¹⁸

Whether or not this ambiguity was the reason behind the EU’s suspension – later becoming deferral – of its WTO case in January 2025, or if it was a case of the EU deferring because of the cessation of Chinese coercion remains somewhat unclear. EU Commission spokesperson, Olof Gill stated that the reason behind it was technical and that the Commission needed to

²¹³ China expert interview

²¹⁴ EU policy expert 1 interview

²¹⁵ European Commission, *Supra* note, 206.

²¹⁶ Szczepański, *Supra* note, 51, p. 7.

²¹⁷ WTO Dispute Settlement WT/D610, “Members consider EU requests for dispute panels regarding Chinese trade measures” *World Trade Organization*, December 2022, Available at: <https://tinyurl.com/5cekvddf>. & Biukovic, *Supra* note, 49, pp. 407-408.

²¹⁸ World Trade Organization, “*Measures Concerning Trade in Goods*”, n.d. (Available at: <https://tinyurl.com/y6b22ujc>).

gather more evidence before written submissions.²¹⁹ There is a possibility that the EU used the referral as a strategy to see how far Beijing was willing to go in its de-facto trade war with now not only Lithuania, but the EU as a single market. When looking at the timeline of events, a trend could seem to appear (see timeline figure 5). The Chinese economic coercion triggered a larger response than anticipated, meaning the EU together as a Union. Additionally, the EU's referral to the WTO was an effort to show Beijing the Brussels had Lithuania's back.²²⁰ Ultimately, in November 2023, The Foreign Minister to Lithuania announced that Chinese restrictions had been lifted. Notably, this occurred just around the time the ACI was adopted and a month before it came into force, becoming an integral part of EU law. Finally, in January 2025, the EU suspended its case in the WTO, on grounds that China had lifted its restrictions.²²¹

Summary

To summarize this first part of the comparative analysis, the Lithuanian decision to open a TRO resulted in the country being hit by economic coercion by China. This section argues that since 2019, China has evolved from being able to weaponize interdependence bilaterally to now also being able to exploit its position in the global economy network. Under Xi Jinping's centralized rule, China has built up the necessary conditions to weaponize interdependence as a foreign policy tool. The case study of the economic coercion against Lithuania demonstrates how China, through its full control of key hubs such as China Import Facilities and the GACC, was able to put pressure on both Lithuania and the EU, thereby fulfilling Farrell and Newman's conditions for effective network power. China targeted its economic coercion at two specific nodes: Lithuania's Companies' Export and the EU's Export Facilities, the latter being hit because many products contain Lithuanian components. This created a broader chokepoint effect targeting the entire EU as part of the pressure on Lithuania. China used silent economic coercion which was difficult for the EU to counter as the coercion was informal and difficult to prove legally, including at the WTO. The EU nevertheless attempted a WTO case to show support for Lithuania, but China changed its strategy to disguised coercion via phytosanitary justifications. The Chinese economic coercion was countered by a unified EU response, which resulted in China lifting the restrictions on Lithuania and the EU countries affected. This happened at the same time as the ACI was adopted and one month before it entered into force.

²¹⁹ Camille Gijs, "EU Suspends WTO dispute against China's trade restrictions on Lithuania", *Politico*, January 2024, (Available at: <https://tinyurl.com/yx2dka43>).

²²⁰ China expert interview

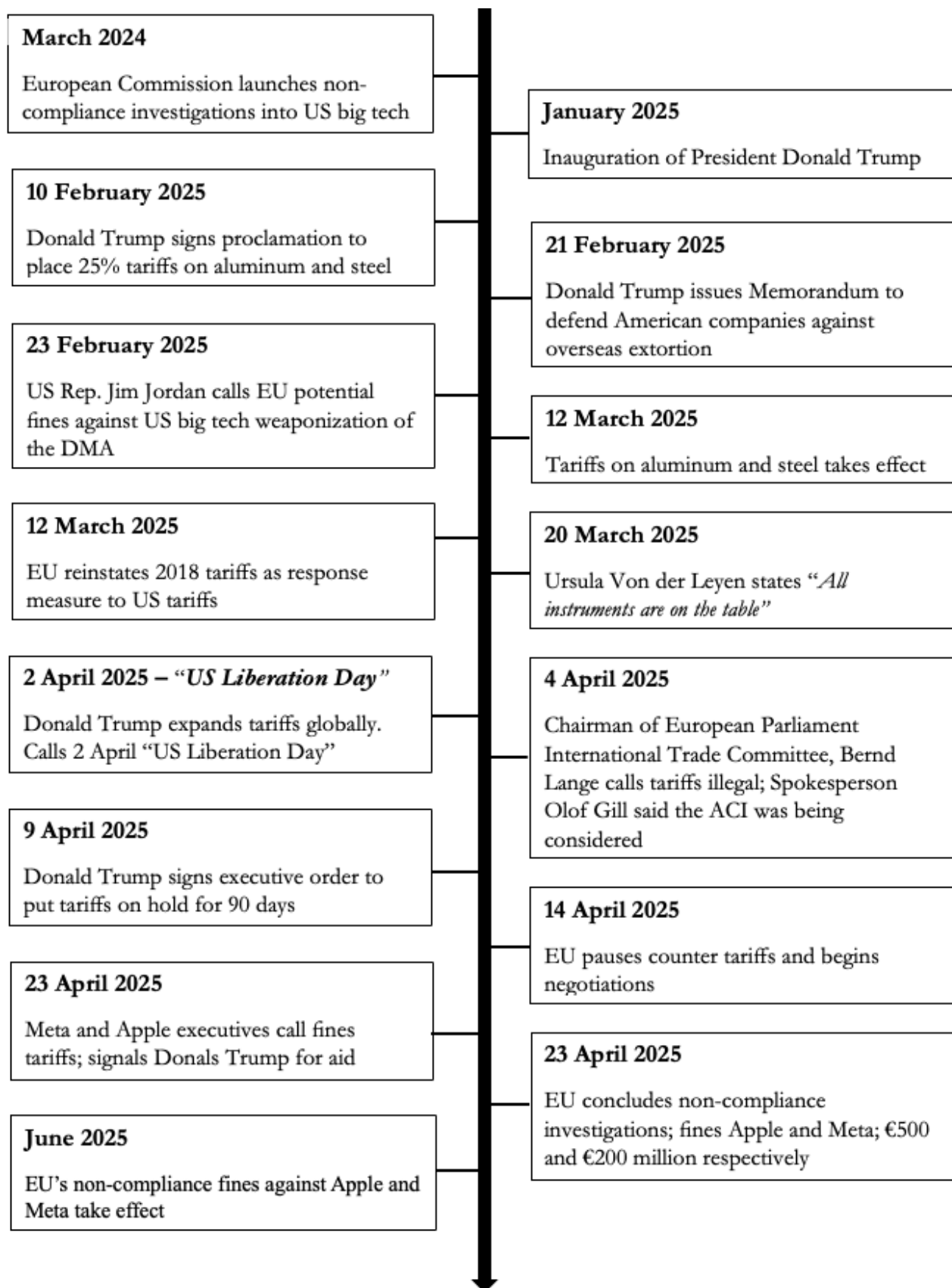
²²¹ Milda Seputyte & Natalia Drozdak, "China lifts Trade Blocks Challenged at WTO Against Lithuania", *Børsen*, November 2023, (Available at: <https://tinyurl.com/5n8b42kk>).

The next section will be a detailed case study of an on-going case of economic coercion against the Union and its Member States from the US.

5.3 US v EU: The act of coercion

This case study examines economic coercion not from a systemic rival, but rather from a historically key economic and security ally to the Union, the US. For a brief overview of the case prior to the in-depth analysis, see figure 7 below.

Figure 7 – US v EU case timeline



Note: Our own figure

On March 25 2024, the EU Commission launched formal non-compliance investigations into the US big tech companies Apple and Meta, for allegedly breaching the EU's Digital Market Act (DMA).²²² At the launching of investigations, the potential of a guilty ruling by the Commission would mean that Apple and Meta could be fined up to ten percent of their annual revenue. Should these fines be realized, it would be staggering amounts for Apple and Meta with their annual revenues being \$391 billion and \$164 billion respectively. This would result in fines of \$39.1 billion and \$16.4 billion respectively.²²³ The non-compliance investigations into US tech companies were the first time the DMA was used, which stirred lobbyists and spokespersons at Apple and Meta in fear of being targeted by the EU, signaling fear of an 'US bias'.²²⁴ With the inauguration of Trump in January 2025, the results of the investigations were closing in. This led Trump on 21 February to issue a memorandum *Defending American Companies and Innovators from Overseas Extortion and Unfair Fines and Penalties*.²²⁵ In his memorandum, Trump announced his intentions to combat this so-called *overseas extortion* against US companies with trade measures through tariffs, a move which was called *insane* under rational economic- and international relations theory by our EU law expert during the interview.²²⁶ The EU's DMA was made to regulate and combat unfair practices within the digital consumer market for all companies, internally as well as externally, the US included. The case, however, is built on the fact that the US argues otherwise, hence explaining the wording used by Trump for his "reciprocal tariffs".²²⁷ In support of Trump, on February 23, Congressman and lead chair of the US House of Representatives Judiciary Committee, Jim Jordan, wrote a letter to EU competition Commissioner Teresa Ribera. In the letter, he called the potential fines a weaponization of the DMA against US big tech, accusing the EU to hold a biased stance on companies like Apple and Meta.²²⁸ Furthermore the reactions from US policymakers and high-ranking people within Apple and Meta expressed their view of the

²²² European Commission, "Commission finds Apple and Meta in breach of the Digital Market Act", Press release, April 2025, (Available at: <https://tinyurl.com/82tvnp38>).

²²³ Yahoo Finance, "Apple Full year 2024 Earnings: In line with expectations", n.d. November 2024, (Available at: <https://tinyurl.com/3tj92ber>). & Yahoo Finance, "Meta Platforms full Year 2024 earnings: EPS Beats expectations", n.d., January 2025, (Available at: <https://tinyurl.com/yn7t2vb5>).

²²⁴ Brendan Bordelon & Gabby Miller, "After EU fines, Big Tech wants Trump to swoop in", *Politico*, April 2025, (Available at: <https://tinyurl.com/5n7mhpu9>).

²²⁵ Memorandum, *Supra* note, 6.

²²⁶ EU law expert

²²⁷ Clotilde Bômout, "Trump takes aim at 'overseas extortion' of American tech companies: the EU-US rift deepens" *European Union Institute for Security Studies*, February 2025, (Available at: <https://tinyurl.com/374xryeh>).

²²⁸ Théophane Hartmann, "US Congress fears 'weaponization' of DMA against Big Tech", February 2024, (Available at: <https://tinyurl.com/5atv8x3y>).

potential fines as being unjust.²²⁹ The EU, however, has continuously said that the targeting is not focused on Apple and Meta being American, but that they are in violation of EU competition- and digital laws.²³⁰ Following the Trump memorandum, the threats of tariffs as a response to the looming big tech fines were soon to become a reality, as the EU held their breath in anticipation for whether or not the tariffs would take any shape, and how extensive they would be.

On March 12, 2025, the EU saw the tariffs become a reality. Trump imposed a 25 percent tariff on steel and aluminum imported from the EU under the justification of a national emergency to rebalance the rising US trade deficit.²³¹ Trump's actions are difficult to directly classify as economic coercion, given the absence of explicit statements linking the tariffs to the EU's impending DMA fines. Nevertheless, as the following sections will argue, both the sequence of events and the content of Trump's memorandum suggest a clear correlation, despite the lack of an explicit acknowledgement by the administration.

To assess whether these tariffs amount to economic coercion, their nature and justification must first be examined. For this case to be a relevant case study, economic coercion needs to have been threatened as a potential strategy or must have occurred. When Trump in February 2025 announced 25 percent tariff on EU aluminum and steel, Trump's own words show intent of not inherent "reciprocal tariffs", but rather a strategy to obtain a policy cessation from the EU. More specific, in his memorandum, Trump threatens tariffs against countries who unfairly target US big tech with fines or other penalties.²³² As the timeline in figure 7 indicates, however, the memorandum was issued prior to the EU's final decisions on Apple and Meta, suggesting it may have been intended as a strategic attempt to exert pressure on the EU to halt or influence the ongoing investigations.

According to the ACI definition of economic coercion, the actions of third countries must be attributable to; "*interfere in the legitimate sovereign choices of the union or a member state, by applying or threatening to apply measures affecting trade [...] to prevent or obtain*

²²⁹ Timothy Jones, "EU Commission fines Apple, Meta over digital law breaches", *Deutsche Welle*, April 2025, (Available at: <https://tinyurl.com/3xtfkds3>).

²³⁰ *Ibid* & European Commission, *Supra* note, 219.

²³¹ European Commission, "*EU countermeasures on US steel and aluminium tariffs explained*", March 2025, (Available at: <https://tinyurl.com/p3z9peyy>).

²³² Memorandum, *Supra* note, 6.

cessation, modification or adoption of a particular act by the union or a member state".²³³ This means that for the argument of economic coercion to be present, the evidence must show such intent from Trump and his administration against an EU member or the Union as a whole, or at least be arguable for the targeted state. Such intent becomes evident when outlining section two in the White House memorandum from February. Here, intent becomes clear as Trump states that, "*Where a foreign government, through its tax or regulatory structure, imposes a fine, penalty or tax [...] my administration will act, imposing tariffs and taking such other responsive actions necessary to mitigate the harm to the United States*".²³⁴ What this means is that a foreign government is to expect retaliation in the shape of tariffs should they be deemed harmful to the US by its fining or taxation of a US tech company, regardless of the nature and validity of the fines within the state where the fines are given. The EU's non-compliance investigations against Apple and Meta falls within this category, and the memorandum from Trump and the EU investigations, should be looked at as if a correlation is present. Our law expert stated that he had no doubt that Trump's actions constitute economic coercion.²³⁵

Whether or not the non-compliance investigations appear as fair or unfair is a matter of perspective. Trump and his administration legitimized what he called his "reciprocal tariffs" as a necessity for restoring national security.²³⁶ Under this umbrella, the explicit economic coercion embodied in the memorandum's trade restrictions - despite their discriminatory character under WTO law - is framed as a legitimate safeguard for national security.²³⁷ Safeguards makes a WTO member able to derogate from trade obligations under the WTO and its sub-instruments, should the state find a trade relationship endangering to the domestic stability and economic competitiveness.²³⁸ According to our US expert, Trump's framing of tariffs as "reciprocal" is a political strategy - a move towards protectionism, justified as a way to defend the US economy and end what he portrays as the EU's unfair treatment of US interests, particularly targeting big tech.²³⁹ However, as was pointed out by our EU law expert, what Trump says his tariffs are for, and what reality shows behind the veil is contested.²⁴⁰ This

²³³ European Union Regulation (ACI), *Supra* note, 31, Preamble para. 7. & Provisional para. 2.

²³⁴ Memorandum, *Supra* note, 6.

²³⁵ EU law expert

²³⁶ Memorandum, *Supra* note, 6.

²³⁷ World Trade Organization "Agreement on Safeguards" n.d., Art. 2. (Available at: <https://tinyurl.com/2vxj2dea>). & Presidential Proclamation, "Adjusting Imports of Aluminum into the United States", *The White House*, February 2025, (Available at: <https://tinyurl.com/59u8e5j8>).

²³⁸ WTO, *Supra* note, 210, Art. 7 para. 1.

²³⁹ US expert interview

²⁴⁰ EU law expert interview

case and subsequently the thesis in its entirety argue for these “reciprocal tariffs” to be disguised as such, but to in nature take the shape of economic coercion against the Union as a whole, and be placed to obtain a cessation in EU policies targeting US big tech companies. The EU in its official press releases and response measures instigated on March 12, 2024, does not explicitly make the connection between the DMA investigations and the reciprocal tariffs. Instead, the EU responded with reinstating its 2018 tariffs on a selection of US exports to the Union.²⁴¹ On April 2, 2025, on what Trump labelled as “US Liberation Day”, the world was hit with an – until this point – unseen escalation in the Trump trade war.²⁴² The sweeping second wave of reciprocal tariffs hit most of the US’ trading partners with a wide array of tariffs, ranging all the way to 145 percent against China, with a minimum threshold of 10 percent.²⁴³ The EU, who up until this point since February the same year had battled against the above-mentioned tariffs, would now be hit with a 20 percent tariff on all products exported to the US with the exclusion of steel, aluminum and automobiles which would be 25 percent.²⁴⁴ The implementation of the extensive tariffs on EU products changed the rhetoric in EU circles, whom up until this point had been hesitant with mentioning the ACI as a potential response measure.²⁴⁵ Agriculture Commissioner, Christophe Hansen, told Politico during an interview in Paris that “*We have an Anti-Coercion Instrument, and we will have to use it.*”²⁴⁶ Following the Liberation Day tariffs, Chairman of the EU Parliament’s International Trade Committee, Bernd Lange called Trump’s tariffs “*Unjustified, illegal and disproportionate.*”²⁴⁷ At the following Plenary debate in the EU Parliament, Commission President, Ursula Von der Leyen stated in response to US tariffs, that “*All instruments are on the table.*”²⁴⁸ On April 9, 2025, Trump made a sudden U-turn, putting the global trade war on hold for 90 days, with “only” a ten percent flat tariff applying to all trade partners.²⁴⁹ The EU did the same, and began

²⁴¹ European Commission, “*Commission responds to unjustified US steel and aluminium tariffs with countermeasures*”, March 2025, (Available at: <https://tinyurl.com/2trhysua>).

²⁴² Alena Botros, “Donald Trump announces sweeping reciprocal tariffs against ‘friend and foe’ with a minimum of 10%”. *Fortune*, April 2025, (Available at: <https://tinyurl.com/cbt2zhwe>).

²⁴³ Erica York & Alex Durante, “Trump Tariffs: Tracking the Economic Impact of the Trump Trade War”, *Tax Foundation*, May 2025, (Available at: <https://tinyurl.com/yvx7y45r>).

²⁴⁴ The White House, “*Fact Sheet: President Donald J. Trump Adjusts Imports of Automobiles and Automobile Parts Into the United States*”, March 2025, (Available at: <https://tinyurl.com/zkm6sk5d>).

²⁴⁵ Joanna Redelbach, “What is the EU’s Anti-Coercion instrument and when will it be used?” *Van Bael & Bellis*, February 2025 (Available at: <https://tinyurl.com/4zvup93c>).

²⁴⁶ Camille Gijss et.al., “EU to Trump: Go ahead, make our day”, *Politico*, February 28, (Available at: <https://tinyurl.com/yc6ra7xa>).

²⁴⁷ European Parliament, “*Committee Chair on US tariffs: Unjustified illegal and disproportionate*”, April 2025, (Available at: <https://tinyurl.com/2c3esjrz>).

²⁴⁸ Ursula Von der Leyen, “Speech by President von der Leyen at the European Parliament Plenary debate”, *European Commission*, April 2025, (Available at: <https://tinyurl.com/ycyhy2k5>).

