

# Potential for EU-US Coordination on Diversification and Resilience of Supply Chains

by Manuela Moschella



Ministry of Foreign Affairs  
and International Cooperation

## ABSTRACT

Global supply chains offer significant opportunities as well as risks. Since the 2020 pandemic and in the wake of rising geopolitical tensions, several countries have reacted to the challenges posed by integrated global supply chains by adopting a variegated set of measures to secure their production networks by redirecting trade and investment flows. The European Union and the United States have been particularly active on this front by adopting numerous policies to reduce dependencies and increase supply chain resilience and stability. Whereas a number of these policies leverage coordination across the two sides of the Atlantic, several measures also create significant tensions between the two jurisdictions, thereby undermining the potential for coordination in the future.

*European Union | USA | Foreign trade | Supply chains*

keywords

# Potential for EU-US Coordination on Diversification and Resilience of Supply Chains

by Manuela Moschella\*

## Introduction

Global supply chains are production networks that span multiple countries. These chains entail various stages of production, from raw material extraction to manufacturing, assembly and distribution. Especially from 1990 to 2007, global supply chains grew swiftly, powering global trade growth.<sup>1</sup>

Global supply chains offer significant opportunities as well as risks. On the one hand, by allowing companies to source materials, labour and services from regions where they are cheaper and where specialised skills and resources are available, global supply chains offer opportunities for cost savings, efficiency and market expansion while also favouring the conditions for boosting growth.<sup>2</sup>

On the other hand, global supply chains come with challenges that require careful management and risk mitigation measures. These challenges include the disruptions of the global production networks and the over-reliance on a limited number of suppliers. Both sets of challenges have become particularly visible since the start of the 2020 Covid-19 pandemic and the ever-rising geopolitical tensions following Russia's invasion of Ukraine in 2022, which have led several countries to adopt measures to secure their supply chains by redirecting trade and investment flows.

<sup>1</sup> World Bank, *World Development Report 2020. Trading for Development in the Age of Global Value Chains*, Washington, World Bank, 2020, <https://www.worldbank.org/en/publication/wdr2020>.

<sup>2</sup> Ibid.

\* Manuela Moschella is Professor of Political Science in the Department of Political and Social Sciences at the University of Bologna and Adjunct Professor of International Political Economy at The Johns Hopkins University, SAIS-Europe.

· Paper produced in the framework of the project "La cooperazione economica e tecnologica Ue-Usa di fronte alle nuove sfide geostrategiche e il ruolo dell'Italia", conducted by IAI with the support of the Italian Ministry of Foreign Affairs and International Cooperation, the Fondazione Compagnia di San Paolo and the US Embassy to Italy. Views and opinions expressed are those of the author only.

As discussed below, the measures used to secure supply chains are varied. They range from subsidies to trade controls to new international fora and alliances. The impact of these measures on global economic integration has yet to fully materialise. However, the widespread adoption of measures directed at securing supply chains has elicited concerns about the future of globalisation.<sup>3</sup> Although “there are no signs of significant changes in the extent of globalization, crudely defined as the ratio of global trade to GDP”,<sup>4</sup> there is increasing evidence that, beneath these stable aggregate trends, economic fragmentation is indeed taking place,<sup>5</sup> especially across country blocs. For instance, according to the International Monetary Fund (IMF), the average weighted quarter-on-quarter trade growth between US-leaning countries and China-leaning countries during 2022–2023 was almost five percentage points lower than the average quarterly trade growth during 2017–2022.<sup>6</sup> Global supply chains and, especially, the measures countries adopt to secure them, thereby provide for a sharp lens through which patterns of conflict and coordination among countries can be explored.

This report speaks to the debate on the implications of the measures that countries adopt to secure their global supply chains. In particular, it examines the potential for coordination between the United States and the European Union that stems from the policies on diversification and resilience of supply chains.

To address this question, the report is organised as follows. First, the report advances a typology to identify the major clusters of policies that countries can adopt to secure their supply chains. Second, it examines the EU and US approaches to managing risks associated with global supply chains. In particular, the report analyses the main measures adopted in each jurisdiction to diversify and strengthen supply chains. Finally, it discusses how these measures create the potential for coordination but also conflict.

<sup>3</sup> Economist, “The Destructive New Logic that Threatens Globalisation”, in *The Economist*, 12 January 2023, <https://www.economist.com/leaders/2023/01/12/the-destructive-new-logic-that-threatens-globalisation>.

<sup>4</sup> Gita Gopinath et al., “Changing Global Linkages: A New Cold War?”, in *IMF Working Papers*, No. WP/24/76 (April 2024), p. 1, <https://doi.org/10.5089/9798400272745.001>.

