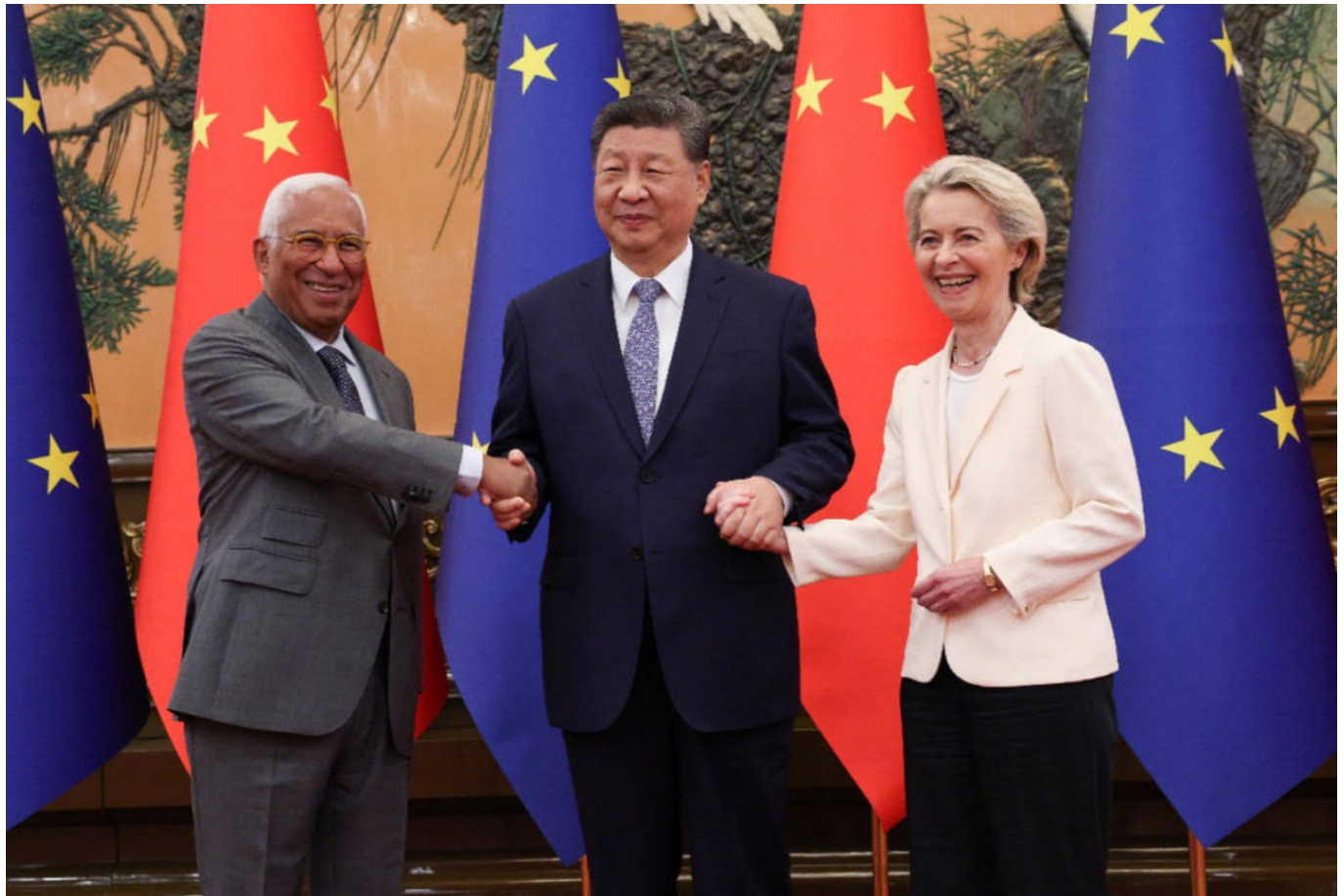




By: **Ferry Biedermann**

# Can mere trade blocs compete with superpowers?



If you're not at the table, you're on the menu – the EU must be getting that sinking feeling as the US and China hash out global trade and supply chain issues that might affect Europe more than most.

Whatever the outcome of talks between Donald Trump and Xi Jinping in South Korea, one thing is abundantly clear: the EU is a bystander, at most shadow-boxing from the periphery.

Having become a supplicant to the US over Trump's tariffs, the EU now hardly has an option but to beg the Chinese for clemency over its export restrictions on rare earth materials and widely used chips made by **Nexperia**, a Chinese-owned company where the Dutch government recently took control.

Both issues highlight the dilemmas currently facing the EU. Despite all the talk of de-risking, decoupling and Trump-proofing – remember that one? – the bloc, either by design or by default, is particularly bad at navigating economic rough seas caused by geopolitical ructions.

## From Crimea to China: Europe's failure to Putin-proof its economy

This has been clear at the very least since Russia's annexation of Crimea in 2014 and came back to haunt Europe after the full-scale invasion of Ukraine.

Instead of having shifted the EU's energy supply away from Russia in the intervening years and Putin-proofing its economy, the bloc was confronted with a costly energy crisis.

Even now, more than three years after Russia's assault on Kyiv, European countries still subsidise the Russian war effort through their purchases of oil and gas.