²⁴⁹ Talya Minsberg, “A timeline of Trump’s On-again, Off-Again tariffs”, *The New York Times*, March 2025, (Available at: <https://tinyurl.com/59hnczba>).

negotiations for a “zero-for-zero” tariff agreement to be struck. These efforts have so far proven unfruitful, and both the EU and the broader international community awaits what are to happen when the 90 day grace-period comes to an end.²⁵⁰ While this stalemate is underway, on April 11, EU Trade Commissioner, Maroš Šefčovič travelled to Washington DC, to discuss the zero-for-zero proposal.²⁵¹

Moving forward, on April 23, 2025, the Commission concluded its non-compliance investigations, imposing fines of €500 million on Apple and €200 million on Meta – drastically lower than anticipated, given the EU’s established track record of imposing stringent penalties on US tech firms found in violation of EU law.²⁵² The Union is now awaiting potential retaliatory economic coercive measures from the Trump administration, as Meta CEO Mark Zuckerberg has publicly called for the aid of Trump, in protecting US tech companies’ interests. The US is yet to counter with further threats of economic coercion through tariffs, or whether or not the ruling will change anything regarding the hold on the US tariff policy.²⁵³ On May 8, the EU took an additional step in the trade war on the US, where it opened for formal consultation with EU stakeholders, to prepare for additional response measures as tariffs, which could amount to €95 billion as of July 2025. In addition to this, the EU stated its intentions to refer the US to the WTO under US breaches of WTO law regarding its reciprocal tariffs instated on US Liberation Day.²⁵⁴

To summarize, this case study investigates whether the Trump administration’s tariffs on EU goods constitute economic coercion in response to the EU’s DMA investigations into Apple and Meta to obtain policy cessation. While the US framed the tariffs as national security measures against overseas extortion, the timing, rhetoric and content of Trump’s memorandum suggest a strategy to pressure and influence EU policy before final decisions were made. The dispute escalated with the imposition of tariffs on “US Liberation Day,” prompting the EU to consider retaliatory measures, initiate WTO proceedings, and invoke the ACI. The EU’s final fines for Apple and Meta were lower than expected. The case is still ongoing. The next section

²⁵⁰ Koen Verhelst, “EU trade boss heads to Washington amid tariff pause”, *Politico*, April 2025, (Available at: <https://tinyurl.com/5b5c597c>).

²⁵¹ *Ibid*

²⁵² Jacob Parry, “EU fines Apple €500M and Meta €200M for breaking Europe’s digital rules”, *Politico*, April 2025, (Available at: <https://tinyurl.com/avs5cwf3>).

²⁵³ *Ibid* & Jones, *Supra* note, 229.

²⁵⁴ European Commission, “*Commission consults on possible countermeasures and readies WTO litigation in response to US tariffs*”, May 2025, (Available at: <https://tinyurl.com/2p3fysan>).

will outline in detail, how Trump has weaponized the US' position within the global economy network, to be able to effectively tariff the EU and deploy a *partial chokepoint* effect.

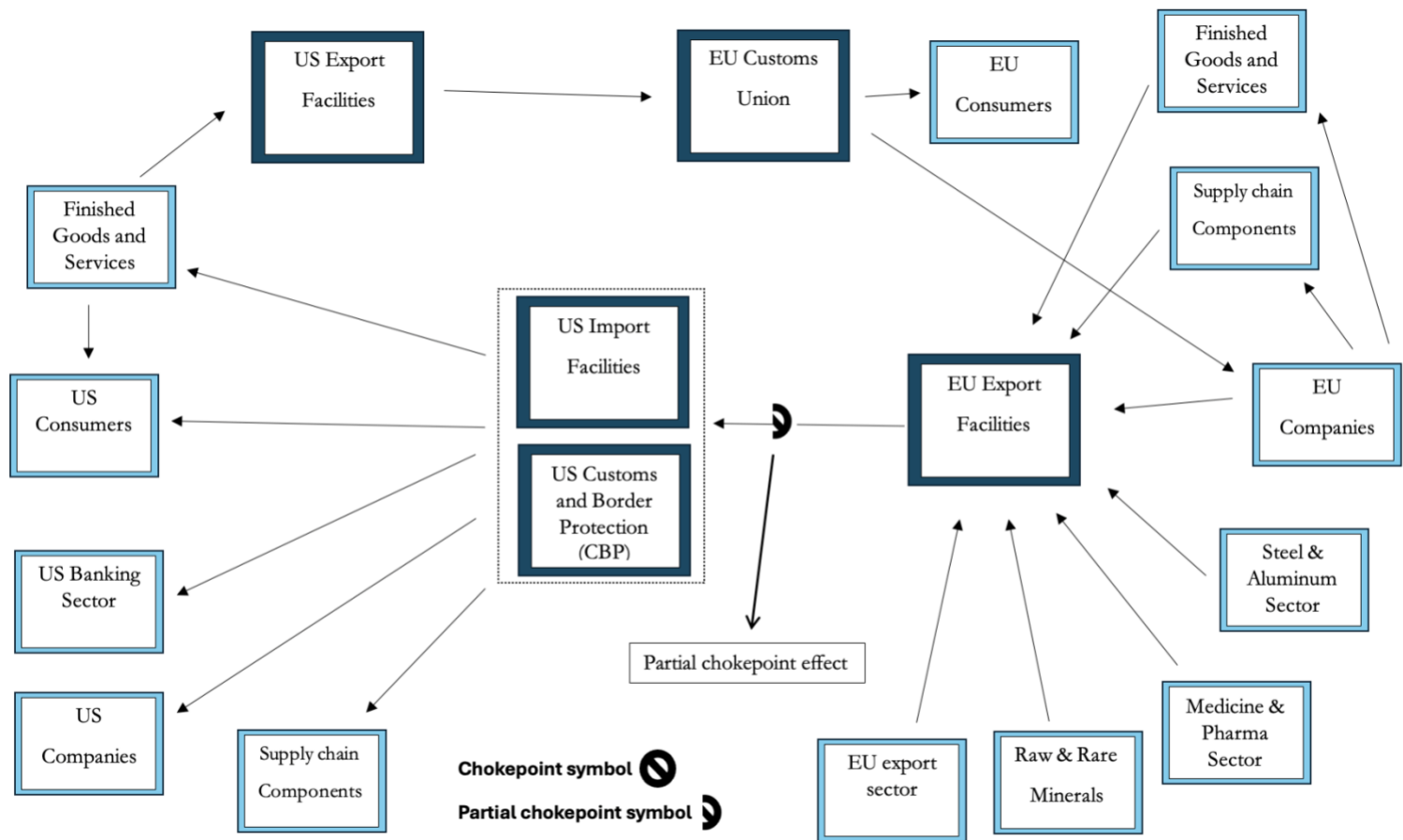
5.4 Weaponizing US hubs

The deployment of economic coercion as a foreign policy strategy by the US became possible by the US' dominant position within the global economy network. Here as posited by Farell and Newman, the US wields almost unmatched influence over central nodes which hold vast amounts of economic communication through transactions and supply chain movements.²⁵⁵ Under the theory of weaponized interdependence, this would allow the US to exert control over a hub actor, and weaponize its interdependence to obtain a modification or cessation of a certain policy path that is unattractive in the eyes of the US - in this case the DMA ruling.²⁵⁶ To get a detailed perspective on US weaponization of interdependence against the EU - via a *partial chokepoint effect* - attention first needs to be directed towards the US' Customs and Border Protection agency (CBP) and the US Import Facilities (mainly ports). In this case these are two closely connected hubs within the network (see figure 8 below). The CBP will be mapped as the primary hub for the current case where the US has applied a partial chokepoint effect - which is illustrated in the figure. The effectiveness of such a strategy will be analyzed in light of the specific structure of the US under the conditions that enable weaponized interdependence against the EU. Lastly, the US Import Facilities will be analyzed as a hub for potential escalation of economic coercion, and why weaponizing this hub will be difficult for Trump, as he is operating under democratic institutions which puts the President's authority under much political constraint.

²⁵⁵ Farell and Newman, *Supra* note, 32, p. 22. & Mastanduno, *Supra* note, 101, p. 68.

²⁵⁶ Farell and Newman, *Supra* note, 32, pp. 29-30.

Figure 8 – US network mapping



Note: Our own figure

As in the case of China, all goods be it finished products or supply chain components imported to the US must transit through the CBP. This is the case for freight by sea, train, air, and ground. Like China's GACC, the CBP functions as a key node in the global economy network - to such a degree that it effectively acts as a hub.²⁵⁷ The so-called "US Liberation Day" tariffs imposed by the Trump administration on April 2, 2025, encompass the full spectrum of EU exports to the US. Each affected export sector from the EU - as well as from other countries targeted by the tariffs - must interface with the CBP, which processes and authorizes entry before goods are granted access to US markets. Selected sectors appear as separate nodes in this illustrative mapping (see figure 8). However, the node *EU export sector* should be understood as an aggregate of other countries' respective export nodes.

²⁵⁷ Farell and Newman, *Supra* note, 62, pp. 309-310.

5.4.1 Weaponization of the US Customs and Border Protection agency

The CBP is under the authority of the Department of Homeland Security (DHS), which answers directly to the US president - in this case Trump. The DHS is the primary domestic institution which operationalizes the CBP, and thus Trump fulfills condition one to weaponize the CBP. Furthermore, the CBP is located at border crossings, ports and airports, where imported goods are controlled and cleared for entry. These geographical areas are all located on US territory, and therefore the US fulfills the second condition of having physical access to the hub. Lastly the authority over the DHS makes the US government hold legal jurisdiction over the hub as well, fulfilling all conditions to effectively weaponize the hub.

To determine how the US can use its position within the global economy network and weaponize the CBP hub to apply a partial chokepoint, the most critical legal frameworks which enable Trump to economically coerce the EU are the 1974 Trade Act and the 1977 International Economic Powers Act (IEEPA). Both legal frameworks give Trump the constitutional authority to develop economic strategies including tariffs, against countries under the justification of a national emergency. On April 2, 2025, Trump initiated the US Liberation Day by declaring such, a national emergency, to “*Increase Our Competitive Edge, Protect our Sovereignty, and Strengthen our National and Economic Security.*”²⁵⁸ The politically motivated tariffs, which our EU law expert calls economic coercion, is against common WTO practices which look at trade relationships non-discriminatory and without political bias as constituted in article 1 under its Most-favored-Nation Treatment.²⁵⁹ Under normal trade-regulatory circumstances that falls under WTO standards, the President sets tariff regimes with consultations from the US congress, and requires congressional approval.²⁶⁰ However, under national emergencies such as what Trump declared on April 2, The 1974 Trade Act and the IEEPA transfers the constitutional authority away from the US Congress, to the US President.²⁶¹ The US President does then, have full domestic authority to in this instance impose tariffs to whichever extent is deemed appropriate by the Commander in Chief.

²⁵⁸ Presidential Statement, “President Donald J. Trump Declares National Emergency to Increase our Competitive Edge, Protect our Sovereignty, and Strengthen our National and Economic Security” *The White House*, April 2025, (Available at: <https://tinyurl.com/3x7ajc3t>).

²⁵⁹ GATT, *Supra* note, 210, art. 1(1). & EU law expert interview

²⁶⁰ Christopher A. Casey, “U.S. Tariff Policy: Overview”, *United States Congress*, January 2025, (Available at: <https://tinyurl.com/2p6v5bsy>).

²⁶¹ *Ibid* & Stephanie Rickard, “Trump has the power to raise tariffs because Congress has given up its control over trade policy” *London School of Economics*, April 2025, (Available at: <https://tinyurl.com/2mptv39p>).

However, while the imposition of tariffs seems entirely possible as reality has shown, several additional factors do still matter regarding the longevity and effectiveness in terms of means to an end. In terms of longevity, domestically the US saw major anti-Trump protests in the following days from the liberation day and imposition of tariffs.²⁶² While this illustrates an increasing rift between Trump's popularity and the US public, whose approval rating for the first time has dipped below 50 percent, it arguably also illustrates a clear domestic backlash towards the escalation of the US instigated global trade war.²⁶³ Also, as mentioned by Stephanie Rickard, the US congress' delegation of tariff control to the US president is reversible. Thus, should the US congress decide that enough is enough, the Congress can decide to take back control of tariff policies, and constrain Trump's mobility in applying tariffs.²⁶⁴ While it remains unclear if the Republican party would turn their back on Trump – during April, four Republican senators did – the Democratic party are fighting a battle inside the US Congress to revert the control of the US tariff policy back to the Congress.²⁶⁵ The decision on April 9 by Trump, placing the coming tariffs on hold for 90 days, was a decision which arguably signals backtracking in terms of potential effectiveness.²⁶⁶ Following the argument of Chinese thinking against its coercive actions against Lithuania, the decisions by Trump signals a wrongful interpretation of what countries hit by US tariffs would do, and if they had the resilience to answer an economic hegemon back, or bend to its will. As became evident in the case of the EU, the Union did not bend. Quite the opposite, as illustrated above, formal non-ACI related response measures are presently in full effect, and informal talks relating to the activation of the ACI are ongoing.²⁶⁷

The democratic constraints of a chokepoint effect

Since we have not observed a weaponization of the CBP comparable to the measures deployed against Lithuania, a chokepoint effect - at least as conceptualized by Farrell and Newman - has not occurred. Historical records show an unlikelihood for the US to apply a chokepoint effect

²⁶² Dexter T. Roberts, "China is ready to 'eat bitterness' in the trade war: What about the US?", *Atlantic Council*, April 2025, (Available at: <https://tinyurl.com/p8uzwu5r>).

²⁶³ Real Clear Politics, "President Trump Approval rating", *Polling*, (Accessed April 27), n.d. (Available at: <https://tinyurl.com/2yn47nk3>).

²⁶⁴ Rickard, *Supra* note, 261.

²⁶⁵ *Ibid*

²⁶⁶ Presidential Executive Order, "Modifying Reciprocal Tariff Rates to Reflect Trading Partner Retaliation and Alignment", *The White House*, April 2025, (Available at: <https://tinyurl.com/44p52vaf>). & Roberts, *Supra* note, 302.

²⁶⁷ Sylvester Eijfinger, "Trump's non-cooperative game", *Cepr*, April 2025, (Available at: <https://tinyurl.com/ydm9x2nb>).

towards an ally like the EU, to such an extent to that of China, where a chokepoint effect is applied which results in a complete entry denial of goods.²⁶⁸ For the present tariff case, evidence shows that the CBP hub remains the primary hub for the weaponization of interdependence, and thus the primary hub inside the network that enables the US to exercise economic coercion against the Union, at least in light of Trump's current escalation willingness. The US has historically weaponized interdependence multilaterally e.g. against Iran and against its Global War on Terrorism by using a mixture of a panopticon- and then chokepoint effect. This was mostly done through the SWIFT network and the US' dollar-clearing system, which according to Farrell and Newman also hold hub positions in the global economy network.²⁶⁹ In light of Trump's return to US protectionism, however, evidence suggest that the multilateral cooperation between the US and its allies have been largely replaced by unilateral foreign policy strategies where Trump does what he sees as the right strategy, with or without his allies.²⁷⁰ This ultimately changes the effectiveness of the domestic institutions and characteristics of US jurisdictions given their decreased access to e.g. connected nodes which jurisdiction reside with other western powers such as EU Members or the EU as an institution.²⁷¹ In other words, the US domestic institutions and the regulations making the US executive branch able to exert control over US hubs, are not enough for applying chokepoints against e.g. Iran by means of SWIFT, without multilateral efforts including the EU. The same logic applies for the EU case and thus calls for a re-thinking of the chokepoint effect as a fixed concept. We do so by introducing the *partial chokepoint effect*.

5.4.2 Utilizing the CBP for deploying a partial chokepoint effect

When looking at the current economic coercion case unfolding with Trump's targeting of the EU to obtain the cessation of the now finalized DMA investigations, we see a distinct difference both when looking at the China-Lithuania case, but also in terms of the weaponized interdependence as a theory, and what is possible under it. While we witnessed a chokepoint effect consisting of a de facto embargo of Lithuania by China, the US is utilizing its hub control in a different manner when deploying economic coercion against the EU. More precisely, with help from the previous paragraphs, we argue for an alteration in Farrell and Newman's relatively

²⁶⁸ Farrell and Newman, *Supra* note, 32, p. 52.

²⁶⁹ Farrell and Newman, *Supra* note, 62, p. 312.

²⁷⁰ China expert interview

²⁷¹ Editorial Board, "Trump's New Protectionist Age" *Wall Street Journal*, April 2025, (Available at: <https://tinyurl.com/3fauaxkd>). & European Parliament, "Euro Area Risk Amid US Protectionism" *Economic Governance and EMU Scrutiny Unit*, March 2025, pp. 11-12. (Available at: <https://tinyurl.com/4aht6y4s>).

young theory.²⁷² Where historically, the US was able to apply a chokepoint effect which encompassed the full restriction of access to a hub, this was only possible by multilateral means.

The case highlighted the fact that the weaponization of the CBP hub did not effectively shut down EU exports to the US, and neither was that the plan. But, however, the EU was tariffed to such a degree that it – in theory – should heavily incentivize the Union to remove its policies, which would lead to a removal of the tariffs, given the fact that US tariffs appear to be able to economically damage the Union much more drastically than the chokepoint of China did.²⁷³ Additionally, Trump heavily lobbied for companies to move their factories to the US to get rid of the tariffs, as they then would no longer need to import their goods.²⁷⁴ The chokepoint effect under the weaponized interdependence theory therefore does not apply to this case in its entirety. A partial chokepoint does, as the weaponization as a means to a policy cessation remains the same. The internal democratic structure of the US constraints a sitting President exponentially more than that of his counterpart in China or any other autocratic ruler for that matter. Therefore, a partial chokepoint exercised through a hub such as the CBP can be understood as a strategically viable form of coercion - one that maintains the dynamics of economic interdependence and imposes costs on US consumers yet, does so in a manner unlikely to provoke a level of domestic or political backlash that would inflict irreparable harm on the Trump administration.²⁷⁵

The partial chokepoint deployed by the US is witnessed by the extensive politically motivated tariffs against the EU. While deployed as a strategy for EU policy cessation, EU companies are the real victim of the economic coercion. The partial chokepoint here is meant to incentivize the EU to revoke its policies due to fear of political backlash from EU companies, but also out of fear of economic recession should companies be forced to either close or relocate. As demonstrated under the Trump administration, a tariff policy of such magnitude can effectively exclude certain companies from accessing the US market, not through formal prohibition, but

²⁷² Farrell and Newman, *Supra* note, 32, pp. 30-31.

²⁷³ European Commission, “*EU pauses countermeasures against US tariffs to allow space for negotiations*”, April 2025, (Available at: <https://tinyurl.com/yrbcsdxa>). & Madalena B. da Rocha, Nicolas Boivin & Niclas Poitiers, “The Economic Impact of Trump’s tariffs on Europe: an initial assessment”, *Bruegel*, April 2025, (Available at: <https://tinyurl.com/44uzacth>).

²⁷⁴ Presidential Statement, “President Trump Positions U.S. as Global Superpower in Manufacturing”, *The White House*, March 2025, (Available at: <https://tinyurl.com/42z97kkn>).

²⁷⁵ Farrell and Newman, *Supra* note, 32, pp. 32.

due to the economic barriers it creates. This, in turn, restricts access to the US market for specific EU-based firms, particularly those involved in the export of raw materials and intermediate goods for supply chain and manufacturing processes. This highlights what we argue to be a key component of such a strategy, namely the aspect of pressure by incentive.