<sup>5</sup> Shekhar Aiyar et al., “Goeconomic Fragmentation and the Future of Multilateralism”, in *IMF Staff Discussion Notes*, No. 2023/001 (January 2023), <https://doi.org/10.5089/9798400229046.006>; World Trade Organization (WTO), *World Trade Report 2023. Re-globalization for a Secure, Inclusive and Sustainable Future*, Geneva, WTO, 2023, [https://www.wto.org/english/res\\_e/publications\\_e/wtr23\\_e.htm](https://www.wto.org/english/res_e/publications_e/wtr23_e.htm).

<sup>6</sup> Gita Gopinath, “Geopolitics and its Impact on Global Trade and the Dollar”, in *Speaker Series on the Future of the International Monetary System (IMS)*, Stanford Institute for Economic Policy Research, 7 May 2024, <https://www.imf.org/en/News/Articles/2024/05/07/sp-geopolitics-impact-global-trade-and-dollar-gita-gopinath>. In order to distinguish among country blocs, the IMF uses the similarity of countries’ voting patterns at the UN General Assembly to capture countries’ bilateral political attitudes towards one another. In particular, the US-leaning bloc includes countries in the top quartile in their political proximity to the US, whereas the China-leaning bloc includes countries in the top quartile in their political proximity to China.

## 1. Securing global supply chains

Over the past few years, the stability of global economic integration has been called into question. Two events have been particularly consequential in this process: the 2020 Covid crisis and Russia's unjustified war against Ukraine with the attendant rise in geopolitical risks. In both cases, several countries experienced severe disruptions in their production networks that exposed the vulnerabilities of depending on one or a handful of suppliers. For instance, when the pandemic hit, the shutdowns in the most affected countries, like China, led to severe global supply disruptions across sectors like pharmaceuticals, electronics, and automotive, among others. Furthermore, many countries imposed export restrictions on critical goods like medical supplies and food, prioritising domestic concerns over international trade commitments. This highlighted the risks of relying on global trade for essential items. Increased geopolitical tensions have exacerbated the risks of relying on a single or few suppliers, especially for critical resources. Russia's invasion of Ukraine is instructive in this respect. It caused immediate disruptions to global energy markets, especially in Europe, which, at the time, depended heavily on Russian natural gas. Furthermore, the conflict significantly impacted global food supplies, especially in regions dependent on Ukrainian grain exports.

The past few years' events have thus clearly showcased the importance of building more diversified and resilient supply chains that can better withstand future shocks, whether from pandemics, natural disasters, military conflicts or geopolitical tensions. To face the potential shocks, several countries have adopted measures aimed at securing their supply chains.

There are a number of measures that countries can adopt to do so. While there are different ways in which these measures can be categorised, a country can rely on at least two major sets of policies to pursue its the main objectives of *reducing reliance on global supply chains* and *strengthening the resilience and stability of global supply chains*. Of course, this is an analytical distinction. In practice, the same policy can be used to address both objectives, albeit with different emphases. It is also important to stress that these policies are not mutually exclusive. Actually, countries often use a combination of them.

The first set of policies includes those aimed at *reducing reliance on global supply chains* via strengthening domestic production – a process also described as *reshoring*. These measures include incentives for domestic manufacturers to produce certain goods and services as well as support for critical industries. Tax breaks, subsidies or grants to domestic businesses that produce critical goods, as well as regulatory requirements and import controls to shield domestic producers from global competition, are measures that fall into this category.

The second set of policies includes those primarily aimed at *increasing the resilience and stability of global supply chains*. These measures include trade agreements and ad hoc alliances with friends and allies, as well as export controls. The overall aim is

to diversify global supplies by redirecting trade and investment flows to ‘trustable’ countries and securing favourable terms and access to critical goods and materials. This overall strategy is also known as *friend-shoring*, meaning the relocation of production networks in countries considered political and economic allies.

**Table 1** | Measures to secure supply chains

Objective	Main affected dimension	Instruments	Examples
Reduce reliance	Domestic	Incentives to domestic production	Tax breaks and incentives, grants, subsidies
		Protection of critical industries	Import controls and regulatory requirements
Increase resilience and stability	International	Building favourable and reliable connections	Export controls and tariffs
		Diversifying	Trade agreements and networks

## 2. The EU and US approaches to securing global supply chains

The EU and the United States have adopted measures to secure their supply chains in recent years that can be broadly mapped into the two sets of policies discussed above. As already anticipated, the dividing line between the two is often blurred in operational practice as the same measure can be directed at reducing dependencies and strengthening resilience, albeit with different emphases. It is also important to stress that the overview of the measures adopted in the two jurisdictions is not meant to be exhaustive. Since 2020, the EU and the United States have adopted a large variety of policies to protect domestic economies under a changed geopolitical context. *These policies, including industrial competition and climate policies, do not necessarily aim at securing supply chains but can nonetheless have important implications for the diversification and resilience of production networks.* Hence, the measures singled out below are to be considered part of a broader economic security agenda that both the EU and the United States continue to refine and implement.