Contrary to the impression that's sometimes created amid Trump's gyrating Ukraine policy, American sanctions in several aspects outstrip

the EU's.

**“To detect and raise awareness of security risks posed by foreign investment in critical assets, technologies and infrastructure” – EU Commission**

The same reluctance or inability to connect geopolitical trends effectively to economic and trade policies can be seen with regards to China.

In 2019, the EU designated China a 'systemic rival', while at the same time stressing the importance of economic cooperation and negotiation.

The question of whether being systemic rivals might also inform Chinese economic and business practices was acknowledged but passed over very lightly. The European Commission statement focused on the WTO to battle 'forced technology transfer'.

Outright illegal technology transfer, as might be the case with Netherlands-based but Chinese-owned Nexperia, was also addressed, in theory. The **Commission** set up a framework, “To detect and raise awareness of security risks posed by foreign investment in critical assets, technologies and infrastructure.”

## Legacy chips, lasting consequences

In that very year, Nexperia, a spin-off from what was originally the semiconductor branch of Philips of the Netherlands, now NXP Semiconductors, was sold to the partially state-owned Chinese conglomerate **Wingtech**, owned by Zhang Xuezheng.

The whole idea of spinning off this division that produces what were seen as 'legacy chips', with hindsight, seems to have been misguided on several levels. Allowing its sale to Chinese ownership now appears incredibly short-

sighted.

### The Commission's 2019 statement clearly shows that concerns vis-à-vis China already existed at the time of Nexperia's sale

While not being especially advanced or critical in terms of security and defence, Nexperia chips can be found in a huge percentage of appliances in some important European, US and other global supply chains, particularly automotive.

It's one thing for the company to have most of its finishing and packaging capabilities in China, it's another for it to be under Chinese ownership.

While talk of de-risking from China only gathered pace in Europe after the coronavirus pandemic and its supply chain disruptions, the Commission's 2019 statement clearly shows that concerns vis-à-vis China already existed at the time of Nexperia's sale.

## When strategic or critical industries are at stake

Since then, measures such as the [EU Chips Act](#) and the Dutch government's own FDI security law, [Vifo](#), have given governments more powers to interfere when strategic or critical industries are at stake.

Inexplicably, the Dutch as late as 2023 allowed Nexperia to take over another chip maker, Nowi, that possessed advanced technology. Under the Vifo law's narrow definition, Nowi's chips were somehow not judged to be 'dual-use'.

The UK, by contrast, in 2022 forced Nexperia to sell a majority stake in its Newport Wafer Fab under its National Security and Investment Act. It gave two reasons: the use of the chips in critical UK infrastructure and, secondly, the danger of access to technological expertise and know-how.

Another Nexperia plant in the UK, in Greater Manchester, was left alone, as it had been a long-established production site for the company and produced a different sort of chip.

### The Dutch government has stated that it did not act under American pressure

Now, reports are emerging that the Dutch government's takeover of Nexperia came after the improper transfer of know-how and production capacity from the Manchester plant to Wingtech in China. Some UK politicians are therefore calling for steps to secure that factory too.

The Dutch government reportedly wanted to forestall the same scenario taking place at other sites, including the company's facilities in Hamburg, Germany.

China's retaliation, only allowing the Chinese factory's deliveries to its own market, is said to have taken the Dutch, the EU and the Americans by surprise.

The Dutch government has stated that it did not act under American pressure. But the US adding Wingtech to its list of sanctioned Chinese companies in December last year led to concerns over a speed-up of technology transfers to China.

When Nexperia, as a Wingtech subsidiary, was added this September, the Dutch apparently feared that this would further accelerate. A court case unfolding at the same time also concluded that there were grounds to suspend the Chinese management of Nexperia.

## When geopolitical issues are tied to trade

Clearly, the case cannot be seen in isolation, as it comes right in the middle of a far-reaching US-China tussle over tariffs, rare earth materials, semiconductors and a slew of other

issues.



*Cutting the EU off from the world economy is not feasible, and anyway, it's the last thing that anyone wants*

While the US and China hash it out, howls of frustration can be heard from countries such as Germany, where carmakers and appliance manufacturers fear an imminent shortage of Nexperia chips. Replacements can be found but will take time and might raise costs.

It is a nigh impossible task for Brussels to completely insulate the continent from the caprices of both China and the US. Cutting the EU off from the world economy is not feasible, and anyway, it's the last thing that anyone wants.

But the bloc's tendency to equivocate, be pressured by industry and postpone difficult decisions can lead to marked disadvantages in the international sphere.

The EU is still primarily an economic and trade bloc and functions best on the international stage when engaged in what remain its core functions: expanding trade and synchronising regulations.

When confronted with geopolitical issues, it has neither an effective voice nor a capacity to respond quickly and flexibly. When these issues are tied to trade and the world economy, as they increasingly are, it stumps Brussels even further.

Still, there has been a relative failure over the last decade or so to at least get better cards for the confrontation with China and the US. The Chinese did a much better job diversifying

and preparing in the run-up to the second Trump term.

Possibly, the EU was preoccupied with its own internal tribulations, mainly Brexit since 2016. But the failure is bound to be at least also partly structural.