A partial chokepoint effect will work in one of two ways when it comes to incentivizing foreign companies and their governments by extension. On the one hand, a comprehensive strategy of economic coercion like the one seen deployed by Trump will arguably frighten companies who rely heavily on revenue from the US market. In this instance, companies might be likely to bend to the will of the US and move their factories to America instead of e.g. Europe. By weaponizing the CBP in this way, the US would not restrict a country's companies from trading with the US, but heavily affect their bottom line to such a degree, that they would have two options, either re-route their business elsewhere which takes years, or submit to the demands of Trump. Although no formal trade restrictions were implemented in the tariff case, some EU-based companies indicated that they were considering relocating - or expanding - production facilities to the US as a means of circumventing import tariffs.²⁷⁶

On the other hand, economic pressure aimed at companies like we see against the EU, can backfire and incentivize companies to withdraw from the US market, both out of disapproval of its foreign policy and the fact that companies are put in the middle of foreign policy as means to an end. They could also relocate their business based on a fear of recession due to a potential escalation of a trade-conflict. While this case is, at the time of this writing, still ongoing, the evidence suggests that the latter scenario is predominantly unfolding, and that the partial chokepoint strategy has not yielded favorable outcomes for President Trump.²⁷⁷ The only way it seems, that the US would be able to deploy a successful chokepoint, is if it utilizes both its CBP- and the US Import Facilities hub, which will require a lot of political and legal maneuvering, and might be consequential for the Republican control of the US Congress come the mid-terms in 2026.²⁷⁸

5.4.3 Weaponizing US Ports

The US Import Facilities have not been weaponized in the case of Trump's economic coercion against the EU, at least not by isolated means. This means, that the US Import Facilities have

²⁷⁶ Giulio Piovaccari, Christoph Steitz & Victoria Waldersee, "Some European companies wary of expanding into US amid tariff chaos", *Reuters*, April 2025 (Available at: <https://tinyurl.com/au3cn72d>).

²⁷⁷ *Ibid*

²⁷⁸ Eijfinger, *Supra* note, 267.

not been used as means for a chokepoint effect directly, as was seen by that of China, where the Chinese chokepoint effect resulted in closed China Import Facilities for Lithuanian exports to China. The US Import Facilities hub and the CBP hub do, however, work very closely together when executing US tariffs on imports. Since the CBP was weaponized by means of a partial chokepoint, EU imports to the US are still possible to complete albeit under a tariff. The goods imported do land at US ports, and are processed at the port by the CBP, cleared for entry and tariffed. The CBP controls both approval of custom agreements, clearance of imported goods, renewal of such agreements, enforcement of tariffs, and the rejection of imported goods. Where the relationship of the two hubs become apparent is when looking at the location of the CBP hub. The CBP are located on the grounds of the US Import Facilities hub, which matters greatly in this instance. It does so based on the weaponization not being an embargo. So, while imported goods are still being tariffed, they inevitably still end their journey inside the US Import Facilities hub. While the CBP can weaponize its hub without the US Import Facilities hub, it is only able to do so by denying custom applications for new licenses, denying renewals, and denying clearing of goods for export to EU countries. When applying tariffs, however, as we have established, it happens on the ground when the goods have arrived. The CBP are thus the entity which applies the tariffs but does so based on trade being possible by means of the US Import Facilities hub.

We argue for the US Import Facilities to be a hub based on similar arguments as for Chinese Import Facilities. The US Import Facilities are a gateway for the world's global economy, and a tremendous amount of goods transit through US ports globally each year. Additionally, the US remains a large industrial manufacturing nation, which exports large quantities of finished goods, e.g. automobiles and medical equipment. US imports are thus not only finished goods to the consumer but also supply chain components that will be exported again as a finished product.²⁷⁹ When it comes to weaponizing the US Import Facilities hub, it is based on mainly seaports as they account for almost 78 percent of all US imports and are therefore a node so well-connected that it also ascends to a hub status.²⁸⁰ Looking at the case of US economic coercion against the EU, the usage of tariffs as an economic coercive tool was solely utilized through the CBP hub. In other words, the US Import Facilities hub were not weaponized. We

²⁷⁹ Artemus, "Top 10 exports of USA in 2024: Leading export categories", *Artemus Group*, October 2024, (Available at: <https://tinyurl.com/3t4tzufk>).

²⁸⁰ Oceaneconomics, "Ports and Cargo" *National Ocean Economics Program*, n.d. (Available at: <https://tinyurl.com/3f3cfmw6>).

argue for weaponization to not have taken place within this hub not because of a missing willingness, but more likely political and legal obstacles. US domestic institutions place great constraint on the mobility of the US executive branch when it comes to applying a chokepoint effect by closing ports against another country, and the entrusted norms we find present within a democracy puts great constraint on the head of State and the administration.²⁸¹

At the time of writing of this thesis, the trade war between the US and the EU – and most of the world – has not yet seen resolution. Therefore, this mapping presents a picture from uprising and until present-time and does not provide a concluding picture of how economic coercion has been utilized, and how the hubs aided in weaponization thereof. Should the character of US economic coercion extend into the abovementioned hub of US import facilities, several things would need to change. Even so, we argue for that to be unlikely, however, to best situate this analysis for future prospects, understanding what Trump would need to do to weaponize the US Import Facilities hub remains a critical point.

Criteria for isolated weaponization of US ports

Whereas the previous mapping has outlined, President Xi and the CCP holds total control over Chinese import facilities, the physical and legal jurisdiction over US ports is a more complicated equation. US ports are naturally located on US soil, and thus the US government and executive branch hold physical jurisdiction over the hub. In terms of legal jurisdiction, however, Trump and his administration faces obstacles should he wish to weaponize the hub and deploy a chokepoint effect by e.g. closing the borders or deploying an import embargo on the EU.²⁸² The US ports are owned and controlled on a State level, not federal, and are operated by private companies on a lease contract with the State in question. Additionally, the State appoints a board of directors which oversee political and legal decisions regarding port movement. This is controlled under the constellation of a Port Authority. This means, that for example the port of Los Angeles, the largest port in the US, is controlled by the State of California and managed by the Los Angeles Harbor Department.²⁸³ The sitting US President thus have no legal jurisdiction over the port of Los Angeles, or any port in the US for that matter. Should Trump then decide to push forward with the policy of a weaponization of the

²⁸¹ Simon Evenett & Joahannes Fritz, “US reciprocal tariffs: Upending the global trade policy landscape”, *Cepr*, April 2025 (Available at: <https://tinyurl.com/3sp3tyka>). & Oceaneconomics, *Supra* note, 323.

²⁸² Marvin L. Fair, “Port Authorities in the United States” *Law and Contemporary Problems*, Vol 26(4), 1961, p. 704.

²⁸³ Pallis & Rodrigue *Supra* note, 186, sec. 3-5.

ports by applying an import restriction, he would need to do so under political executive orders declaring a national emergency. This is a measure that would be much more drastic than the current national emergency, and thus something that is unlikely to be possible politically against the EU.²⁸⁴ The way in which Trump could decide to utilize his executive powers to weaponize the US ports are to be found within a regular chokepoint effect covering the same characteristics as of the Chinese case. Should the US wish to close off trade completely, and deploy a chokepoint effect, what Trump would have to do in order to succeed, lies on the need to gain legal jurisdiction over the ports.²⁸⁵ Here, the US President has two options, which requires a decision of whether to utilize explicit coercion still, or traverse into disguised coercion. Trump could, delay goods from a targeted nation under safety concerns such as phytosanitary and do so without formally stating a policy against that nation – this would be disguised coercion – and not what the world has witnessed as a likely strategy for Trump’s foreign policy. Therefore, the more likely route, should Trump wish to escalate economic coercion against the EU, he would need to invoke a national security threat, and use his Presidential powers under the US constitution, to seize control over the US ports. This is where the IEEPA becomes relevant, which grants the sitting US President the ability to block imports/exports to and from a country which is posed as a national security threat.²⁸⁶ Additionally, while it would arguably be a stretch politically, Trump could invoke the Defense Production Act which gives the President the ability to direct port resources towards national defense needs, which could both mean to favor domestic trade, but also increased trade with selected countries and a terminated trade with the country at threat. The legal justifications for Trump’s economic coercion via tariffs which was instated on April 2, was done in this way, by Trump’s constitutional powers under the IEEPA, to unilaterally take control of US tariff regulations in a national emergency. It is therefore not unlikely to suggest, that should the trade war between the US and the EU escalate further after the EU’s non-compliance fines take effect in June 2025, Trump could drastically alter his path of economic coercion to include a “regular” chokepoint effect against the EU.²⁸⁷ This is, however, where the constraint of US domestic institutions plays a key role in determining the actual outcome.

²⁸⁴ Rickard, *Supra* note, 261.

²⁸⁵ Presidential Executive Order, *Supra* note, 266. & Presidential Proclamation, *Supra* note, 237. & Presidential memorandum, *Supra* note, 6.

²⁸⁶ Christopher A. Casey & Jeniffer K. Elsea, “The International Emergency Economic Powers Act: Origins Evolution and Use”, *United States Congress*, January 2024. (Available at: <https://tinyurl.com/2ney7paw>).

²⁸⁷ Alba R. Martínez, “The DMA’s Teeth: Meta and Apple Fined by the European Commission” *Kluwer Competition Law Blog*, April 2025, (Available at: <https://tinyurl.com/3dx9387v>). & European Commission, *Supra* note, 255.

Summary

This case analysis examines whether the Trump administration's tariffs against the EU constitute economic coercion aimed at pressuring the EU to withdraw its DMA investigations into Apple and Meta. Although the tariffs were officially justified on the grounds of national security, both the timing, rhetoric and content suggest that the primary objective was to exercise pressure on the EU. The imposition of tariffs was facilitated by legal frameworks such as the Trade Act of 1974 and the IEEPA which grant the President extensive powers during national emergencies. The analysis highlights how the US utilized the CBP as part of a *partial chokepoint* strategy against the EU - restricting economic access to the US market for EU companies without fully severing it. Trump's use of these executive powers illustrates how economic coercion can be unilaterally initiated within a democratic system. This strategy seeks to induce political cessation through economic pressure and incentives yet remains constrained by the institutional and legal limitations of the US democratic framework. To escalate the conflict further and achieve a "regular" chokepoint effect - for instance, by utilizing the US Import Facilities hub - Trump would have had to secure legal authority over port infrastructure, which in the US is typically state-owned and privately operated. Such a move would require more far-reaching emergency measures and would likely provoke significant political opposition. As such, Trump's *partial chokepoint* strategy represents a limited, yet not insignificant, form of economic coercion.

Comparative weaponized interdependence summary

This comparative analysis highlights the strategic deployment of economic coercion by China and the US in two distinct geopolitical contexts: the Chinese embargo on Lithuania in 2021 where the ACI had not yet entered into force and the Trump administration's tariffs on the EU in 2025 where the ACI had been part of EU law for over a year. Both cases exemplify the weaponization of economic interdependence for foreign policy purposes, yet they differ significantly in their systems of governance, the structural conditions outlined by weaponized interdependence theory that enable economic coercion, and the specific strategies through which economic coercion is exercised.

First of all, this analysis proves that Farrell and Newman's assumption that China can only exploit asymmetric interdependence has evolved and is no longer the only strategy available to Chinese economic statecraft. The change in Chinese economic power since 2019 has changed

so drastically that the hub position that China today holds in the global economy network has allowed them to weaponize interdependence as a hub hegemon. Considering these findings, we can conclude that China poses as significant of a threat to the EU's security as the US.

The divergent strategies deployed by the two hegemons to weaponize interdependence within the global economy network reflect fundamental differences in their systems of governance. China's centralized authoritarian system allows for rapid and opaque execution of economic coercion which was witnessed when the CCP exercised full control over crucial hubs namely the Chinese Import Facilities and its GACC. Theoretically such a 'regular' chokepoint effect represents the most far-reaching form of economic coercion, as it entails a complete severance of trade relations. In contrast, the US operates within a democratic institutional framework that imposes legal and political constraints on the President and the US administration. Although Trump was able to deploy a partial chokepoint strategy via the CBP under the jurisdiction of the legal frameworks; the Trade Act and IEEPA, full escalation - such as seizing port infrastructure - would have required surpassing significant institutional thresholds and overcoming domestic opposition. Even if Trump was only able to deploy a partial chokepoint against the EU, this could in reality result in a more devastating outcome for the Union, as the tariffs would hurt the EU more economically than a full embargo against a single country.

China's form of coercion manifested first as silent coercion characterized informal and non-attributable actions by making Lithuania vanish from the customs list and delaying orders. Later the CCP changed strategy to disguised coercion which manifested as phytosanitary justifications, which made detection and legal contestation particularly difficult, including within WTO mechanisms. In contrast, the US pursued a more explicit form of economic coercion. Under the Trump administration, tariffs were formally imposed on the EU under the pretext of national security, yet the timing, rhetoric, and context of the memorandum suggest that the underlying objective was to force political cessation in response to the EU DMA's investigations into US big tech. Economic coercion is inherently difficult to identify and substantiate. Although the ACI had not yet entered into force at the time of the Lithuania case, and the situation did not escalate further following China's withdrawal of the restrictions, it nonetheless presented a complex challenge for the EU in terms of proving coercive intent. Even in cases of explicit economic coercion, establishing legal responsibility remains difficult, as the phenomenon operates within a legal grey area where clear evidence or direct links between state decisions and coercive economic actions are rarely available. Moreover, both actions and

their underlying intentions are inherently subject to interpretation and shaped by the perspectives of both parties. Consequently, the ACI faces significant challenges in addressing ‘silent’, ‘disguised’, and explicit forms of economic coercion alike.

Overall, the comparison underscores how authoritarian and democratic regimes weaponize interdependence and exercise economic coercion differently. China’s centralized control enables it to exploit economic interdependence more flexibly and coercively, while the US is limited to strategies that are not nearly as comprehensive, yet potentially more harmful. In the case of the US, our extension of Farrell and Newman’s theory through the concept of partial chokepoints is empirically substantiated by the dynamics observed in the case.

5.5 The ACI as a deterrence instrument

Although economic coercion can be difficult to identify and substantiate, the EU has steadily worked towards becoming more resilient to external factors distorting the EU’s internal market and its foreign policy paths.²⁸⁸ As previously mentioned, in 2020, during her State of the Union address, EU Commission President Ursula von der Leyen proposed the creation of a legislative instrument to counter coercive actions by third countries.²⁸⁹ This proposal, outlined in her Letter of Intent, was the first time the EU formally expressed its wishes towards an instrument aimed at protecting the Union from external interference in its collective and Member State’s policy choices – a protection which is critical in the eyes of the EU.²⁹⁰ While the EU has long adhered to a rules-based order and has continued to work towards legal instruments against coercion with a deterrence-focused approach, it recognizes that trade has increasingly become a weapon used by third countries to influence the foreign policy of the EU and its Member States. As acknowledged in its 2024 briefing on economic coercion, the EU aims to close the legislative gap surrounding this issue.²⁹¹ Consequently, external actions can thus be seen to take up more relevance than before within EU’s market policies and general security.

Against this backdrop, the ACI constitutes a key component of the EU’s evolving geoeconomic toolbox and marks a significant step in the Union’s efforts to safeguard both its economic and political interests against economic coercion from third countries. According to the EU

²⁸⁸ Wu, *Supra* note, 58, p. 300. & Biukovic, *Supra* note, 49, p. 401.

²⁸⁹ State of The Union, *Supra* note, 170.

²⁹⁰ European Union Regulation (ACI), *Supra* note, 31, preamble.

²⁹¹ Szczepański, *Supra* note, 51, pp. 1-4. & Geiger, *Supra* note, 66, p. 1.

Commission, the primary objective of the ACI is to serve as a deterrent to such actors.²⁹² The instrument merges trade policy tools with foreign policy considerations and is characterized by a hybrid competence structure, as illustrated in figure 9.

Figure 9 – Overview of the competences, responsibilities and decision-making of EU institutions

Policy Area	Competence	Responsible Institution	Decision-Making
EU Trade policy	Exclusive EU competence	The EU Commission with a mandate from the Council (negotiates and implements agreements)	Joint decision making: The Council and the European Parliament examine the final deal and decide whether or not to approve it. If they both approve it, the EU can conclude the agreement.
Common Foreign Security Policy (CFSP)	Intergovernmental competence	The Council (Member States) The President of the European Council and the High Representative of the Union for Foreign Affairs and Security Policy represent the EU in matters relating to the common foreign and security policy.	The Council (normally unanimity, with QMV in specific cases e.g. appointing special representatives)
Anti-Coercion Instrument (ACI)	Hybrid competence	The EU Commission assesses independently and proposes countermeasures	The Council decides on countermeasures by qualified majority since the instrument affects foreign relations and CFSP is decided by the Council

Note: Our own figure made from different available sources.²⁹³

The hybrid structure of the ACI reflects the institutional set-up within the EU. The EU Commission holds exclusive competence in matters of trade policy, whereas the Council - comprising the national governments of the Member States - retains authority over foreign

²⁹² European Commission, “Questions and Answers regarding the Anti-Coercion Instrument, *Trade and Economic Security*, n.d. (Available at: <https://tinyurl.com/yhhzbduh>).

²⁹³ European Union, “Division of Competences” *EUR-Lex*, n.d. (Available at: <https://tinyurl.com/2s4zyvw8>). & European Council, “EU trade policy” *European Council: Council of the European Union*, December 2024, (Available at: <https://tinyurl.com/294umfwn>). & European Commission, “Making trade policy” *Trade and Economic Security*, n.d. (Available at: <https://tinyurl.com/ykct6mwn>). & European Council, “Unanimity” *European Council: Council of the European Union*, n.d. (Available at: <https://tinyurl.com/ym3u8pf7>).

policy. In trade matters, however, both the Council and the EU Parliament are involved in reviewing and approving final proposals from the Commission. In contrast, decisions concerning foreign policy typically require unanimity among Member States in the Council, except in certain specific cases (see figure 9). Given that the ACI operates at the intersection of these two policy domains, the division of responsibility and decision-making authority is likewise split. The Commission is responsible for assessing whether a situation constitutes economic coercion and for proposing appropriate countermeasures. The ultimate decision on whether to adopt such measures, however, lies with the Council - more specifically, with the national governments of the Member States - acting by qualified majority votes (QMV). To pass a decision under QMV, 55 percent of states representing at least 65 percent of the EU population must vote in favor of the decision.²⁹⁴ The reason why the final decision ultimately rests with the Member States is that the adoption of countermeasures may have implications not only for the Union as a whole, but also for individual Member States' bilateral relations with the third country in question.²⁹⁵

Finally, the ACI is characterized by its broad scope and its role as a targeted instrument for addressing instances of economic coercion. In this context, the distinction between *deterrence by denial* and *deterrence by punishment* becomes particularly relevant, as it offers a useful analytical lens for examining the nature of the ACI and assessing its potential effectiveness in relation to China and the US in the selected case studies. This thesis argues that the instrument contains elements of both forms of deterrence, and that the ACI is best understood within a framework of phases. Therefore, we propose a conceptual extension of the theory in the form of the concept of *deterrence by negotiation*, which is significant for understanding how the EU might have deterred against China and the US.