### 2.1 The EU approach

The European Union has adopted a multifaceted approach to securing its global supply chains, as outlined, among other documents, in the Economic Security Strategy of June 2023.<sup>7</sup> In line with what was discussed in the previous section, the

<sup>7</sup> European Commission, *European Economic Security Strategy* (JOIN/2023/20), 26 June 2023, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52023JC0020>.

EU approach entails 'domestic' measures (i.e., measures aimed at strengthening domestic production capacity to reduce dependencies) and 'global' measures (i.e., measures aimed at building international alliances to diversify and enhance global supply chains). The key features of the EU's approach can be summarised as follows.

*a) Domestic dimension: Reducing dependencies by strengthening domestic manufacturing*

In 2020 and 2021, the EU updated its Industrial Strategy by emphasising the importance of bolstering domestic capabilities in key sectors, including green, energy, digital technologies and advanced manufacturing.<sup>8</sup> To achieve these goals, the EU supports, amongst others, Important Projects of Common European Interest (IPCEI), which encourage cross-border cooperation on strategic projects in areas like batteries, hydrogen and microelectronics. The EU has also adopted the European Chips Act to secure essential resources and key technologies. In particular, under this legislation, the EU aims to mobilise more than 43 billion euros of public and private investments to enhance production capacities in semiconductor manufacturing. The aim is to double Europe's share of global semiconductor production from 10 per cent to 20 per cent by 2030.

In 2024, the EU has adopted the Net Zero Industry Act (NZIA). It aims to escalate the manufacturing of clean technologies in the EU. Under the legislation, manufacturing capacity of designated 'net-zero' technologies should reach 40 per cent of domestic demand by 2030. Alongside the Net Zero Industry Act, the EU has also negotiated the Critical Raw Material Act.<sup>9</sup> This Act is particularly important for the prospect of securing the EU supply chains. In particular, the Act aims to reduce EU dependency on imports by increasing the EU's annual capacity for extraction, processing and recycling of critical minerals, as well as by limiting single third-country sourcing of the EU's annual consumption of each critical raw material. The Act also aims to simplify permitting procedures for critical raw materials projects in the EU and enhance the coordination of strategic raw materials stocks among member states.

All these initiatives reflect the importance of strengthening domestic competitiveness by supporting the EU Single Market and investing in critical sectors like semiconductors, advanced technologies and clean energy. The EU's approach to securing supply chains also largely revolves around the combination of two concomitant goals: encouraging industrial capacity and innovation and meeting climate goals.

<sup>8</sup> European Commission, *A New Industrial Strategy for Europe* (COM/2020/102), 10 March 2020, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52020DC0102>; European Commission, *Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's Recovery* (COM/2021/350), 5 May 2021, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021DC0350>.

<sup>9</sup> European Council, "An EU Critical Raw Materials Act for the Future of EU Supply Chains", in *Infographics*, last reviewed on 8 July 2024, <https://europa.eu/!WgTCVv>.

The combination of securing global supply chains and climate considerations is particularly evident in a critical sector like energy. Indeed, in response to the energy crisis exacerbated by Russia's war against Ukraine, the EU launched the REPowerEU Plan to diversify energy supplies, including by supporting the production of clean energy within the EU. While aimed at reducing dependency on Russian energy imports, the REPowerEU Plan is, at the same time, meant to accelerate the transition to renewable energy and improve energy efficiency.<sup>10</sup>

Finally, it is important to mention that the EU's Foreign Direct Investment (FDI) Regulation, which has fully applied since October 2020, further reinforces EU efforts at securing its supply chains. While the Regulation is mainly aimed at detecting the foreign investments' risks to security or public order in another member state, or in the whole Union, the legislation offers member states the possibility to justify their screening decisions in light of the risks to a strategic project or programme of interest to the whole EU, including those pertaining to the security of supply chains.

### *b) International dimension: Strengthening the resilience and stability of supply chains*

In addition to strengthening domestic production, the EU's approach to securing global supply chains also revolves around the recognition of the importance of partnering with like-minded states and partners to diversify and make supply chains more resilient.<sup>11</sup> Yet, the EU has struggled to reconcile this stance with its long-standing approach to global trade and multilateralism. Indeed, as the European Economic Strategy put it, while the EU recognises the need to protect the European economy "from commonly identified economic security risks", it is firmly committed to promoting multilateral cooperation within international organisations like the WTO and G20 to maintain a rules-based global trade system.<sup>12</sup>

The difficulties in balancing the new geoeconomic imperatives with the EU's long-standing values are clearly visible in the adoption of the concept of 'open' strategic autonomy. Indeed, the addition of the adjective 'open' to the goal of achieving economic autonomy is meant to emphasise the EU's dual commitment to protecting its economy and the rule-based liberal international economic system. The compromise around the notion of 'open' strategic autonomy also reflects the political divisions among EU countries on the use of trade policy in a changed geopolitical context.<sup>13</sup> The measures the EU has adopted to secure supply chains with a global dimension thus need to be placed within the framework and the limitations of open strategic autonomy.

<sup>10</sup> European Commission website: *REPowerEU*, [https://commission.europa.eu/node/5661\\_en](https://commission.europa.eu/node/5661_en).

<sup>11</sup> European Commission, *European Economic Security Strategy*, cit., p. 3.

<sup>12</sup> Ibid., p. 2 and 13.

<sup>13</sup> Luuk Schmitz and Timo Seidl, "As Open as Possible, as Autonomous as Necessary: Understanding the Rise of Open Strategic Autonomy in EU Trade Policy", in *Journal of Common Market Studies*, Vol. 61, No. 3 (May 2023), p. 834-852, <https://doi.org/10.1111/jcms.13428>.

As identified in the Economic Security Strategy, the EU measures to secure its supply chains by global means include 'partnering' with other countries.<sup>14</sup> In this connection, the creation in 2021 of the EU-US Trade and Technology Council (TTC) to coordinate approaches to key global trade, economic and technology issues between the two jurisdictions is particularly important. Furthermore, the EU intends to leverage initiatives like Global Gateway, which ostensibly supports infrastructure projects abroad, to diversify supply chains and enhance partnerships with developing countries.

Overall, the EU's strategy is characterised by a comprehensive approach to secure its supply chains, which includes measures aimed at both domestic production and global alliances. The EU approach is also strongly linked to the attainment of the objective of meeting climate change mitigation and accelerating the transition to a green economy. Finally, although the EU has recognised the need to engage in global partnerships to protect itself against economic coercion and dependencies, its commitment to multilateralism and free trade has made the EU more cautious in this dimension.

## 2.2 The United States' approach

Similarly to the EU, the United States has adopted a comprehensive approach to securing its global supply chains. The rising tensions with China have been a crucial factor in shaping the US response to the potential risks of disruptions of global supply chains, creating quite stable bipartisan support to several of the initiatives discussed below. Indeed, one of the premises of the US economic security strategy under the Joe Biden Administration, as articulated by National Security Advisor Jake Sullivan, is the recognition of "a new environment defined by geopolitical and security competition".<sup>15</sup> In particular, whereas "Much of the international economic policy of the last few decades had relied upon the premise that economic integration would make nations more responsible and open, and that the global order would be more peaceful and cooperative", Sullivan noted in a seminal speech he gave at the Washington-based think tank Brookings, "[i]t didn't turn out that way. In some cases it did, and in lot of cases it did not".<sup>16</sup> The not-hidden target of Sullivan's words is China. The US approach to securing its supply chains thereby needs to be placed against this background. Here are the key features of the US approach.

<sup>14</sup> European Commission, *European Economic Security Strategy*, cit., p. 3 and 11-14.

<sup>15</sup> White House, *Remarks by National Security Advisor Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution*, 27 April 2023, <https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/04/27/remarks-by-national-security-advisor-jake-sullivan-on-renewing-american-economic-leadership-at-the-brookings-institution>.

<sup>16</sup> Ibid.



*a) Domestic dimension: Strengthening domestic manufacturing and innovation capacity*

In the context of the increased competition with China, the United States has focussed on initiatives aimed at (re) strengthening the US industrial base, especially to preserve its global technological lead. From the US perspective, despite its integration in the multilateral trading system, the

People's Republic of China continued to subsidize at a massive scale both traditional industrial sectors, like steel, as well as key industries of the future, like clean energy, digital infrastructure, and advanced biotechnologies. America didn't just lose manufacturing – we eroded our competitiveness in critical technologies that would define the future.<sup>17</sup>

The US government has thus actively encouraged the reshoring of critical industries, most notably semiconductors. Policies like the CHIPS and Science Act of 2022 offer the most glaring example of US government efforts in this area. It directs more than 200 billion US dollars in spending throughout five years for companies to manufacture semiconductors in the United States, including via tax credits for investments in equipment or the construction of manufacturing facilities. The legislation also allocates 11 billion US dollars over five years to the Department of Commerce to spur research and development in advanced semiconductor manufacturing.<sup>18</sup> This Act dovetails with the decision in June 2022 to use the Defense Production Act (DPA) to accelerate domestic production of clean energy technologies, including solar, transformers and electric grid components, heat pumps, electrolysers, fuel cells, and platinum group metals.