5.5.1 The ACI as deterrent by denial

The ACI operates as *deterrence by denial* through its very existence. This can be inferred from Article 1(2) of the Regulation: “*This Regulation establishes a framework for the Union to respond to economic coercion with the objective of deterring economic coercion or obtaining the cessation of economic coercion [...]*”.²⁹⁶ The provision conveys a clear signal that

²⁹⁴ European Council, “Qualified Majority”, *European Council, Council of the European Union*, June 2024, Available at: <https://tinyurl.com/mu3w4ez7>.

²⁹⁵ European Union Regulation (ACI), *Supra* note, 31, Preamble art. 9.

²⁹⁶ European Union Regulation (ACI), *Supra* note, 31, art. 1. para. 2.

economic coercion directed at any Member States is unlikely to succeed in the way its intended to, as the EU- is expected to respond in a unified and coordinated manner against the coercing third country. This presumes a QMV in the Council, but the underlying assumption remains that collective EU action will be mobilized. In this way, the ACI seeks to pre-emptively discourage coercive behavior by removing the aggressor's confidence in achieving its objectives - which captures the basic rationale of deterrence by denial, as presented in the theoretical framework.

This interpretation is further supported by our EU law expert, who described the ACI as the Union's *trade nuclear weapon*. He emphasized that the EU's position as a *big trading bloc* and *economic superpower* grants it the capacity to economically dismantle a third country if necessary, under the ACI. According to him, the deterrent effect of the instrument is so strong that even mere mentions of the ACI in the media – without any actual activation – can be enough to dissuade adversaries from pursuing coercive strategies.²⁹⁷ However, it is not only our interviewee who characterizes the ACI in this way; it is widely described in similar terms - though primarily in Western media.²⁹⁸

This categorization reinforces the credibility of the ACI's deterrent by denial potential and highlights the importance of perception in the logic of deterrence. It also supports the fact that the EU already possesses well-established procedures and a comprehensive toolkit for addressing various forms of economic pressure, which significantly strengthens the preventive character of the instrument. The very existence of the ACI signals to potential aggressors that the EU has both the capacity and the political will to protect its economic and political interests. This logic mirrors that of NATO's Article 5, where deterrence is based on the pledge of collective response – an attack on one is an attack on all. Similarly, the ACI can only function as an effective deterrent if the EU acts collectively: economic coercion aimed at one Member State is seen as coercion aimed at the entire Union. Should the EU fail to support a Member State subjected to economic coercion, the credibility of the entire instrument – and thereby its deterrence effect – would be undermined. As outlined in the theoretical framework, in practice, this strategy hinges on the capability or willingness to defend a particular commitment.

²⁹⁷ EU law expert

²⁹⁸ Cecilia Malmström, “Could the EU's ‘big bazooka’ be deployed against the US?”, *PIIE*, April 2025, (Available at: <https://tinyurl.com/yc245htw>). & Danielle Myles, “EU ‘Bazooka’ response expected to next US tariffs”, *FDi Intelligence*, March 2025, (Available at: <https://tinyurl.com/yzp9medz>).

The ACI thus aims to remove the incentive for economic coercion by making it clear that such actions will not succeed in pressuring the EU or its Member States into changing their political course, as the Union is expected to respond collectively. In this sense, the ACI operates on a deterrent logic of anticipated failure, which is intended to discourage potential aggressors from initiating coercive strategies in the first place.

5.5.2 The ACI as deterrent by punishment

The moment the ACI is activated - be it through a public threat or negotiations over countermeasures - we argue that the instrument shifts in nature and begins to function as *deterrence by punishment*. At this stage, the opposing party is no longer deterred merely by the EU's capacity and willingness to act, but by the prospect of concrete economic consequences. When the EU Commission publicly assesses acts of economic coercion and proposes specific countermeasures, the ACI transforms from a passive threat to an active response - even before the Council reaches a final decision. This marks a crucial transition in which the deterrent aim is not only to prevent future actions, but also to halt ongoing coercive behavior.

This can be inferred from the final part of Article 1(2) of the Regulation: “*This Regulation establishes a framework for the Union to respond to economic coercion with the objective [...] obtaining the cessation of economic coercion, whilst enabling the Union, as a last resort, to counteract economic coercion through Union response measures*”.²⁹⁹ As the theory of deterrence by punishment suggests, the focus here is on the threat of severe penalties, such as significant economic sanctions, should a third country choose to engage in economic coercion against the Union. In fact, an entire annex in the ACI Regulation has been developed, which serves as an overview of the EU's significant economic responses to economic coercion, ensuring that third countries are fully aware of the seriousness - both in terms of willingness and the potential scale of the measures.³⁰⁰

As prescribed by the theory, credibility becomes essential at this stage. By publicly communicating potential countermeasures, the EU sends a strategic signal aimed at demonstrating resolve. Later in the analysis, it is argued that China may have already been deterred during the deterrence by denial phase, whereas the US, under the Trump administration, went a step further by imposing tariffs on the Union. Despite Ursula von der

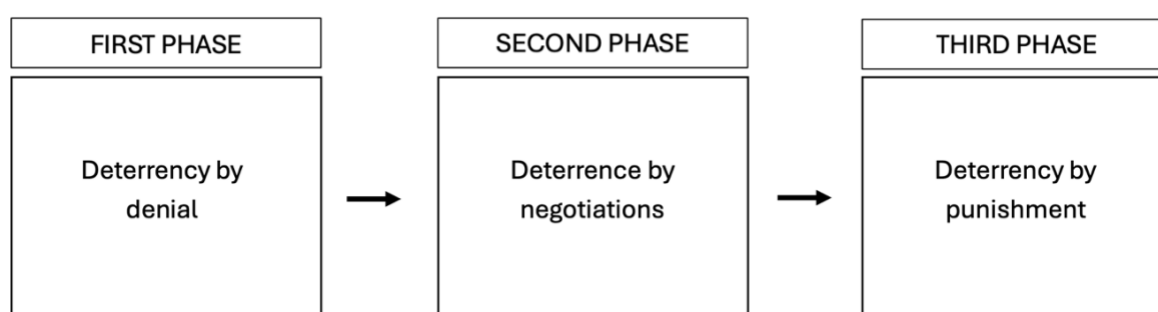
²⁹⁹ European Union Regulation (ACI), *Supra* note, 31, art. 1. para 2.

³⁰⁰ European Union Regulation (ACI), *Supra* note, 31, annex

Leyen’s public statement that the EU has *the power to push back* against the US and that *all instruments are on the table*, and despite EU Commission spokesperson Olof Gill confirming that the ACI is being considered as part of the negotiation strategy with the US, it is evident that, at this point in time, the situation has not yet reached a full deterrence by punishment phase.³⁰¹

For this reason, our analysis expands the concept of deterrence into a spectrum consisting of three phases, rather than just the two outlined above. We refer to the expanded concept and second phase in this deterrence spectrum as *deterrence by negotiation* (see figure 10 below).

Figure 10 – Deterrence phases



Note: Our own figure

It is important to emphasize, however, that this spectrum is not necessarily intended to function beyond the scope of this thesis and should therefore not be seen as a universal framework for understanding deterrence. Nonetheless, we find it meaningful in the context of how the ACI operates and in relation to the two cases analyzed.

5.5.3 New concept: Deterrence by negotiations

We believe it is already possible to assess that the deterrence by denial phase has come to an end in the US case. Firstly, the US has already imposed tariffs on the Union (which, at the time of writing, remain on hold), suggesting that it has not been deterred by the mere existence of the ACI or by the prospect of a united EU response. Secondly, the EU is now seen to appear to discuss the ACI, something that became evident through leaked documents to the New York Times. Additionally, as mentioned earlier in the analysis, several EU officials has also not

³⁰¹ Andrew R. Sorkin et.al., “How Trump’s Tariffs Might Go Down”, *The New York Times*, April 2025, (Available at: <https://tinyurl.com/4nm7rfkx>).

refrained from mentioning the ACI as a possibility.³⁰² However, as previously explained, we argue that it has not yet reached the stage of deterrence by punishment, as the EU Commission has not - at this point - publicly or officially communicated any potential countermeasures against either China or the US. We therefore argue that, in a deterrence analysis of these cases with a focus on the ACI, we are left somewhere between the two concepts: Deterrence by denial and deterrence by punishment. This has led us to consider deterrence as a spectrum consisting of multiple phases, with deterrence by negotiation representing the missing piece. The meaning and relevance of this concept will become clear in the following analysis, where we examine the ACI as a deterrent instrument in relation to China and the US.

Summary

The entire section 5.5 analyzes the ACI as a three-stage deterrence phase: deterrence by denial, deterrence by negotiation, and deterrence by punishment. In the initial phase, the ACI deters merely through its existence by signaling that the EU will respond collectively to economic coercion, thereby undermining adversaries' confidence in their success. The instrument's credibility relies on the EU's capacity and willingness to act collectively. The negotiation phase arises when the adversary is not deterred in the first phase, yet the ACI has not been actively deployed. Once activated, the ACI shifts to deterrence by punishment, where the threat of concrete economic sanctions aims to prevent future coercion and halt ongoing economic coercion. Thus, the ACI functions both as a preventive threat and as an active response. Its hybrid structure reflects the EU's institutional framework, with the EU Commission proposing measures and the Council making decisions.

5.6 Deterrence via the ACI against China

To assess whether the ACI may have had a deterrent effect on China in the Lithuania case, we apply an abductive approach. We begin with the observable outcome - China's decision to lift its economic embargo occurring just around the time the ACI was adopted and a month prior to the ACI's formal entry into force - and then explore a range of plausible explanations for this move. In particular, we assess whether the mere existence of the ACI may have removed China's incentive to weaponize its Import Facilities and the GACC. This allows us to evaluate

³⁰² *Ibid*

the potential deterrent effect of the ACI as a form of *deterrence by denial*, even before the instrument entered into force and therefore was officially operational.

Against this context, the analysis begins with an overview based on Ellsberg's deterrence matrix. This framework allows us to conceptualize how China and the EU have, at different times, assumed the roles of deterrent and adversary up to the Lithuania case. China's longstanding One-China policy, which dates back to the early 1950s, can be understood as a form of deterrence against any state that challenges China's view on sovereignty especially against Taiwan and Hong Kong.³⁰³ Historically, states that have challenged this policy have faced punitive economic responses.³⁰⁴ The most recent example occurred in 2021, when Lithuania allowed the establishment of a Representative Office under the name *Taiwanese* - a symbolic move that contradicted Beijing's red lines. In response, China weaponized its Import Facilities and GACC resulting in an imposed trade embargo on Lithuanian goods and in extension the EU by secondary sanctions. In deterrence terms, China positioned itself as the deterrer and Lithuania as the adversary. Based on Ellsberg's theory, we have illustrated this in figure 11. The cross marks the scenario that unfolded in practice.

Figure 11 – Illustrative deterrence matrix: China and Lithuania

<div style="display: inline-block; text-align: center;"> Lithuania → China ↓ </div>	Compliance to One-China policy	Resistance towards One-China policy
	Acceptance of countries crossing the red line	
Punish countries that cross the red line		X

Note: Our own figure based on Ellsberg's simple deterrence matrix

From the EU's perspective, China's actions were interpreted as an instance of economic coercion – since China tried to disrupt economic exchange with Lithuania and affiliated EU

³⁰³ Embassy of the People's Republic of China, "The One-China Principle is a universally recognized basic norm governing international relations" *Peoples Republic of China*, 2024, (Available at: <https://tinyurl.com/4dkrbzxj>).

³⁰⁴ Victor Cha, "Examining China's Coercive Economic Tactics" *Center for Strategic & International Studies*, Congressional Testimony, May 2023, (Available at: <https://tinyurl.com/2v5vefpa>).

companies to compel a change in Lithuania's political strategy. This prompted the Union to develop the ACI shifting the deterrence dynamic. With the ACI, the EU aims to act as the deterrer vis-à-vis potential coercers such as China, who in turn become the target of the Union's deterrent position. China lifted its embargo against Lithuania around the time of the adoption of the ACI – a move that can tentatively be illustrated within Ellsberg's deterrence matrix and classified as a deterrence on the part of the EU towards China and thus seen as being in the deterrence by denial phase – see figure 12 below. As mentioned earlier, the deterrent effect in this phase is achieved solely through the existence of the ACI, without the EU needing to negotiate or implement active measures.

Figure 12 - Illustrative deterrence matrix: the ACI and China's Response

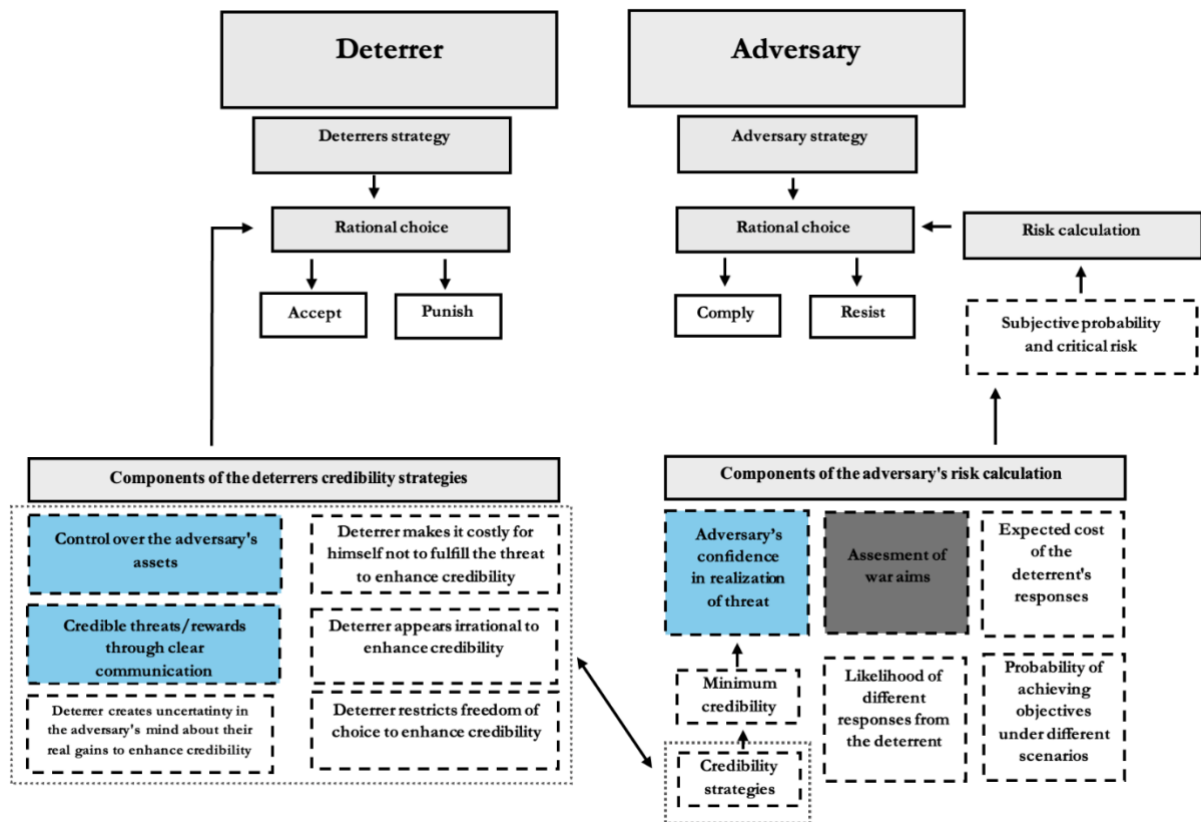
<div>China →</div> <div>EU ↓</div>	Continuation of embargo against Lithuania	Lifting of the embargo against Lithuania
Deterrence by denial		X
Deterrence by negotiation		
Deterrence by punishment		

Note: Our own figure based on Ellsberg's simple deterrence matrix

5.6.1 Chinas risk calculation to EU's changing deterrer strategy and the EU's deterrence credibility

To understand the plausible explanations behind China's decision to lift its embargo of Lithuania, we must begin by examining China's risk calculation and its perception of its subjective probability and critical risk in the situation - see figure 2 below which is reintroduced from the theory section.

Figure 2 – Deterrence framework: Overview over Ellsberg and Snyder's theories



As previously stated, several media outlets – primarily Taiwanese and European – confirmed that China lifted its embargo on Lithuania approximately at the time of the ACI adoption and one month before it entered into force.³⁰⁵ No official or semi-official Chinese media sources mention the ACI as a factor in the decision. This is, however, not surprising, as China has traditionally deployed a foreign policy strategy in which it is difficult to identify a clear pattern of behavior according to our China expert.³⁰⁶ As previously mentioned in our literature review highlighted by Biukovic, this is also reflected in China's use of sanctions, which often carry distinct Chinese characteristics: a form of informal pressure that is either difficult to detect or nearly impossible to attribute directly to the state, which we have previously referred to as *silent coercion*.³⁰⁷ As our China expert also noted, the absence of mentioning the ACI as a factor in their decision can be attributed to China's self-perception as a sovereign and strong

³⁰⁵ Taipei Times, "China lifts trade barriers it imposed on Lithuania", *Bloomberg*, November 2023, (Available at: <https://tinyurl.com/3kebzkkc>). & Augustas Stankevičius, "EU adopts legislation to resist economic coercion following China – Lithuania dispute", *LRT*, August 2023, (Available at: <https://tinyurl.com/mstkcmeec>).

³⁰⁶ China expert interview

³⁰⁷ Jonathan Hackenbroich, "Coercion with Chinese characteristics: How Europe should respond to interference in its internal trade" European Council on Foreign Relations, January 2022, (Available at: <https://tinyurl.com/mu8ajdds>). & Biukovic, *Supra* note, 49, p. 407.

state that does not yield to external pressure.³⁰⁸ The official statements from the Chinese Ministry of Foreign Affairs in relation to the Lithuania case emphasized that Lithuania should “*correct its mistakes and return to the right path by adhering to the One-China Principle as soon as possible*”.³⁰⁹ The same day, a state-owned Chinese media outlet acknowledged the existence of the ACI during its drafting phase. The article emphasized that the instrument could not be said to target China exclusively, but also the US. That China was included among its potential targets, however, came as no surprise.³¹⁰ Given that China was aware of the ACI, they must have also been aware of its potential implications. This awareness, coupled with the uncertainty about the future use of the ACI, could have played a significant role in China's decision to de-escalate and lift the embargo, as China likely sought to avoid further escalation of the conflict. It was, in any case, noteworthy that one month prior to the ACI's adoption, the rhetoric from the Chinese Ministry of Foreign Affairs adopted a notably pragmatic tone. Following a meeting with the EU's then High Representative for Foreign Affairs and Security Policy, Josep Borrell, China's Foreign Minister emphasized the importance of “*high-level dialogue and cooperation on the basis of mutual respect*”, and of strengthening the comprehensive strategic partnership between China and the EU.³¹¹ Despite an implicit reference to the situation with Lithuania, this stood in contrast to the tone four months earlier, when China had strongly urged Lithuania to comply with the One-China policy. On this occasion, however, no explicit criticism was directed at the EU - even though Lithuania had, at that time, still not changed the name of the TRO in Vilnius.³¹² By presenting itself as cooperative and emphasizing shared interests, China may have sought to minimize the likelihood of the EU applying the ACI against them in practice.

Uncertainty and the expectation of a deterrer's future actions are central under their subjective probability. However, for a threat to be effective, the EU must ensure that the threat is perceived by China as sufficiently likely (regardless of whether it is eventually carried out). Simply the fact that the ACI was debated in political circles and that the EU agreed to adopt it may have

³⁰⁸ China expert interview

³⁰⁹ Wang Wenbin, “Foreign Ministry Spokesperson Wang Wenbin's Regular Press Conference on June 7 2023”, *Ministry of Foreign Affairs: The People's Republic of China*, June 2023, (Available at: <https://tinyurl.com/vvaje3nb>).

³¹⁰ Baidu, “Who is the EU targeting new rules on “anti-economic coercion”? Beijing observation” *Baidu Direct News*, June 2023, (Available at: <https://tinyurl.com/46je9kne>).

³¹¹ Wang Yi, “China and the EU are Partners First and Foremost, with Far More Consensus Than Differences” *Ministry of Foreign Affairs: The People's Republic of China*, October 2023, (Available at: <https://tinyurl.com/awyd96pa>).

³¹² Lery Hiciano, “Taiwan office in Lithuania to keep its name despite China talks: lawmaker” *Taipei Times*, April 2025, (Available at: <https://tinyurl.com/4t7r89d3>).

had some effect on China. This argument is supported by our EU law expert as mentioned earlier.³¹³ Another argument is that the EU's signals of internal cohesion and its willingness to support Lithuania may have influenced China's assessment of the critical risks involved in continuing the embargo. As previously argued in the analysis, China most likely triggered a larger reaction than anticipated, as the economic coercion on Lithuania was met with significant international attention and criticism, with both the EU and its allies ready to support it.³¹⁴ A Western analysis highlights that it was primarily the united resistance from the EU, NATO countries, and the WEOG that undermined the effectiveness of China's weaponization against the EU and contributed to their lack of success.³¹⁵ This most likely created an expectation in China regarding how the EU and potentially NATO countries would continue to react if China persisted with the embargo once the ACI entered into force. Such a reaction would reduce the likelihood of China's strategy succeeding, thereby making the EU's threat credible.

Following this line of reasoning, there is a clear connection to Snyder's theory of risk calculation, which examines how an adversary evaluates the *likelihood of different responses from the deterrer*. In this case, China's decision to lift the embargo may have been influenced by its assessment of potential responses from the EU, NATO, and other international actors. Given the united front displayed by these actors, China likely considered the significant geopolitical and economic risks of maintaining the embargo and may have concluded it would have entailed considerable costs. The same argument from the opposite perspective is that the EU, by deploying such a strategy, created uncertainty in Beijing's mind to strengthen its credibility. In line with Ellsberg's theory of credible deterrence, where the deterrent *creates uncertainty in the adversary's mind about what they truly aim to achieve* through a specific action, the EU's coordinated and comprehensive response – through support from NATO allies, WTO cases, support packages, and signals of internal cohesion – may have led China to believe the negative long-term consequences of maintaining the embargo. In particular, the prospect that the ACI would provide the EU with a more offensive and unified tool may have increased uncertainty about how significant the counter-reaction would actually be after its adoption. This uncertainty could have undermined China's belief that continued or even

³¹³ EU law expert

³¹⁴ Didi Tang, "China has threatened trade with some countries after feuds: They're calling 'the firm' for help", *Associated Press*, May 2024, (Available at: <https://tinyurl.com/mvxyy838>). & Reynolds & Goodman, *Supra* note, 173.

³¹⁵ Bryce Barros & Krystyna Sikora, "China's Sanctions Regime and Lithuania: Policy Response for European Institutions, *Alliance for Securing Democracy*, August 2022, p. 13. (Available at: <https://tinyurl.com/ccwy6z7p>).

increased pressure on Lithuania would lead to concrete gains, thereby influencing China's risk calculation. One could therefore argue that from China's perspective, it was rational to lift the embargo and thereby cease its weaponization of the hubs and silent, later disguised, coercion strategies.

It is likely that China's trade embargo was primarily intended as a warning to other states not to deviate from its One-China policy. As previously noted, China may not have aimed to escalate the situation further, but rather to signal its position to other countries without escalating the conflict with the EU.³¹⁶ This argument appears consistent with previous mentioned argument in the literature review from Xing and Meza.³¹⁷ According to Rakesh Sharma, this is the logic that China at least has been driven by before. China has applied just enough hard power to achieve its claims in the South China Sea, and what parts of the sea are Chinese territory under its Nine-Dash Line, without exceeding the likelihood of escalation. In other words, China has spent decades developing a unique art: the soft use of hard power in pursuit of its well-thought-out long-term goals, which contribute to its broader ambitions.³¹⁸ Our China expert argue that it was, in fact, China's attempt to test the EU's cohesion.³¹⁹ Economic coercion, after all, is not a tool that China has historically refrained from using. As President of the CSIS, Victor Cha, stated during a 2023 Congressional testimony, coercion is, in China's view, an effective tactic — and there are numerous examples to support this assessment. This observation reinforces the plausibility that, in this case, the ACI may have deterred China, highlighting its potential effectiveness as a credible tool against economic coercion.³²⁰ At the same time, however, Chinese analysts contend that the EU's counteraction by bringing the case to the WTO was completely in line with Chinese expectations. Furthermore, they also argue that China sees the ACI, between the lines, as beneficial for the EU's Strategic Autonomy and therefore not necessarily bad to China. However, this can also be attributed to doubts about whether the ACI will actually be used at all.³²¹

³¹⁶ Francesca Ghiretti, Grzegorz Stec & Thomas G. Geddes, "An expert look at EU-China 2022 + China-Lithuania + EU-China WTO dispute" *Merics Analysis*, February 2022, (Available at: <https://tinyurl.com/5dus8s5t>).

³¹⁷ Xing & Meza, *Supra* note, 21. Pp. 1-20.

³¹⁸ Rakesh Sharma, "China: 'Soft Use' of 'Hard Power'", *Vivekananda International Foundation*, July 2023, (Available at: <https://tinyurl.com/4tztejbv>).

³¹⁹ China expert interview

³²⁰ Cha, *Supra* note, 304.

³²¹ Ghiretti et.al. *Supra* note, 316.

Another key element in China's risk calculation has been the expected costs of a potential coordinated EU counterresponse to a continued trade embargo. In this assessment, China has likely considered the EU's role as one of its most important trading partners and the economic consequences of further escalating the conflict. This aligns with the Ellsberg's concept; *expected cost of the deterrent's responses*, where China would have weighed the potential costs of facing a strong and unified response from the EU, factoring in both economic and geopolitical consequences. Despite the fact that many countries are more dependent on China than the other way around, China is also significantly reliant on other nations – particularly several within the EU.³²² According to Lithuania's Finance Minister, Gintarė Skaistė, China has neither been, nor is it currently, Lithuania's largest trading partner, meaning that Lithuania cannot be considered pivotal in this context.³²³ By contrast, countries such as Germany, the Netherlands, France, and Italy are, according to the World Bank database, some of China's largest trading partners.³²⁴ Germany's main exports to China include cars, machinery, nuclear reactors, boilers, as well as optical, technical, and medical instruments.³²⁵ These high-tech products are crucial for supporting China's industries, making Germany a strategically indispensable trading partner from China's perspective.³²⁶ In certain cases, not specifically related to Germany, China could compensate the loss of these imports through domestic production, though this would come with considerable costs.³²⁷ This documentation shows that China has significant interests in the EU market. Therefore, in light of the EU's overall economic importance to China, and particularly Germany's strategic role as a supplier of high-tech products, it is likely that China, in its risk calculation, has considered the broader consequences of continuing the trade conflict with an EU member state.

A prolonged embargo against Lithuania could have risked damaging China's trade relations with the entire EU single market. As a result, the expectation of potentially lost trade opportunities and cooperation with key EU economies likely contributed to the decision to de-escalate the conflict before the ACI entered into force and could be used against China. This

³²² Cha, *Supra* note, 304.

³²³ Remigijus Bielinskas, "China never was important trade partner for Lithuania – minister" *LRT*, August 2022, (Available at: <https://tinyurl.com/y8ss8zs7>).

³²⁴ World Integrated Trade Solution, "China trade balance: exports and imports by country 2021", *WITS*, n.d. (Available at: <https://tinyurl.com/umfd4whj>).

³²⁵ Giulia Interesse, "China-Germany Bilateral Relations: Trade and Investment", *China Briefing*, April 2024, (Available at: <https://tinyurl.com/rmv8wbc5>).

³²⁶ Xu Bei, "German Machine tool industry promotes deeper digital connection in China", *Beijing Review*, April 2024, (Available at: <https://tinyurl.com/3sp22bd3>). & Interesse, *Supra* note, 325.

³²⁷ Cha, *Supra* note, 304.

argument also aligns well with one of Snyder's possible factors for effective deterrence; *control over the adversary's assets*. Snyder identifies three possible factors for effective deterrence: *credible threats, the adversary's belief in the realization of the threat, and control over the adversary's assets* (see the reintroduced figure 2 above). The first two elements have already been addressed, focusing on how the EU's signals and response established credibility regarding resistance to economic coercion through the ACI, as well as China's belief in whether the ACI would be implemented. The third and final component – the ability to influence or control the adversary's assets – forms the last element of the analyzed EU deterrence strategy. Here, one could argue that the EU has control over China's assets, as it holds the power to influence some of China's current and future resources e.g. by German exports. This control itself constitutes a significant deterrent. However, what is particularly unique about the EU's power is the institutional structure, which, while providing control, also creates significant barriers to effectively utilizing this control. The EU's decision-making process can delay or even prevent action. If the ACI were to be activated, it would be the EU Commission that assessed the situation and proposed countermeasures, while the Council would need to vote it through by a QMV among the Member States. However, this did not seem to be an issue according to our EU policy expert 1, who stated that: '*It is much easier to reach consensus among the EU Member States on issues concerning China than on those concerning the USA.*'³²⁸

Factually, there is generally broad support for the ACI as a tool to protect the EU and its Member States from economic coercion. However, there is variation in the willingness of Member States to impose severe sanctions on China.³²⁹ Despite the fact that Member States supported the EU Commission in October 2024 regarding the imposition of tariffs on Chinese electric vehicles, it still appears that many Member States are reluctant to support harsh economic countermeasures against China, such as those that the ACI might entail. Fear of Chinese retaliation, internal special interests, and the lack of a unified sanctions strategy make it unlikely that all countries would support a strong counterresponse.³³⁰ The ACI can be adopted however, with the support of just 15 out of 27 Member States, provided they represent 65% of the EU population. According to our EU law expert, there is little doubt this threshold could be met, noting that major Member States such as Spain, France, and Germany support using

³²⁸ EU policy expert

³²⁹ Laura von Daniels, "Will the EU agree to use economic sanctions against China? *Brookings Institute*, November 2024 (Available at: <https://tinyurl.com/yc3dymb6>).

³³⁰ *Ibid*

the ACI against China.³³¹ Overall, it can be said that the EU does indeed have the opportunity and ability to control China's assets through economic measures – including through the ACI in the event of escalation. However, as noted above, there are both opportunities and limitations in this scenario.

As previously noted, some Chinese analysts suggest that China appears to be aware of this institutional dynamic. The Chinese think tank CGGT explicitly highlights the structural challenge within the EU's decision-making process, indicating a recognition that the practical application of the ACI may face political hurdles. Moreover, CGGT raises concerns about whether the views of individual Member States are adequately reflected when instruments like the ACI are deployed. They also point to another critical issue: the potential economic fallout for European businesses. While the ACI allows the EU to impose countermeasures against third countries, it lacks a compensation mechanism for economic operators that may suffer losses as a result - underscoring a key vulnerability in the regulation's practical implementation.³³² This is likely as close as we can get to the inner workings of China's decision-making apparatus. It is important to note that CGGT is not a state-owned think tank, but it has close ties to the Chinese government.³³³

Summary

China's actions have been analyzed through Ellsberg's critical risk and subjective probability concepts and Snyder's risk assessment components, which constitute China's risk calculation. Since the Lithuanian case did not progress beyond the initial phase of the ACI - deterrence by denial - our analysis is limited to this stage. Although direct access to China's internal decision-making remains limited, the findings used in the analysis suggests that China assessed its critical risk to be relatively low — at least low enough to refrain from continuing the embargo against Lithuania when the ACI was adopted and before it entered into force. This means that China's threshold for acceptable costs was exceeded and the risk of continuing the embargo was too high. It is likely that China was unwilling to jeopardize key trading partners within the EU by maintaining a full embargo, especially if it meant facing potential countermeasures under the ACI at a later stage.

³³¹ EU law expert

³³² Tsinghua University Center for Strategic and Security Studies, "EU Sanctions Watch | EU Anti-Coercion Regulation: A New Leverage in Political Game" *Observernews*, January 2022. (Available at: <https://tinyurl.com/wtebv5jd>).

³³³ World Economic Forum, "Impact" *CITIC Group*, n.d. (Available at: <https://tinyurl.com/mbdez4au>).

EU's credibility strategy via the ACI is assessed through both Ellsberg's and Snyder's credibility concepts. The EU's credibility during the drafting phase and adoption of the ACI likely achieved the necessary deterrent effect and was sufficient to influence China's risk calculation. Our analysis indicates that the EU deployed deterrence strategies based on clear communication and on creating uncertainty in China about the long-term consequences of maintaining the embargo. Furthermore, the EU holds significant leverage over China's current and future resources through individual Member States. Despite the EU's institutional structure, it has managed to deter China - likely because the ACI was eventually adopted and entered into force. Overall, despite the difficulty for the ACI to counter silent and disguised coercion, which are China's primary strategies, China appeared confident in the credibility and realization of the threat and likely lifted the embargo on Lithuania to avoid the risk of potential countermeasures under the ACI at a later stage. It could therefore be argued that the ACI has nevertheless had a degree of deterrent effect on economic coercion by its mere existence.

Since the Lithuanian case, the landscape of economic coercion has evolved significantly. The subsequent case under examination involves the US exercising economic coercion on the EU in 2025. It is likely that China is observing this transatlantic dispute closely, particularly as the EU appears to be approaching the final phase of the ACI - *deterrence by punishment*. If the EU demonstrates a willingness to activate such an instrument not only against another state, but against a key security ally, this may serve as a critical signal to Beijing. Such a development could prompt a recalibration of China's risk calculation in its future dealings with the EU.

5.7 Deterrence via the ACI against US

As in the analysis of China and the ACI, we apply an abductive approach. We begin with the observable outcome: the US' decision to impose tariffs on the EU in the lead-up to the EU's ruling on fines against US big tech - despite the existence of the ACI. This decision can be understood in the context of the US weaponizing economic interdependencies to advance its strategic interests. From this starting point, we explore a range of plausible explanations for the decision. This approach allows us to assess the ACI's deterrent potential as a form of deterrence by negotiation, given that, although the instrument has been adopted, its initial phase appears to have been disregarded by the Trump administration. This raises the question of to what extent the existence of the ACI influences US behavior.

In this case as well, Ellsberg's matrix enables us to conceptualize how the US and the EU have, at different points in time, assumed the roles of deterrent and adversary up to the present time of writing. As noted earlier in the analysis, the EU initiated proceedings against Apple and Meta in March 2024 for alleged violations of the Digital Markets Act (DMA). Prior to the resolution of this case, it can be argued that the US, under the administration of President Trump, strategically positioned itself as the deterrent actor. As previously mentioned, Trump's memorandum stated that his administration would respond if foreign governments used their regulatory frameworks to impose discriminatory fines or sanctions on American companies.³³⁴ Given that the EU's proceedings were still ongoing at the time, the memorandum may be interpreted as a deliberate act of strategic deterrence on the part of the US. However, the threat was not merely rhetorical. The Trump administration followed through by imposing tariffs on the EU and its Member States, invoking a national emergency as justification. This justification, however, appears politically motivated when viewed in the context of existing economic analyses, which suggest that the trade imbalance between the US and the EU is not nearly as severe as portrayed by Trump. A Dutch economic study, for instance, finds that despite the US administration's vocal concerns over a trade deficit with the EU, the actual trade relationship between the two blocs remains largely balanced.³³⁵ The EU concluded its proceedings in April 2025 by imposing fines on Apple and Meta. However, the sanctions fell significantly short of the maximum threshold of 10 percent of annual global turnover permitted under the DMA. Drawing on Ellsberg's theory, we have illustrated the US positioning itself as the deterrer and EU as the adversary in figure 13, where the cross marks the scenario that unfolded in practice.

³³⁴ Presidential Memorandum, *Supra* note, 6.

³³⁵ Tim Sterk, "Is the trade deficit of the US with the EU really that bad? *Financial Investor*, March 2025, (Available at: <https://tinyurl.com/mrypcmh>).

Figure 13 - Illustrative deterrence matrix: US and EU

<div> <div>EU →</div> <div>USA ↓</div> </div>	Impose fines on companies that do not comply with the DMA	Refrain from imposing fines on companies that do not comply with the DMA
Acceptance of countries that do not comply with the memorandum		
Punish countries that do not comply with the memorandum	X	

Note: Our own figure

From the EU's perspective, the US memorandum and the subsequent imposition of tariffs may be interpreted as a form of explicit economic coercion - a direct attempt to influence the Union's sovereign right to enforce legitimate regulation under the DMA. At this point in time, the EU already had the ACI at its disposal and was signaling willingness to activate it. This became apparent when EU Commission President Ursula Von der Leyen, 10 weeks before US tariffs were instigated, declared that "*all instruments are on the table*". However, it remains clear that the Trump administration was in fact not deterred by the ACI in its deterrence by denial phase, but yet chooses to put the tariffs on a 90-day pause right before the EU's decision on its non-compliance investigation. It is important to highlight that the tariff pause was made as a general pause that included all nations whom Trump had started his trade war against, and thus not exclusively the EU. Nonetheless, the event brings relevant insight by analyzing the decision based on an EU-US perspective, since the concrete meaning and potential signaling value for this bilateral relationship remains vital for the analysis. Thus, we argue for this tariff pause to mark a clear transition into the next phase of the instrument: *deterrence by negotiation*, since the negotiations between the EU and the US begun at this point in the case. During this point, the roles are switched: the EU resumes the role as the deterrence actor, while the US resumes the role of adversary – see figure 14.