The same emphasis on incentives for domestic production can also be found in the Inflation Reduction Act (IRA), signed on August 2022, which has been rightly defined as America's "landmark climate law".<sup>19</sup> The IRA is supposed to deliver results through a combination of grants, loans, rebates, incentives and other investments for a total of around 400 billion US dollars. While primarily directed at facilitating the transition to a green economy, the legislation has important implications for the security of the supply chains. By incentivising the production of critical green technologies, the IRA is basically helping the United States reduce its dependencies from foreign sources.

<sup>17</sup> Ibid.

<sup>18</sup> Katie Lobosco, "Here's What's in the Bipartisan Semiconductor Chip Manufacturing Package", in *CNN*, 9 August 2022, <https://edition.cnn.com/2022/08/09/politics/chips-semiconductor-manufacturing-science-act>.

<sup>19</sup> James Temple, "Trump Wants to Unravel Biden's Landmark Climate Law. Here Is What's Most at Risk", in *MIT Technology Review*, 26 February 2024, <https://www.technologyreview.com/2024/02/26/1088921/trump-wants-to-unravel-bidens-landmark-climate-law-here-is-whats-most-at-risk>.

*b) International dimension: Enhancing the resilience and stability of supply chains*

In addition to strengthening domestic production, the US approach to securing global supply chains revolves around leveraging its global economic and political power to diversify its supply chains by fostering trade and investment relationships with other countries, often departing from the traditional principle of reciprocal market access concessions at the core of the multilateral trade system. In particular, as has been noted, “The US economic security strategy [...] relies deeply on cooperation with democracies, favouring economic relationships with allies and trusted trade partners.”<sup>20</sup> These include initiatives like the Quadrilateral Security Dialogue (Quad) between Australia, India, Japan and the United States and the Build Back Better World (B3W) initiative promoted within the G7. Other partnerships include the Indo-Pacific Economic Framework for Prosperity (IPEF), which aims at fostering cooperation in several sectors – including supply chains and resilience – with Australia, Brunei Darussalam, Fiji, India, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand and Vietnam and the already mentioned US-EU Trade and Technology Council.

The US administration has also relied on the use of tariffs and export controls to prevent other countries from exploiting or weaponising dependencies while fostering friendshoring dynamics. For instance, following the tariff increases imposed under the Trump Administration, President Biden has maintained tariffs and clearly indicated the intention to shift trade from China towards allies.<sup>21</sup> Relatedly, in January 2023, the US reached a deal with the Netherlands and Japan to curtail exports of advanced chip manufacturing equipment to China.<sup>22</sup> This approach was inaugurated in October 2022, when the Biden Administration barred American companies and individuals from exporting advanced semiconductors and chip-manufacturing machinery to China.<sup>23</sup>

Overall, similarly to the EU, the United States has adopted a comprehensive approach to secure its supply chains, including measures aimed at boosting domestic production, fostering global alliances and weaponising its economic power. Similar to the EU, some of the flagship initiatives adopted by the United States over the past four years combine the objective of securing supply chains

<sup>20</sup> François Chimits et al., “European Economic Security: Current Practices and Further Development”, in *European Parliament In-Depth Analysis*, April 2024, [https://www.europarl.europa.eu/thinktank/en/document/EXPO\\_IDA\(2024\)754449](https://www.europarl.europa.eu/thinktank/en/document/EXPO_IDA(2024)754449).

<sup>21</sup> White House, *Executive Order on America’s Supply Chains*, 24 February 2021, <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/02/24/executive-order-on-americas-supply-chains>.

<sup>22</sup> Gregory C. Allen and Emily Benson, “Clues to the U.S.-Dutch-Japanese Semiconductor Export Controls Deal Are Hiding in Plain Sight”, in *CSIS Reports*, March 2023, <https://www.csis.org/node/104205>.

<sup>23</sup> US Department of Commerce Bureau of Industry and Security, *Commerce Implements New Export Controls on Advanced Computing and Semiconductor Manufacturing Items to the People’s Republic of China (PRC)*, 7 October 2022, [https://www.bis.doc.gov/index.php/component/docman/?task=doc\\_download&gid=3158](https://www.bis.doc.gov/index.php/component/docman/?task=doc_download&gid=3158).

with the one of developing green technologies and so accelerating the transition to a green economy. However, the United States has been more assertive than the EU in leveraging its trade policy and tariffs to protect itself against economic coercion and reduce dependencies on foreign supplies.