Figure 14 - Illustrative deterrence matrix: The ACI and US response

<div> <div>USA →</div> </div>		Continuing of tariffs	Stopping tariffs
<div> <div>EU ↓</div> </div>	Deterrence by denial		
	Deterrence by negotiation	X	
	Deterrence by punishment		

Note: Our own figure

5.7.1 US' risk calculation to EU's well-known deterrer strategy and the EU's deterrence credibility

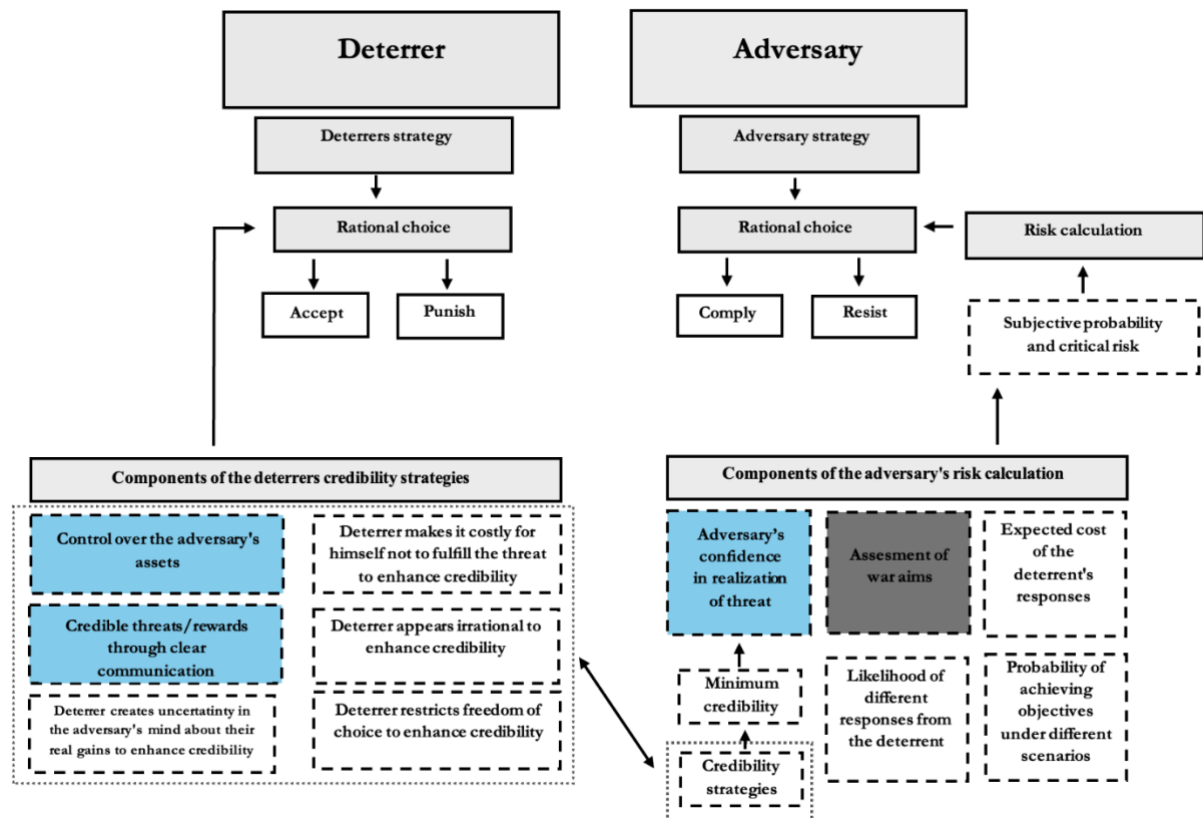
Since 2018 the EU has realized that symbolic signaling by isolated means has not been a sufficient deterrence for Trump. This recognition started under his first term, where the EU Commission concluded, that the deployment of economic coercion was becoming an integral and systemic part of US trade policy.³³⁶ The chair of the EU Parliament's Trade Council, who also functions as a high-level legal policymaker and key Member of the drafting of the ACI group, Bernd Lange, stated that this recognition combined with the possibility of a Trump 2.0 scenario, has been a key motivator for the EU to expand its toolbox with the ACI.³³⁷ This indicates that the EU recognized that the mere existence of the ACI would not in itself be a sufficient deterrent to Trump, who did not consider *the expected costs of the deterrent's response* serious enough to comply with it in the deterrence by denial phase - see reintroduced figure 2 below for the components of the adversary's risk calculation. Therefore, the Union

³³⁶ Camille Gijs, "The EU's strategy to counter Trump's tariffs: An iron fist in a velvet glove" *Politico*, February 2025, (Available at: <https://tinyurl.com/y8dpa448>).

³³⁷ *Ibid*

knew that it had to send a clear signal and move on to the next phases of deterrence in the ACI. This also means that deterrence, according to the EU Commission's own definition of the ACI, has already failed. The EU Commission explicitly states, as previously mentioned, that the primary objective of the ACI is to deter economic coercion. In terms of deterrence, this would in principle only be successful if economic coercion did not occur or continue.

Figure 2 - Deterrence framework: Overview over Ellsberg and Snyder's theories



Contrary to China and Xi Jinping's often closed and strategic ambiguous style of communication, the communication of the US under Trump's leadership has become commonly known as consisting of more explicit and confrontational in nature. To understand the President and his administration's risk calculations, we turn to their public statements. Trumps communication is widely consisting of frequent and direct statements, which are available through official government channels, the social media X and Trumps own social media, Truth Social. In light of this constant transparency of Trumps thoughts on foreign and domestic policies and his intentions on such, the EU's ACI appears to be remarkably absent. Currently there is no indications that Trump has given the ACI any thought in the period between 2021-2023 – neither during its negotiations, at its adoption or at its entering into force.

This absence is not likely to be a coincidence. By looking at the history of Trump’s habits of commenting on political developments – even relatively unimportant developments for his agendas, it seems as if it is a conscious decision to neglect the EU as a political actor or simply the lack of knowledge towards the ACI.

Given the extensive and consistent public communication from the EU on the ACI – which was also analyzed in the China case – it appears unlikely that the Trump administration could have missed the drafting and developments around the ACI. The most plausible is thus, that the EU has either knowingly been neglected in US risk calculations, or that the ACI has not been seen as a threat towards the US. This interpretation was confirmed in our expert interview from our US expert, who described the relationship between the two parties with the comment, that the US sees the EU as its “*little brother*”.³³⁸ Such mentioning indicates an asymmetric relationship, where the EU from US optics does not appear as a fully autonomous political apparatus. Additionally, the leaked Signal-chat between high-ranking officials from the Trump inner-circle saw the US ally – the EU – being mentioned as “*free-riders*”³³⁹ As highlighted by Geiger in the literature review, the EU is to a large degree economically- and security dependent on the US, and concurrently this asymmetry strengthens the argument that the US potentially has benefited in negotiations and trade-related tensions between the two parties.³⁴⁰ It is likely that the EU’s dependency has played a large role in the US risk calculation of the *likelihood of different responses from the deterrent* and potentially assessed it as low – see figure 2 above. This means, how strongly the EU could and would react on potential tariffs, and if it in the end would be willing to null or adjust its non-compliance investigations aimed at US big tech companies such as Apple and Meta.

However, indications suggest that Trump’s tariffs can have had a real effect which indications can be seen on the sizes of the fines the EU has laid out against Apple and Meta. The two companies were fined €500 million and €200 million respectively.³⁴¹ Compared with the limits of what the fines can amount to under the DMA, the two fines appear questionably mild. According to the DMA, the EU Commission can fine a company up to 10 percent of its annual

³³⁸ US expert interview

³³⁹ The New York Times, “The Leaked Signal Chat: Annotated”, *The New York Times*, March 2025, (Available at: <https://tinyurl.com/yjmk5ubp>). & Donald J. Trump, “EU was formed in order to screw the US”, Twitter post, *Anadolu News*, February 2025, (Available at: <https://tinyurl.com/4265bpp7>).

³⁴⁰ Geiger, *supra* note, 66, p. 1-3

³⁴¹ Parry, *Supra* note, 252.

revenue.³⁴² A quick calculation shows, that Apple in the recent financial year had a revenue of approximately \$391 billion which amounts to approximately €343 billion, which theoretically could have resulted in a fine of up to €34,3 billion.³⁴³ Similarly, in the same financial year Meta had a revenue of \$164 billion which amounts to €147.5 billion, which would have resulted in fines up to €14.7 billion.³⁴⁴ Against this outline, the fines appear remarkably modest and can be interpreted as the EU showing some caution – possibly by efforts from the EU to contain potential broader political- and security related relations with the US to worsen. This is in line with a previously noted argument by Geiger stating that the EU's security dependence on the US plays a significant role in how the EU shapes its policy to resist pressure from the US.³⁴⁵ This is further confirmed in an article from the Financial Times, where EU capitals allegedly encourages Brussels to await any potential retaliation against Trump's tariffs until the NATO summit in June 2025 on the grounds that a deal with the US President on the security of Europe must take priority.³⁴⁶ Although this article surfaced about three weeks after the fines against Apple and Meta were finalized, it is highly likely that this has been the dominating discourse within the EU bubble in Brussels. This viewpoint was independently confirmed by our EU Policy Expert 2, who referred to discussion amongst his EU contacts, where this argument was presently part of discussions.³⁴⁷

In 2017, the EU fined Google an unseen fine in terms of size, which amounted to €2.42 billion for its abuse of dominance as a search engine, where it prioritized its own services in illegal ways. Additionally, in 2024, the EU fined Apple and Meta €1.8 billion and €797 million respectively. This was noticeably in a period where Trump remained as a civilian and not President, and therefore there were no explicit US threat of reciprocal tariffs.³⁴⁸ These cases and its fines were not formalized under the DMA, but they nonetheless highlight the sharp contrast of the current situation, where the EU Commission in its ruling on the DMA cases against Apple and Meta, makes the EU look much more modest in the proportion of the fines.

³⁴² European Commission, *Supra* note, 222.

³⁴³ Yahoo, *Supra* note, 223.

³⁴⁴ Our own calculations & Yahoo, *Ibid*.

³⁴⁵ Geiger, *Supra*, note, 66, p. 1.

³⁴⁶ Henry Foy, "EU capitals want retaliation against Donald Trump delayed to avoid Nato summit clash", *Financial Times*, May 2025, (Available at: <https://tinyurl.com/37ymthsr>).

³⁴⁷ EU Policy Expert 2

³⁴⁸ European Commission, "Commission fines Apple over €1.8 billion over abusive App store rules for music streaming providers" Press release, March 2024, (Available at: <https://tinyurl.com/muvbt45>). & Parry, *Supra* note, 252. & European Commission, "Commission fines Google €2.42 billion for abusing dominance as search engine by giving illegal advantage to own comparison shopping service", Press release, June 2017, (Available at: <https://tinyurl.com/bdznn73p>).

This change in approach by the EU collides with a period where not only the US has openly threatened with economic retaliations against the EU, but it has also hit the EU with tariffs right before the verdict of the non-compliance investigations. This stark change in regulatory action strengthens the assumption that the EU increasingly reconciles its trajectory in relation to geopolitical consequences and potential US reactions. This can indicate that the EU acts diplomatically to avoid Trump feeling provoked too much, however, it creates a risk that the EU appears less credible in its deterrence strategy, given the fact that they could have hit Apple and Meta with much larger sanctions for violated EU market laws. According to Brian Hughes, spokesman for Trump's National Security Council, the US clearly seems provoked by the fines regardless of its relatively small sizes. In a statement to Politico, he stated that "*The fines is a new form of economic blackmail, which will not be tolerated by the US.*"³⁴⁹

Despite the EU's relatively small fines, it can be argued that the EU has applied Ellsberg's deterrence tactic of making it institutionally- and politically costly not to act. According to Ellsberg an actor can increase the probability for the adversary to see a threat as credible by burdening yourself with political or institutional costs if the threat is not carried out – for example by betting your authority, honor of political position. This is what the EU appears to have done by proceeding and concluding the investigations against the US big tech. By giving fines and completing its investigations, the EU has practically invested its credibility and regulatory strength towards the threats being carried out, and that such actions resulted in a strengthening of its role as a credible regulator. Had the EU avoided this, it would not only have weakened the EU's international integrity but also delegitimized the ACI and its deterrence potential. Thus, the act appears as not only a question on EU single market regulation, but also a necessary step to maintain and make visible, the EU's ability to enforce its own norms – also against an economic- and politically dominant actor outside the EU. This argument is strengthened by Von der Leyen's statement to Politico, where she stated that the EU Commission would not let Trump's attack on trade (tariffs) distract them from their enforcement commitments.³⁵⁰ A potential weakness in the EU's strategy in this case is that the US may now perceive the EU as unwilling to impose severe sanctions, even in response to future instances of American behavior that the EU considers economic coercion. We must therefore assume that this is affecting the US's risk calculation of the *expected cost of the*

³⁴⁹ Bordelon & Miller, *Supra* note, 224.

³⁵⁰ Parry, *Supra* note, 252.

deterrent's responses as comparatively low. Furthermore, as Ellsberg's theory of *critical risk* posits, a deterrer can influence the adversary's critical risk by either increasing or decreasing it. In this context, the EU has sought to uphold its legal principles, but in practice has imposed only relatively mild sanctions from a historical view - potentially raising the US' critical risk threshold. From an American perspective, this could be interpreted as a signal that the EU is similarly unlikely to resort to harsh penalties in future cases. This perception risks undermining the credibility of the EU's deterrence strategy, as the US may come to expect continued restraint - such as a reluctance to activate the ACI or to enforce it with significant sanctions.

At the same time, it is important to consider the fact that the Trump administration chose to put the reciprocal tariffs on hold before the EU Commission finalized its fines against Apple and Meta. This can be interpreted in several ways. Either has the EU's clear indication on the enforcement of the DMA had a real deterrent effect which has resulted in a revision of the US approach since the US has assessed that they have miscalculated the situation, and the ACI and the EU as an actor. Alternatively, it can be interpreted as a conscious move from Trump in line with what Ellsberg identifies as a strategy as well; to appear irrational to increase own threat credibility – and thereby create uncertainty about what his next step will be. Several of our expert interviews pointed towards this exact dimension and describes Trump as a “*special case*” whose unpredictability makes it difficult – also for the EU – to read his real intentions.³⁵¹

The EU's enforcement of the DMA fines and its clear signal on the EU's willingness to use the ACI can, as stated, have functioned as a crucial deterrent which made the US reevaluate its risk calculation towards potential stronger response measures from the EU than originally anticipated. The ACI could be a reason for the US' choice of de-escalation and thus have contributed to the decision to put the reciprocal tariffs on pause. It should be considered that a state like the US also weighs its cost by every choice they make, a consideration which aligns with Snyder's assumptions in his theory on risk calculation. The response measures under the ACI could mean serious consequences for the US given the EU's role as one of its biggest trade partners. According to World Economic Forum, the EU was in 2023 the US' next largest importer of goods, and additionally, the EU itself has underlined that their economic relation to the US is the most integrated relation in the world.³⁵² The US Trade Office itself recognizes

³⁵¹ EU law expert interview & EU policy expert 1 interview

³⁵² World Economic Forum, “Here's what to know about the EU-US Trade and Technology Council”, *Trade and Investment*, April 2024 (Available at: <https://tinyurl.com/ynfsvc6v>). & European Council, “EU relations with the

that the US' trade- and investment relations with the EU comprises the worlds' largest and most complex relationship.³⁵³ This official phrasing underlines the strategic and economic significance of the EU to the US despite political tensions and rhetorical confrontations. Specifically, this means that the US would face substantial economic and political risks by being hit with response measures from the EU. According to a leaked preliminary plan obtained by Dealbook, the EU describes potential areas where the ACI could be activated against the US. These areas comprise the US banking network and its access to the EU's enormous public procurement market, a restriction that would partly cut off US banks from projects valued at approximately €2 billion annually.³⁵⁴ These measures are laid out in the ACI's regulation and its Annex I, section 4, and are thus real potential measures that the EU can invoke.³⁵⁵ In light of this knowledge, by looking at Snyders' concept of *control over the adversary's assets*, the EU has to some extent control over a substantial amount of US current and future resources which in theory should have a deterrent effect.

It is, however, important to note that the US has previously demonstrated a willingness to accept the risk of retaliation, indicating that the US assesses the costs of EU's response as falling within its acceptable threshold. When the Trump administration in 2018 imposed tariffs on steel and aluminum, the EU responded with concrete retaliatory tariffs on US goods.³⁵⁶ Former Director-General for Trade in the EU Commission, Jean-Luc Demarty, told Politico that the retaliatory tariffs from 2018 were targeted US exports which were not considered as vital for EU consumers, but would instead hurt the US economy significantly more.³⁵⁷ As previously mentioned, the EU has to a large degree utilized lived experiences from the first Trump term where his aggressive tariff policy amounted to a direct challenge. The experiences specifically laid the foundation for the development of the ACI, which represents a significant shift in EU strategic doctrine to economic coercion. The adoption of the ACI signals that this time, the EU has met Trump's course on trade policy with a much larger degree of preparation – a reality which Trump likely has been aware of. This shift can still, however, have surprised

United States", *European Council, Council of the European Union*, n.d. (Available at: <https://tinyurl.com/32twewtz>).

³⁵³ Office of the United States Trade Representative, "Europe", *Executive Office to the President*, n.d. (Available at: <https://tinyurl.com/ycy3f55b>).

³⁵⁴ Sorkin et.al., *Supra* note, 301.

³⁵⁵ European Union Regulation (ACI), *Supra* note, 31, Annex.

³⁵⁶ Maria Demertzis & Gustav Fredriksson, "The EU Response to US Tariffs", *Intereconomics*, Vol 53, 2018, pp. 260-268.

³⁵⁷ Gijs, *Supra* note, 336.

Trump, that the EU this time around seems to take the ACI serious when it is brought up as a concrete tool, and not just as a piece in symbolic rhetoric without operational consequence.

The EU is presently undergoing negotiations with the US, and thus the situation has – as described earlier – transited into the deterrence by negotiation phase. As previously mentioned before entering the deterrence by punishment phase, negotiations and bilateral arbitration are the primary diplomatic solutions to be tested in hope of a de-escalatory path. Here it would be wise to assume that response measures under the ACI is very much in play as a deterrence factor where the EU now has mentioned the ACI as a viable pathway in the leaked plan. On May 12, Politico wrote after a press conference with the White House, that despite several attempts it has not yet been possible to reach a trade deal with the US, which could suggest that the US has not been deterred by the ACI and this phase of deterrence by negotiation. During an interview described in the same article, Trump stated that the US has all the cards in the negotiations with the EU.³⁵⁸ It remains apparent that an escalation of the trade war between the EU and the US – where the US keeps or escalates the tariffs after its 90 days pause, potentially followed by a European response measure through the ACI – could have significant economic consequences for both the EU and the US. However, it may equally be argued that the EU, like the US, perceives itself to hold a strategically advantageous position. From the EU's perspective, there is a clear expectation that an agreement can be reached before the 90-day deadline - especially given the ACI mechanism serves as a potential leverage point, which in negotiation terminology can be understood as a form of strategic backup or credible threat. However, it is important to note that this may prove challenging for the EU, as Trump is unlikely to sign any trade deal he cannot portray as a domestic victory.³⁵⁹

The think tank Bruegel argues that the EU will be more vulnerable than both that of China and the US, primarily based on its larger degree of international trade. The analysis does, however, point towards the possibility of the EU to potentially being able to limit its economic losses measured in GDP by applying response measures that mirror US tariffs. As previously mentioned, this is an approach which the EU already has experiences with.³⁶⁰ However, even

³⁵⁸ Camille Gijs, "Trump: The EU is 'nastier than China'", *Politico*, May 2025, (Available at: <https://tinyurl.com/4ethf52e>).

³⁵⁹ Julie Schneider, "Trump Truer, EU tier – og det bliver kun mere tydeligt, hvem der har mest at miste", *Berlingske*, May 2025, (Available at: <https://tinyurl.com/mrcrpm3u>).

³⁶⁰ Ignacio G. Bercero, Petros C. Mavroidis & André Sapir, "How the European Union should respond to Trump's tariffs", *Bruegel*, December 2024, (Available at: <https://tinyurl.com/yf8e5syf>).

if the opportunity of response measures exists, it raises a central question regarding the willingness amongst EU Member States; how many Member States are in reality willing to activate the ACI against the US – and thereby potentially risk further tensions in transatlantic relations. While the economic logic speaks for a coordinated and mirrored response, the actual activation of response measures under the ACI depends highly on the Member States' internal priorities, economic interests and their relations to the US. Thereby, the question moves from an economically technical domain and into the politically-security domain.

This combination of diplomatic negotiations and the novel threat of retaliation illustrates that the EU currently balances a fine line between deterrence and de-escalation. This raises the question whether the US is even receptive to the EU's signaling regarding the potential use of the ACI. Temporarily, it seems like the opposite to be the case. The US does not appear noteworthyly deterred in the current negotiation phase – a point which is reflected in the rhetoric from key figures within the Trump administration. This could mean that we are potentially about to shift into the next and last phase of the ACI – deterrence by punishment. One thing is Trump's own statements, but when his Chief Trade Advisor, Peter Navarro publicly paints the EU's retaliatory tariffs as "*provocative*" and "*evil*", it testifies a one-sided narrative within the inner circle of the administration. Such an opinion where legitimate retaliatory tariffs from strategic partners are swept away as unjustified attacks, points towards some sort of echo chamber which hinders the administration's ability to conduct a realistic and balances risk calculation and its foreign and domestic consequences.³⁶¹ Within media, Navarro is referred to as the "*brains behind Trump's tariff adventure*" and "*the trade advisor who hates trade*". Simultaneously he plays a central role in forming the trade strategy of the US which seemingly negates political and economic consequences of such a confrontive line towards the EU.³⁶²

It appears that the Trump administration's risk calculation is driven by a subjective probability strongly anchored in the conviction that the US will "win" the conflict with the EU. The US is effectively assessing a *high likelihood of achieving their objectives* regardless of the circumstances - and thus under various scenarios. This implies that their critical risk is relatively high, as their willingness to continue the tariffs is similarly elevated - they do not perceive the potential consequences as particularly risky. This suggests that they do not view

³⁶¹ Gijs, *Supra* note, 358.

³⁶² Peter Møller, "Han er hjernen bag Trumps toldeventyr og bliver kaldt præsidentens farligste mand", *TV2*, April 2025, (Available at: <https://tinyurl.com/2s8bjkvu>).

the EU's deterrence strategy as credible, and consequently, do not regard the ACI as having a significant deterrent effect. In other words, an argument strengthened by Gehrke, Trump's willingness to escalate measures will continue until he achieves a cessation of EU policy.³⁶³

Summary

To summarize, as the case transitioned from deterrence by denial to deterrence by negotiation - but has not progressed beyond this stage - our analysis is therefore limited to the deterrence by negotiation phase. This first and foremost indicates that the EU's deterrence strategy during the deterrence by denial phase failed to achieve its intended effect. Given that the EU Commission explicitly states that the primary objective of the ACI is to prevent the adversary from acting, it must be concluded that this objective was not fulfilled in the initial phase. When viewed through the lens of deterrence in phases, as applied in this analysis, there remains a basis for cautious optimism.

US' actions have been analyzed through Ellsberg's critical risk and subjective probability concepts and Snyder's risk assessment components, which constitute the US' risk calculation. Although it is impossible to gain full insight into the decision-making processes of the Trump administration empirical findings suggest that, in contrast to China, the US has demonstrated a high level of critical risk. High because the US appears to have been willing to maintain, and thus continue, the tariffs despite the ACI being a part of EU law. This means that the US threshold for acceptable costs was not exceeded and that the risk of continuing tariffs against the EU does not seem to significantly affect the US. This can potentially be attributed to the US view of the EU as being fundamentally dependent on the US both economically and in terms of security. From a European perspective, this may appear as an underestimation, but from the American side, it likely reflects a realistic assessment of the EU's strategic capacity.

The analysis indicates that the EU's deterrence strategy is largely consistent with Ellsberg's theoretical framework. First, the EU has consistently and clearly communicated its threat - both throughout the ACI negotiation process and in the aftermath of Trump's announcement of the relevant memorandum second the EU sought to uphold fines against US big tech, as failing to enforce them would have been costly to its credibility. Third, the EU holds significant structural power through the deeply integrated transatlantic trade relationship, granting it genuine

³⁶³ Gehrke, *supra* note, 55

influence over both current and future US economic interests. The EU's threat to invoke the ACI in response to economic coercion appears to have been substantial, yet ultimately insufficient to compel compliance. The EU does not yet appear to have achieved the full deterrent effect necessary to permanently influence the US' risk calculation. There is no clear indication that the US has had confidence in the EU's willingness to follow through on its threat. This absence of US believing the threat being realized undermines the overall effectiveness of the deterrence strategy in the case at hand. This assessment is clearly reflected in both US actions and rhetoric toward the EU. That said, it appears that both the EU and the US see themselves in an advantageous position in the deterrence by negotiation phase, and it will therefore be interesting to see what the future outcome will be. We will therefore focus the discussion on the future aspect of whether the ACI will potentially be used against the US.

Comparative deterrence summary

This comparative analysis highlights the EU's deterrence strategy vis-à-vis China and the US that reveals two markedly different outcomes, shaped by both the adversaries' risk calculations and the phase of deterrence reached in each case.

In China's case, economic coercion did not escalate beyond the deterrence by denial phase, indicating that the ACI achieved a deterrent effect consistent with the EU Commission's stated primary objective for the instrument. Despite the limited transparency of China's internal decision-making, available evidence suggests that the adoption of the ACI prompted a recalibration of Beijing's risk calculation. China likely concluded that the potential costs of maintaining the embargo against Lithuania - particularly the threat of future countermeasures under the ACI - outweighed the strategic benefits, especially given the risk of damaging relations with key EU Member States. Notably, China appeared to perceive the EU's threat as credible, despite the Union's institutional complexity. This perception was likely shaped by the EU's consistent signaling, clear communication and the eventual adoption and entry into force of the ACI. Thus, even without direct enforcement, the ACI appears to have had a deterrent effect by virtue of its mere existence. In other words, the ACI functioned as was the objective against China. In this case, the ACI achieved the deterrent effect originally intended by the EU: an effect based solely on the instrument's existence.

Unlike the case with China, the ACI failed to achieve the intended effect in the deterrence by denial against the US, forcing the dispute to move into the next phase: deterrence by

negotiation. This is inconsistent with the EU Commission's stated primary objective for the instrument. Although the EU signaled and communicated its readiness to deploy the ACI - underpinned by a robust legal framework, legal enforcement, and a proven record of deterring China - the US persisted with its economic coercion through tariffs. Consequently, despite the 90-day pause, a 10 percent tariff on EU imports remains in effect and will continue unless the parties conclude a trade agreement within this window. Empirical evidence suggests that the EU's threat was ultimately not strong enough to change Washington's risk calculation. The US did not perceive the EU's threat as sufficiently credible or costly to justify a change in behavior. This critical risk is likely due to a strategic perception of the EU as economically and security-wise dependent on the US, which makes them feel superior in a conflict with the EU. Unlike China, the US also seems confident in its ability to withstand potential countermeasures from the EU without incurring significant strategic costs. Although the EU's deterrence credibility strategy is well aligned with the fundamental principles of deterrence theory, its practical deterrent effect on the US has proven limited. It must therefore be concluded that, so far, the ACI has not been successful in deterring the US from exercising economic coercion against the EU.

It is clear that the EU's relationships with China and the US play a decisive role in how each perceives the EU as a credible deterrent via the ACI. China appears more inclined to adjust its behavior in response to the threat of EU countermeasures, likely due to a greater sensitivity to economic escalation - ironically reinforced by the absence of strong security and integration ties with the EU. In contrast, the US demonstrates a significantly higher risk tolerance, despite its deep economic and security integration with the EU. This may stem from a US perception of the EU as asymmetrically dependent and hesitant, which undermines the EU's deterrence credibility. It should also be noted that this analysis is based on the actions of the Trump administration, whose approach may not necessarily reflect that of future US governments.

6. Discussion

As of this writing, it still remains to be seen if and how the US will be the first third country to be targeted by EU response measures to economic coercion under the ACI. However, as mentioned previously in the analysis. The Union must remain critical to the fact, that China is watching the case very closely, and whichever outcome might become reality, will shape

Chinese willingness in economic coercion cases against the Union moving forward.³⁶⁴ The following sections discuss three possible outcomes for the ACI: First, that the ACI is not activated due to the EU's reluctance to confront the US. Second, that the ACI is not activated because deterrence through negotiation proved effective, culminating in a bilateral trade agreement between the EU and the US. Third, that the ACI is activated in response to acts of economic coercion by the US. The arguments presented are grounded in our findings from the literature review and qualitative data derived from the analysis, forming the basis for the ensuing discussion on future-oriented aspects.

In the following discussion, the idea of Ellsberg's payoff values are used to illustrate the expected benefits for the EU (as the deterrent) and for China and the US (as the adversaries). While the approach is inspired by Ellsberg's simple matrix model (see figure 1), the specific numerical values used here are not drawn from Ellsberg's original work but are constructed by the authors for illustrative purposes – see figure 15 below. These values are integrated directly into the text, each accompanied by an explanation of the underlying assumptions and logic. As Ellsberg points out, it is important to emphasize that these values are not directly comparable between the deterrent and the adversaries. The values are therefore for illustrative purposes only and should be understood as expressions of the actors' own preference-based assessments of possible scenarios – not as concrete, measurable consequences. Each actor's payoff must therefore be interpreted relatively in relation to their other options.

³⁶⁴ Benedetta Girardi, Davis Ellison, & Tim Sweijts, "China Watches, Taiwan Learns: Ukraine's War and the Indo-Pacific", *The Diplomat*, March 2025, (Available at: <https://tinyurl.com/n662crdz>). & John K. Culver & Sarah Kirchberger, "US-China lessons from Ukraine: Fueling more dangerous Taiwan tensions", *Atlantic Council*, June 2023, (Available at: <https://tinyurl.com/yrijkcs5a>).

Figure 15 – Potential payoff values

2	significant strategic gain, without significant cost
1	moderate gain (economic or political), but not without cost
0	neutral – no significant gain/loss
-1	loss – political, economic, or strategic weakening
-2	serious loss – high economic/political cost, e.g., open trade war or loss of prestige

Note: Our own figure and numerical values

6.1 The Bazooka remains unfired

The first scenario covers the EU not activating the ACI against the US, and what implications this could have for EU's credibility in the future against economic coercion from China and the US.

Our US expert pointed out his views on EU-US relations, stating that the US does not see the EU as a threat and that the real threat here is China. What this means for the ACI relates to his other point, that the EU remains the “little brother” in the EU/US relationship, and that the US therefore does not fear the ACI, and thus neither has any negative payoffs in its subjective probability calculus around a further escalation.³⁶⁵ Based on this and the preceding analysis, the US' subjective assessment can be estimated at a payoff value of 2, reflecting the view that the ACI currently holds little to no deterrent effect. 2 represents a numerical value which reflects a significant strategic gain. The EU's position as a credible deterrent thus seems to matter little should reality unfold like posited here. Our EU policy expert 2 provide a different perspective to our US expert's views. He thinks that the US would not be able to win a trade

³⁶⁵ US expert interview

war with the EU, and that the response measures possible under the ACI should be an effective deterrent against the US, as the US would be critically hit by restrictions on the EU public procurement market, and denial of FDI.³⁶⁶ Should the US find itself in the outlined scenario its subjective payoff value could reasonably be expected to shift in a negative direction.

Whether the EU activates the ACI remains vital and will play a substantial role in shaping Chinese and US engagements around economic coercion as a strategy against the EU in the future. This follows the similar thinking of the NATO Article 5 as mentioned previously in the analysis, that the current case of economic coercion by the US will serve as a test of the EU's credibility as an effective deterrent with the ACI. This test, should it fail, would alter China and the US' threat perception and likely shift their perceived rewards for deploying economic coercion against the Union. Given the EU's reluctance toward the US, it is likely they will refrain from activating the ACI against them. Looking ahead, one may argue that both China and the US are likely to perceive the ACI as lacking credibility in such a scenario. Consequently, they may assess the expected payoff of engaging in future economic coercion against the EU as high - approximating a value of 2 - on the assumption that the Union is unlikely to enact significant response measures. Even though China would be less hesitant to look at the ACI as a credible deterrent, it would likely acknowledge the difference in relationship that China and the US hold to the EU in the sphere of security. Our analysis indicates that the EU is substantially more dependent on the US than on China. Here, China's risk calculation should pay attention to the fact that the EU could – and historically would – act more assertive towards China than the US. This means that China could expect a different response which could include an ACI activation, even though it might have been kept locked away against the US. The asymmetry in the EU's relationships with China and the US makes China more acutely aware that a forceful EU response would likely inflict disproportionately greater economic harm on China - an outcome that, according to EU Policy Expert 1, would be economically unsustainable for Beijing. These asymmetries compel a revision of China's risk calculus. While Beijing would question the full credibility of the ACI in such a scenario, it recognizes that an activation would more likely be realized against China than against the US. Consequently, China is likely to assign the scenario an expected payoff of -1, signaling an anticipated political and/or economic loss.³⁶⁷

³⁶⁶ EU law expert

³⁶⁷ EU law expert interview

An alternative scenario rests on the assumption that China does not consider the relational dichotomy between the EU and the US versus China as decisive for the likelihood of an ACI activation. In this case, China is likely to exhibit greater confidence in its economic coercion strategy aimed at achieving policy cessation with minimal repercussions. The EU's hesitation to apply the ACI against the US reinforces China's perception of the instrument as lacking credibility. This, in turn, increases China's subjective probability of success, reverting its expected payoff assessment to 2, as it anticipates no meaningful countermeasures from the EU.

6.2 Debating consequences of the ACI omission

As previously covered in this thesis, we have presented the argument of the China-Lithuania case, to be a case where deterrence by denial worked. While it was not the ACI in its entirety, but rather a mixture of the instrument combined with the aid Lithuania received from a collective EU and other allies, China lifted its embargo and deterrence worked. What had previously constituted a firm red line for China was ultimately abandoned, as restrictions on Lithuania were lifted without any rewards or concessions in return. This is underscored by the fact that, at the time of writing, Lithuania has not altered the name of the TRO. The EU now faces a critical challenge: deterrence by denial of the US has failed, and it must now demonstrate credibility in the deterrence by negotiation phase. Failing this, the Union will inevitably be pushed toward a strategy of deterrence by punishment.

The EU is currently in a phase to deter economic coercion through negotiations. According to our EU law expert, this phase is critical for the ACI to function as an effective deterrent, particularly given the EU's institutional structure and decision-making dynamics.³⁶⁸ As previously outlined in this analysis, negotiations are ongoing under the 90-day tariff suspension decision established in April 2025. Throughout April, the EU has actively pursued a so-called *zero-for-zero* tariff agreement with the Trump administration, underscoring its commitment to reaching a mutually acceptable compromise. However, it appears increasingly evident that the US is seeking highly favorable terms, reminiscent of the earlier trade agreement concluded with the United Kingdom (UK), wherein the UK conceded a 10 percent tariff loss in favor of the US. This precedent seems to shape the current American negotiating posture.³⁶⁹ Both the EU and the US, as previously noted, perceive themselves to hold strong bargaining positions,

³⁶⁸ EU law expert interview

³⁶⁹ Presidential Statement, "U.S. – UK Reach Historic Trade Deal", *The White House*, May 2025, (Available at: <https://tinyurl.com/554ebbrj>). & Josh Boak, "Trump threatens 50% tariffs on EU and 25% penalties on smart phones as his trade war intensifies", *Associated Press*, May 2025, (Available at: <https://tinyurl.com/4wt54v83>).

a mutual conviction that may significantly hinder the path to compromise. This assessment is supported by a statement from our EU law expert, referencing the EU Trade Commissioner, who has publicly acknowledged that the two parties remain far from reaching an agreement - indicating that the negotiations have yet to yield substantive progress.³⁷⁰ From this perspective, it can be assessed that the US perceives itself as negotiating from a position with an expected payoff of 2. Trump appears fully convinced that the US can secure an outcome that maximally serves American interests. This confidence is consistent with his self-image as a master negotiator - “*the art of the deal*” - and is clearly reflected in the US negotiating strategy.³⁷¹ The EU, by contrast, also sees the potential for a positive outcome from the negotiations, yet simultaneously acknowledges that the optimal result would have been a complete withdrawal of Trump’s tariffs - that is, a successful case of deterrence through negotiation. The Union is aware that any agreement with Trump will inevitably involve compromise. Consequently, the EU’s expected payoff is assessed at 1 - a moderate gain that may carry economic and/or political significance, but which will not be achieved without certain costs.

Considering the apparent impasse in negotiations, it can be argued that the EU is actively evaluating and exhausting all available tools within its negotiation toolkit before invoking the ACI as a “last resort” option. One of these tools concerns the EU’s intention to bring the US before the WTO. In light of the leaked documents and official statements from Members of the EU Parliament regarding the ACI, the forthcoming WTO referral can be understood as a provisional sanctioning strategy. Through this approach, the EU may seek to avoid triggering the ACI, should it succeed in obtaining a binding WTO ruling compelling the US to repeal its tariffs. Additionally, the EU, in coordination with relevant stakeholders, is examining a list of potential targets for retaliatory tariffs, collectively capable of impacting the US economy by up to €95 billion — a process set to commence on June 10, 2025.³⁷²

However, the EU’s behavior can also be interpreted as exercising due diligence ahead of a potential ACI activation, systematically gathering input from stakeholders to identify potential sectors to target - a procedure written into the ACI regulation prior to its activation.³⁷³ Concurrently, the EU appears to be compiling evidence of economic coercion by the Trump

³⁷⁰ EU law expert interview & Sylvian Lane, “Bessent: Trump tariff threat should ‘light fire’ under EU”, *The Hill*, May 2025, (Available at: <https://tinyurl.com/ykume2dk>).

³⁷¹ Presidential Statement, “Art of the Deal: U.S., China Ink Initial Trade Deal” *The White House*, May 2025, (Available at: <https://tinyurl.com/43u2jp88>).

³⁷² European Commission, *Supra* note, 291.

³⁷³ European Union Regulation (ACI), *Supra* note, 31, Art. 13. Para 2.

administration, thereby substantiating a strategic choice to pursue primarily ACI countermeasures rather than relying solely on WTO dispute settlement mechanisms. Von der Leyen stated that: “*We continue preparing for all possibilities, and the consultation launched today will help guide us in this necessary work,*” a statement that strongly supports this argument.³⁷⁴ Furthermore, the argument that the WTO referral and stakeholder consultations constitute a further step within the deterrence by negotiation phase is supported by the following statement in an EU press release: “*The EU continues to prepare potential countermeasures to defend its consumers and industry, in parallel with the negotiations and in case these fail to deliver a satisfactory outcome.*”³⁷⁵ The EU’s explicit communication underscores its resolute commitment to deterrence by negotiation - not only in the current dispute with Trump but also to maintain credibility throughout the entire process, thereby signaling to China the EU’s steadfast refusal to capitulate to economic coercion, even when confronted by its closest ally.