### 3. Potential for coordination and conflict

As examined in Section 2, the EU and the United States have so far adopted a comprehensive approach to secure their global supply chains. Both jurisdictions have focussed on measures with a domestic dimension, that is, on measures aimed at strengthening domestic production capacity, especially in strategic sectors such as semiconductors and clean energy technologies. Both jurisdictions have also focussed, albeit with differing intensity, on global measures, such as the build-up of international alliances and trade restrictions to secure and make supply chains stable and resilient.

In addition to the domestic and global implications, the measures adopted by the EU and the United States also impact their own relationship. In particular, the policies adopted to secure the respective supply chains create the potential for coordination but also conflict. While the EU and the United States share many common goals and work together in several areas, they also have differing approaches and policy priorities that can lead to conflicts or disagreements.

Starting with the measures to reduce dependencies by boosting domestic production, for instance, the EU and US measures to enhance the production of critical technologies would certainly benefit from further coordination, including in the area of regulatory coordination and research exchanges. The TTC is a key forum in this respect.<sup>24</sup> Created in 2021, it facilitates collaboration on technology standards, regulatory alignment and supply chain security, particularly in sectors critical to both economies.

At the same time, the measures adopted to boost domestic production and so reduce global dependencies are a catalyst for tensions. This is especially the case when domestic measures include the use of subsidies, incentives or local content requirements that un-level the global (or transatlantic) playing field. Indeed, both jurisdictions have adopted legislation that creates competition for investment in critical industries. For instance, as discussed above, the United States and the EU both offer incentives to companies to build semiconductor manufacturing facilities within their borders, sometimes leading to competitive rather than cooperative behaviour. The US IRA has probably been the most visible example of the tensions that risk management policies can create in transatlantic coordination. Indeed,

<sup>24</sup> Herman Quarles van Ufford, "A Stronger Partner: How Europeans Can Make the Most of the EU-US Trade and Technology Council", in *ECFR Policy Alerts*, 26 January 2024, <https://ecfr.eu/?p=117203>.

the IRA has been criticised by the EU for its “Buy American” provisions, which the EU views as protectionist and harmful to European industries. Such a criticism has been strongly felt within the EU, with vocal criticism directed at the US strategy.<sup>25</sup> The adoption of the NZIA in the EU can be seen as a response to catch up and come to terms with the US approach.<sup>26</sup>

Furthermore, the different rooms of manoeuvre of the two countries in leveraging the fiscal purse, with the EU more constrained as compared to the United States mostly because of the institutional features of the EU and its decentralised fiscal capacity, creates reasons for tensions as the differing fiscal power risks putting the EU at a disadvantage.

Moving to the measures that mostly relate to enhancing the resilience of supply chains by leveraging global alliances and trade policies, a similar pattern of potential for coordination and conflict emerges. On the one hand, both jurisdictions are adopting measures that aim at redirecting trade and investment flows to friends and allies, and especially derisking from China. In doing so, the EU and the United States could mutually benefit from coordinating the emerging networks. On the other hand, the EU and US policy priorities towards other countries are not perfectly aligned, as is the case in the approach towards China. Indeed, while both the EU and the United States are concerned about dependencies on China for critical goods and technologies, their approaches differ. The United States has taken a more confrontational stance, while the EU has sought to maintain a more balanced relationship.<sup>27</sup> The cracks in the transatlantic relationship over China are unlikely to be fixed soon in light of the fact that the EU’s biggest manufacturing country, Germany, fears retaliation from the government in Beijing and a further erosion of the position of its industries on the Chinese market.

Furthermore, whereas the EU and the United States generally cooperate on trade, there have been disputes over tariffs and trade barriers in the past, especially under the Trump Administration. These disputes can complicate and undermine efforts at coordination in secure global supply chains by creating mistrust and reciprocal resentment. The uncertainty about the upcoming presidential elections, with the realistic prospect of a second term for Trump, is thus a cause for concern for the coordination in the area of securing supply chains.

<sup>25</sup> See, for instance, Guy Chazan, Sam Fleming and Kana Inagaki, “A Global Subsidy War? Keeping Up with the Americans”, in *Financial Times*, 13 July 2023, <https://www.ft.com/content/4bc03d4b-6984-4b24-935d-6181253ee1e0>.

<sup>26</sup> See, for instance, Jones Hayden, “Von der Leyen Calls for EU to ‘Adapt’ State-Aid Rules in Answer to US Green Subsidy Scheme”, in *Politico*, 4 December 2022, <https://www.politico.eu/?p=2382375>.

<sup>27</sup> For instance, Camille Gijs, Antonia Zimmermann and Pieter Haeck, “EU and US Vow to Team Up Against China, But Can’t Hide the Cracks”, in *Politico*, 5 April 2024, <https://www.politico.eu/?p=4546893>.

To sum up:

- Global supply chains create both opportunities and risks. Since the 2020 pandemic and with the rise of geopolitical tensions, the balance has shifted towards greater risks, pushing several countries to adopt a variety of measures to secure global supply chains.
- There are several measures that countries can adopt to secure their supply chains. While there are different ways in which these measures can be categorised, analytically, there are at least two major sets of policies a country can rely on based on the main objective they pursue: *reducing reliance on global supply chains* and *strengthening the resilience and stability of global supply chains*.
- The EU and the United States have adopted a comprehensive approach to secure their supply chains. This approach entails both domestic measures (i.e., measures aimed at strengthening domestic production capacity to reduce dependencies) and global measures (i.e., measures aimed at building international alliances to diversify and enhance global supply chains).
- The measures adopted by the EU and the United States also impact the relationship between the two long-standing allies. In particular, the policies adopted to secure the respective supply chains create the potential for both coordination and conflict between the two countries. While the EU and the United States share many common goals and work together in several areas, they also have differing approaches and policy priorities that can lead to conflicts or disagreements.
- The uncertainty related to the outcome of the US presidential elections in the fall further adds to the ambiguous effects of the approaches to securing supply chains adopted thus far.

*Updated 6 September 2024*

## References

Shekhar Aiyar et al., "Goeconomic Fragmentation and the Future of Multilateralism", in *IMF Staff Discussion Notes*, No. 2023/001 (January 2023), <https://doi.org/10.5089/9798400229046.006>

Gregory C. Allen and Emily Benson, "Clues to the U.S.-Dutch-Japanese Semiconductor Export Controls Deal Are Hiding in Plain Sight", in *CSIS Reports*, March 2023, <https://www.csis.org/node/104205>

Guy Chazan, Sam Fleming and Kana Inagaki, "A Global Subsidy War? Keeping Up with the Americans", in *Financial Times*, 13 July 2023, <https://www.ft.com/content/4bc03d4b-6984-4b24-935d-6181253ee1e0>

François Chimits et al., "European Economic Security: Current Practices and Further Development", in *European Parliament In-Depth Analysis*, April 2024, [https://www.europarl.europa.eu/thinktank/en/document/EXPO\\_IDA\(2024\)754449](https://www.europarl.europa.eu/thinktank/en/document/EXPO_IDA(2024)754449)

Economist, "The Destructive New Logic that Threatens Globalisation", in *The Economist*, 12 January 2023, <https://www.economist.com/leaders/2023/01/12/the-destructive-new-logic-that-threatens-globalisation>

European Commission, *European Economic Security Strategy* (JOIN/2023/20), 26 June 2023, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52023JC0020>

European Commission, *A New Industrial Strategy for Europe* (COM/2020/102), 10 March 2020, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52020DC0102>

European Commission, *Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's Recovery* (COM/2021/350), 5 May 2021, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021DC0350>

European Council, "An EU Critical Raw Materials Act for the Future of EU Supply Chains", in *Infographics*, last reviewed on 8 July 2024, <https://europa.eu/!WgTCVv>

Camille Gijs, Antonia Zimmermann and Pieter Haeck, "EU and US Vow to Team Up Against China, But Can't Hide the Cracks", in *Politico*, 5 April 2024, <https://www.politico.eu/?p=4546893>

Gita Gopinath, "Geopolitics and its Impact on Global Trade and the Dollar", in *Speaker Series on the Future of the International Monetary System (IMS)*, Stanford Institute for Economic Policy Research, 7 May 2024, <https://www.imf.org/en/News/Articles/2024/05/07/sp-geopolitics-impact-global-trade-and-dollar-gita-gopinath>

Gita Gopinath et al., "Changing Global Linkages: A New Cold War?", in *IMF Working Papers*, No. WP/24/76 (April 2024), <https://doi.org/10.5089/9798400272745.001>

Jones Hayden, "Von der Leyen Calls for EU to 'Adapt' State-Aid Rules in Answer to US Green Subsidy Scheme", in *Politico*, 4 December 2022, <https://www.politico.eu/?p=2382375>

Katie Lobosco, "Here's What's in the Bipartisan Semiconductor Chip Manufacturing Package", in *CNN*, 9 August 2022, <https://edition.cnn.com/2022/08/09/politics/chips-semiconductor-manufacturing-science-act>