However, as highlighted by our EU law expert, there is presently a lack of consensus among EU Member States regarding the willingness to invoke the ACI as a “last resort” and transition from deterrence by negotiation to deterrence by punishment against the US. He believes France, Germany, and Spain to be the principal proponents of activating the ACI against the US, while Ireland, Italy, and Hungary are opposed.³⁷⁶ It seems as if the unity the EU is seeking for its first ACI activation remains difficult to achieve. It is important to note, however, that especially France and Germany are considered to be some of the most powerful EU countries in terms of shaping EU foreign policy. Under this assumption, it can be argued that their support of the ACI can be decisive in getting less powerful and doubtful Member States onboard with an ACI activation.³⁷⁷ EU policy expert 2 echoed this view, stating that he does not believe the lack of unity would ultimately prevent the EU from activating the ACI, should the need arise.³⁷⁸

Another possibility in this scenario is that the ACI is not activated, either because the ACI in the deterrence by negotiation phase has achieved the desired effect and the US consequently withdraws its tariffs entirely, meaning no trade agreement exists. Alternatively, the ACI may

³⁷⁴ European Commission, *Supra* note, 291.

³⁷⁵ *Ibid*

³⁷⁶ EU law expert interview

³⁷⁷ Stefan Lehne, “The Big Three in EU Foreign Policy”, *Carnegie Europe*, July 2012, (Available at: <https://tinyurl.com/mdn3nee4>). & EU Policy expert 2.

³⁷⁸ Deepak Raju, “Proposed EU Regulation to Address Third Country Coercion – What is Coercion?”, *EJIL:Talk!*, January 2022, (Available at: <https://tinyurl.com/mr49k4bs>).

remain inactive if the parties reach a trade agreement. This raises the question of whether the ACI has, in fact, failed - despite potentially being used as deterrence during the negotiations - since Trump has nonetheless succeeded in securing a trade deal with the EU that the EU initially did not seek. It is difficult to assess whether the ACI potentially plays a role in the negotiations, as such discussions likely take place behind closed doors without official communication. Furthermore, successful deterrence is often impossible to quantify.

If a trade agreement is reached and the ACI has contributed to that outcome, it is crucial for the EU's future credibility that this is communicated clearly and convincingly. Naturally, it is difficult to assess precisely how the lack of an ACI activation will affect the EU's deterrence posture vis-à-vis actors such as China and the US. Nevertheless, the EU's geoeconomic credibility will be weakened if it fails to demonstrate that the ACI had real influence in the negotiations - precisely because countermeasures may ultimately not be enacted.

6.3 The EU fires its Bazooka against the US

A scenario in which the EU activates the ACI against the US could unfold in varying degrees of intensity, as the instrument must be applied proportionally. If negotiations break down and the ACI moves into its final phase - deterrence by punishment - the scope of the EU's countermeasures will be determined by the nature and severity of the US actions. ACI's activation against the US would send a powerful message and set a strong precedent that the EU is resolute in defending the Union and countering economic coercion. It would clearly signal to future actors that the EU applies its deterrence measures impartially, regardless of whether the coercion comes from allies or adversaries. As noted by Danzman and Meunier, this move would underscore the EU's decisive shift into its geoeconomic turn and mark a transformation from a traditionally diplomatic actor to a more assertive economic power.³⁷⁹

If the EU chooses to go down this path, our findings strongly suggests that China will perceive it as a clear demonstration of strength and unity from the EU. By signaling its willingness to deploy the ACI as a credible threat - even against a historically key economic and security ally - the EU sends an unmistakable message to China, its systemic rival, that the instrument will undoubtedly be used against it in the face of future economic coercion. As previously mentioned, China has historically not hesitated to deploy economic coercion against its adversaries. However, in this scenario, China would be aware of the likely negative

³⁷⁹ Danzman & Meunier, *Supra* note, 9, pp. 1103-1106.

consequences of redeploying economic coercion against the EU. Given China's assessment of the likelihood that the EU will deploy the ACI in response to renewed economic coercion, China would assign itself a payoff of -2. This stark negative score reflects the severe repercussions for the Chinese economy, especially considering its deep economic dependence on multiple EU Member States. That said, it is highly likely that the ACI would persist as an effective deterrent against China during a deterrence by denial phase.

A scenario that could also unfold following an ACI activation against the US is that a future China would actively seek to deepen its ties with the EU in response to escalating economic tensions between the EU and the US. China has increasingly accused the US of exploiting its ties with the EU to unfairly coerce the Union into targeting China. In this instance, the Chinese views of the US being the main culprit of *economic bullying*, China and the EU relations could potentially see a strengthening.³⁸⁰ The views from our China expert contributes to this theory, in that she believes an escalatory trade war between the US and the EU which could lead to an activation of the ACI, would possibly lead to the “*rapprochement*” between the systemic rival and the Union.³⁸¹ In other words, we would potentially witness a coming together of the two economic competitors in light of recent events should they escalate further. Here, China's subjective probability of payoffs towards engaging in economic coercive actions against the EU of -2 would play a role in determining the potential economic payoffs of increasing economic – and maybe even diplomatic – ties between itself and the EU, now that both China and the EU finds itself in the scope of the US' tariff cannons. In this equation, China would find itself in a position where it needs to determine whether a future crossing of its red lines bear more importance than the Chinese economy e.g., another TRO or similar diplomatic relations between Taiwan and an EU member. Therefore, should China deem the -2 payoff to be too detrimental, this would lead to them concede a potential opportunity for utilizing economic coercion through another weaponization of interdependence, and instead seek the opportunity presented, which is closer ties with the EU in relation to the rift created between the Union and the US. Here, since China would concede an embedded political red line, they would perceive the payoffs as negative. However, conceding their political redlines would arguably not be as devastating than a total trade war with the Union. Therefore, conceding the red line would yield a payoff of -1, where Beijing would lose soft power domestically and

³⁸⁰ Cogan, *Supra* note, 30. & Gerald Schneider, Patrick M. Weber & Alessia Invernizzi, “Discriminatory coercion: Understanding the biases of EU and US sanctions”, *Journal of Peace Research*, 2025, p. 13

³⁸¹ China expert interview

political capital internationally. But should they deploy economic coercion, their payoff would stay at -2, given its detrimental effect on the Chinese economy. The -2 payoff can additionally be seen in light of past events, where Lithuania did not change the name of the TRO, despite Chinese economic coercive efforts. China would then find itself in a trade war with the EU, and still not succeed in achieving policy cessations from the EU.

Summary

To summarize, the text discusses three possible scenarios for the EU's handling of economic coercion from the US via the ACI. The discussion is based on qualitative data from the analysis and draws inspiration from Ellsberg's payoff model to illustrate how different actors - the EU, the US, and China - assess the advantages and disadvantages of each scenario. The first scenario concerns the EU choosing not to activate the ACI, due to its economic and security dependence on the US. This may signal weakness and make both China and the US view future economic coercion against the EU as low-risk and high-reward. However, China may act more cautiously, as the EU has previously responded more firmly to China than to the US due a different relationship between the EU and China. The second scenario involves a situation where the ACI is not activated because negotiations with the US prove effective. The EU attempts to reach a *zero-for-zero* deal, but the Trump administration negotiates aggressively and seeks favorable terms, making compromise difficult. The EU uses the WTO and potential retaliatory tariffs as bargaining tools, keeping the ACI as a last resort. It remains unclear whether the ACI has a real impact during negotiations, but the EU must signal that it has deterrent value in order to maintain its credibility. Otherwise, it may appear that the US achieved its goals without the ACI having any real influence. The third scenario involves the EU activating the ACI. This would mark the first use of the instrument and send a clear signal that the EU is willing to deploy the instrument even against close allies. This could strengthen the EU's credibility and deterrence, particularly toward China, which may then adopt a less confrontational approach and seek closer economic ties with the EU. How the EU acts in this situation toward the US will be decisive for the ACI's future effectiveness. A passive approach may weaken the EU's role as a geoeconomic actor, while assertive use could enhance the EU's international position.

7. Conclusion

The geopolitical transformations of recent years mark a departure from earlier eras of global rivalry. In contrast, contemporary conflicts are increasingly shaped by geoeconomic dynamics, where economic interdependencies have become central tools for advancing national interests, as trade policy is progressively guided by concerns over national security and economic competitiveness. Within this evolving landscape, a wide array of tools - ranging from incentives to punitive measures - has emerged, giving rise to silent, disguised or explicit manifestations of economic coercion. As economic coercion has become an increasingly prominent tool in contemporary geopolitical rivalry, it directly challenges the principles of interdependence and multilateralism that the EU has traditionally upheld. In response, the Union has come under increasing pressure to create independent and resilient tools that can protect it from external pressure. An instrument known as the ACI which is the EU's direct response to this. Designed to deter third countries from attempting to influence the political choices of the EU or its Member States through trade and investment pressure, the ACI signals a significant step in strengthening the Union's resilience under its strategy of OSA. Recent cases of economic coercion targeting the EU - originating from both China and the US - have not only revived discussions about China's coercive diplomacy but also intensified concerns over the stability of transatlantic relations. In both academic, media and policy circles, the ACI is often framed as a key element in the EU's pursuit of OSA, and as a promising tool for addressing economic coercion. Nonetheless, the existing literature reveals a significant analytical gap: there is limited focus on the EU as an active and strategic player in the geoeconomic landscape, where the spotlight tends to fall almost exclusively on China and the US. This blind spot also influences evaluations of the ACI's actual impact - particularly in terms of whether, and how, it has strengthened the EU's ability to resist economic coercion and act independently on the global stage. Most notably, there is little analysis of whether the ACI's deterrent effect varies depending on whether the coercion comes from a systemic rival like China or a long-standing ally like the US.

This thesis has sought to address these gaps by applying the theoretical frameworks of weaponized interdependence by Henry Farrell and Abraham Newman and deterrence theory by Michael Mazarr, Daniel Ellsberg and Glenn Snyder. Drawing on these theories and expert interviews, the first part of the comparative analysis demonstrates how China and the US weaponize economic interdependence differently by leveraging network hubs to enable

economic coercion as a tool of economic statecraft. While Farrell and Newman argued that China's ability to weaponize interdependence was limited, this thesis demonstrates that China has leveraged its role as a hub hegemon to exert silent and disguised economic coercion against the EU. The weaponization of interdependence by China and the US is shaped by their respective systems of governance and their institutional structures. While both China and the US meet the conditions for weaponizing interdependence as defined by Farrell and Newman, this thesis shows that the reality is more nuanced. The US, operating within a democratic system, faces legal and institutional constraints that prevent it from unilaterally exerting a "regular" chokepoint effect. To account for this, we reconceptualized the theory by introducing the concept of a *partial chokepoint effect*. Despite these constraints, the US has still managed to effectively deploy explicit economic coercion. In contrast, China's authoritarian and centralized governance allows for greater unilateral action, enabling it to exert a "regular" chokepoint effect. This distinction has practical implications for the EU; in the case of China, the covert nature of coercion makes it more difficult to establish intent and, in turn, to invoke the ACI.

Nevertheless, in the second part of the comparative analysis, findings show the EU's deterrence credibility via the ACI was more effective against China than the US. In the case of China, the mere existence and adoption of the ACI appeared sufficient to alter Beijing's risk calculation, leading to them lifting the coercive measures on Lithuania, and the rest of the EU, before the instrument even entered into force. This indicates that China was effectively deterred during the deterrence by denial phase, perceiving the EU's threat as credible - likely because of its sensitivity to potential long-term costs. In contrast, the ACI did not succeed in deterring the US during the deterrence by denial phase as the Trump administration did not view the EU's deterrence as credible or costly and thus persisted with its coercive tariffs despite clear EU signaling. The findings underscore the decisive role of the structure of bilateral relations. The EU's deep economic and security integration with the US, combined with its alignment to US interests, has undermined the credibility of the ACI as a deterrent instrument. China, in contrast, does not share the same type of relationship with the EU and therefore remains deterred, perceiving the ACI as a more credible tool. The credibility of the ACI thus made the China case cease within the deterrence by denial phase. The US case, however, has advanced further but has not yet reached the stage of *deterrence by punishment*, at which point the ACI would be activated. To address this theoretical gap, we introduced an intermediate stage: *deterrence by negotiation*. As of this writing, the contracting parties remain in this intermediate

phase - one which this thesis has demonstrated to be pivotal in shaping the future credibility of the ACI, and, by extension, the EU's credibility as a deterrent against economic coercion. It is therefore lastly discussed that the outcome of the EU's use - or absence - of the ACI during this phase will have a significant impact on China's and the US' risk calculation in future potential cases of economic coercion against the Union.

In conclusion the theoretical lens of weaponized interdependence has enabled a clearer conceptualization of the different forms of economic coercion and their implications for the EU's deterrence capacity. From a classical deterrence theory perspective - where effectiveness is defined by an instrument's ability to prevent action - the ACI has not yet fulfilled its function in the case of the US. The ACI did not exist when China deployed economic coercion, but China withdrew after the instrument was adopted. From this perspective, the ACI can only be deemed deterrent if China refrains from deploying economic coercion against the Union in the future. This implies that, as of now, the ACI continues to function as a deterrent toward China, in contrast to the US. It is therefore clear that the ACI has demonstrated a deterrent effect to some extent, and has thereby partially contributed to strengthening the EU's resilience against economic coercion. Moreover, there has in fact been a difference in the instrument's deterrent effect when directed at a systemic rival compared to a traditional ally.

8. Future research

This thesis has sought to fill the empirical chasm surrounding how the theory of weaponized interdependence has enabled China and the US to deploy economic coercion against the EU, and the extent to which the ACI has strengthened the EU's resilience. The ongoing case with the US introduces significant uncertainty regarding the future of transatlantic relations. The negotiations may result in one of two outcomes: either the ACI is activated, or it is not. Both scenarios carry substantial geopolitical and geoeconomic implications for the EU and warrant further research. Activating the ACI would likely face strong opposition from the US administration and could severely strain bilateral relations - particularly under the Trump presidency. It may also place pressure on NATO, as many EU member states that would vote for activation are also alliance members. However, activation would enhance the ACI's deterrent effect, which the EU needs in its dealings with China. Conversely, if the ACI is not activated, Beijing may perceive the EU as a less assertive actor, potentially weakening the

Union's strategic position. The long-term consequences of both scenarios thus require additional empirical research.

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10. Appendix

Appendix I - Semi-structured interview-guide

(1) The EU's open strategic autonomy and geopolitical position

- What is your perspective on the EU's concept of open strategic autonomy? How would you position the EU in the broader struggle against economic coercion from China and the US?
- How do you view the EU's shift toward a more geoeconomic approach, and what implications does this have for its relations with trading partners such as China and the US, particularly in light of the EU's earlier commitment to an open and rules-based global order?
- Is the EU moving away from its commitment to a rules-based order with its doctrine of open strategic autonomy?

(2) The ACI as a deterrence instrument

- How do you assess the threat posed by the China and the US in relation to the EU? Do you consider the ACI to be a credible deterrent?
- How do you assess the potential of the ACI to strengthen the EU's position as a geopolitical actor?
- How do you assess the potential of the ACI as an effective tool for deterring economic pressure from third countries? Would you consider the ACI primarily a symbolic signal, or do you believe it also holds genuine preventive value vis-à-vis actors such as China and the US?
- The EU Commission has referred to the ACI as the EU's key deterrence instrument against economic coercion. Can you envision a scenario in which this instrument might be applied against the US?
- During my/Josephine's internship at the Danish Permanent Representation to the EU, I had the opportunity to speak with Danish diplomats involved in the ACI negotiations. They referred to the instrument as the EU's "*bazooka*" - a term also echoed in academic literature. In your view, can the ACI live up to such expectations when it comes to countering coercion from China and the US?
 - Would you consider the ACI to be a kind of "*nuclear option*"? If so, how does that align with the EU's commitment to a rules-based international order?

(3) Institutional and implementation-related challenges

- What challenges do you foresee in the activation of the ACI, particularly regarding the political will of member states to make use of the instrument?
- Based on your knowledge of the EU's decision-making processes, does the EU respond differently depending on whether the pressure originates from China or the US?

- How do you perceive the tension between the EU's ambitions for open strategic autonomy and the Member States' desire to preserve sovereignty - particularly in the context of the ACI?
- How do you assess the EU's institutional capacity to respond effectively and collectively to economic coercion from major powers such as China and the US?

(4) The EU's relationship with the US

- How do you assess the threat posed by US to the EU? Do you think the ACI serves as a credible deterrent?
- What is your view on the ACI's potential to strengthen the EU's position as a geopolitical actor in relation to the US?
- The EU Commission has referred to the ACI as the EU's key deterrence instrument against economic coercion. Can you envision a scenario in which this instrument might be applied against the US?
- What do you believe is the underlying motivation behind the US' tariffs and, more broadly, the mentality driving the trade war?
- How do you perceive the future of EU-US cooperation in light of recent actions taken by the US against the Union, and the EU's potential responses?
- How do you see the trade war affecting defence relationship between the EU and the US, should the conflict continue to escalate? Given that many EU Member States are also NATO members, do you think this could influence how they support - or possibly resist - the EU Commission's potential countermeasures?
- Do you believe that the negotiations between the EU and the US will bear fruit and lead to a resolution before a potential full-scale trade war between the two actors unfolds?
- How do you foresee the EU responding to Trump's escalating tariffs, which now cover all exports from the EU to the US?
- Do you see a scenario in which Trump escalates the trade war to the point of imposing a full restriction on goods - in the form of an embargo?
- How would you assess the relationship between Trump and his political base - both within the Republican Party and among the broader electorate - in light of opposition from protest movements, Democratic representatives, and judicial institutions that challenge his strategy?
- How do you assess Trump's tariff policies in relation to the WTO rules prohibiting discriminatory trade restrictions against partner countries?
- Do you consider the ACI primarily as a symbolic signal, or do you assess that it also has a genuine preventive effect on actors such as the US?
- I/Josephine worked at the Danish Permanent Representation to the EU during the autumn and spoke with diplomats involved in negotiating the ACI. They all referred to it as the EU's '*bazooka*'. Would you consider the ACI to be, for lack of a better term, a '*nuclear option*'? Based on your knowledge of the US, do you think the US perceives it in the same way as it is understood within the EU?

(5) The EU's relationship with China.

- How do you assess the threat posed by China to the EU? Do you think the ACI serves as a credible deterrent?
- What is your view on the ACI's potential to strengthen the EU's position as a geopolitical actor in relation to China?
- According to the Prime Minister of Lithuania, China lifted its restrictions at the same time the ACI was adopted as EU law and one month before it entered into force. Do you perceive a causal relationship here, in the sense that the ACI may have functioned as a deterrent?
- Do you consider the ACI to be primarily a symbolic signal, or do you assess that it also has a genuine preventive effect on actors such as China?
- Could you explain why China's strategy towards Lithuania is considered a failure?
- What do you think motivated China's strategy against Lithuania, and by extension, the EU?
- I/Josephine worked at the Danish Permanent Representation to the EU during the autumn and spoke with diplomats involved in negotiating the ACI. They all referred to it as the EU's '*bazooka*'. Would you consider the ACI to be, for lack of a better term, a '*nuclear option*'? Based on your knowledge of China, do you think China perceives it in the same way as it is understood within the EU?
- *How do you see the future of EU–China relations light of the EU's open strategic autonomy and China's wolf warrior diplomacy?"*
- How do you see the relationship between the EU and China evolving, given that Trump is increasingly steering the US towards a protectionist economic policy?

Appendix II - Figure overview

	FIGURE OVERVIEW
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14	Illustrative deterrence matrix: the ACI and US response
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