Herman Quarles van Ufford, "A Stronger Partner: How Europeans Can Make the Most of the EU-US Trade and Technology Council", in *ECFR Policy Alerts*, 26 January 2024, <https://ecfr.eu/?p=117203>

Luuk Schmitz and Timo Seidl, "As Open as Possible, as Autonomous as Necessary: Understanding the Rise of Open Strategic Autonomy in EU Trade Policy", in *Journal of Common Market Studies*, Vol. 61, No. 3 (May 2023), p. 834-852, <https://doi.org/10.1111/jcms.13428>

James Temple, "Trump Wants to Unravel Biden's Landmark Climate Law. Here Is What's Most at Risk", in *MIT Technology Review*, 26 February 2024, <https://www.technologyreview.com/2024/02/26/1088921/trump-wants-to-unravel-bidens-landmark-climate-law-here-is-whats-most-at-risk>

US Department of Commerce Bureau of Industry and Security, *Commerce Implements New Export Controls on Advanced Computing and Semiconductor Manufacturing Items to the People's Republic of China (PRC)*, 7 October 2022, [https://www.bis.doc.gov/index.php/component/docman/?task=doc\\_download&gid=3158](https://www.bis.doc.gov/index.php/component/docman/?task=doc_download&gid=3158)

White House, *Executive Order on America's Supply Chains*, 24 February 2021, <https://www.whitehouse.gov/briefing-room/presidentialactions/2021/02/24/executive-order-on-americas-supply-chains>

White House, *Remarks by National Security Advisor Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution*, 27 April 2023, <https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/04/27/remarks-by-national-security-advisor-jake-sullivan-on-renewing-american-economic-leadership-at-the-brookings-institution>

World Bank, *World Development Report 2020. Trading for Development in the Age of Global Value Chains*, Washington, World Bank, 2020, <https://www.worldbank.org/en/publication/wdr2020>

World Trade Organization (WTO), *World Trade Report 2023. Re-globalization for a Secure, Inclusive and Sustainable Future*, Geneva, WTO, 2023, [https://www.wto.org/english/res\\_e/publications\\_e/wtr23\\_e.htm](https://www.wto.org/english/res_e/publications_e/wtr23_e.htm)

**Istituto Affari Internazionali (IAI)**

The Istituto Affari Internazionali (IAI) is a private, independent non-profit think tank, founded in 1965 on the initiative of Altiero Spinelli. IAI seeks to promote awareness of international politics and to contribute to the advancement of European integration and multilateral cooperation. Its focus embraces topics of strategic relevance such as European integration, security and defence, international economics and global governance, energy, climate and Italian foreign policy; as well as the dynamics of cooperation and conflict in key geographical regions such as the Mediterranean and Middle East, Asia, Eurasia, Africa and the Americas. IAI publishes an English-language quarterly (*The International Spectator*), an online webzine (*AffarInternazionali*), two book series (*Trends and Perspectives in International Politics* and *IAI Research Studies*) and some papers' series related to IAI research projects (*Documenti IAI*, *IAI Papers*, etc.).

Via dei Montecatini, 17 - I-00186 Rome, Italy

T +39 06 6976831

[iai@iai.it](mailto:iai@iai.it)

[www.iai.it](http://www.iai.it)

## Latest IAI PAPERS

Director: Riccardo Alcaro ([r.alcaro@iai.it](mailto:r.alcaro@iai.it))

- 24 | 24 Manuela Moschella, *Potential for EU-US Coordination on Diversification and Resilience of Supply Chains*
- 24 | 38 Gabriele Abbondanza and Simone Battiston, *Italian-Australian Relations: The Untapped Potential of Two Global Partners*
- 24 | 21 Sojin Lim, *South Korea's Challenges and Opportunities in the Indo-Pacific Economic Security*
- 24 | 20 Jennifer Johnson-Calari, Arnab Das and Franco Passacantando, *The "Weaponisation" of Money: Risks of Global Financial Fragmentation*
- 24 | 19 Françoise Nicolas, *European Union–Republic of Korea Cooperation on Economic Security: Opportunities, Limits and Challenges*
- 24 | 18 Matteo Dian, *Russia's Invasion of Ukraine, Global Polarisation and Yoon's Security Strategy*
- 24 | 17 Virginia Volpi, *To Have or Not to Have Competence: EU Integration by Stealth through Permacrisis*
- 24 | 16 Francesco Giumelli, *How Targeted Measures Are Changing the Global Economy: Three Scenarios for the Future*
- 24 | 15 Mark Bromley and Kolja Brockmann, *A Tale of Two Systems: Alignment, Divergence and Coordination in EU and US Dual-use Export Controls*
- 24 | 14 Federica Marconi, *Foreign Direct Investment and National Security: Perspectives from the EU and the US*