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The Geoeconomic Turn in EU Trade and Investment Policy: Implications for Developing Countries

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Abstract

The so-called geoeconomic turn in global trade policy-making has changed the context in which the European Union positions itself as a trade actor. However, there is little scholarly attention paid to how the geoeconomic turn affects the EU's relations with developing countries. This article analyses the potential implications of new EU autonomous trade and investment instruments for developing countries, and how the EU has taken these consequences into account when designing them. We rely on a combination of desk research of official documents, trade data, and secondary literature complemented with expert interviews. We find that a trade-off between geoeconomic and development objectives is more pertinent in sustainability-related than in competitiveness- and security-oriented instruments. In these sustainability instruments, differential treatment of developing countries rarely features in the design—despite some proposals having been made. The geoeconomic turn has thus made it more difficult to align the different objectives in the EU's trade and investment policies, and development concerns are sometimes relegated to the background.

Keywords

development; differential treatment; European Union; geoeconomics; investment; trade

1. Introduction

Over the past years, we have witnessed a significant shift in the European Union's trade discourse and policies. This shift is the consequence of a confluence of inter-related trends and events including the China shock and the discontent of losers of globalization, the Covid-19 pandemic and concerns about the fragility of globalized value chains, and the Russian invasion of Ukraine and the weaponization of interdependencies. Scholars have captured these trends and events under the concept of a "geoeconomic turn" (cf. Adriaensen & Postnikov, 2022; Roberts et al., 2019). While the term remains fuzzy, it is commonly used to indicate that states increasingly intend to use economic instruments to pursue foreign policy objectives or to protect domestic policies against unwarranted interference by third countries. While states still value economic interdependence, they have become more proactive in managing its externalities and security risks.

The context of a geoeconomic turn led the European Commission in early 2021 to present a review of its trade strategy under the banner of "open strategic autonomy," which aims to reconcile the goals of efficiency, sustainability, and security (European Commission, 2021). This strategic review has been accompanied by the introduction of a significant set of new autonomous trade and investment policy instruments that aim to (a) increase reciprocity in the EU's trade relations, (b) avoid or remedy negative sustainability effects of trade and investment flows, and (c) protect the EU's security interests against exploitation of interdependencies by hostile governments. These changes in the EU's trade and investment policies are in line with President of the Commission von der Leyen's 2019 call for a "geopolitical commission," while scholars see "Europe's geoeconomic revolution" unfolding (Matthijs & Meunier, 2023).

While existing literature on the geoeconomic turn initially focused on US–China relations (Farrell & Newman, 2019), scholarship on the EU's role in a geoeconomic context is on the rise (Meunier & Nicolaïdis, 2019; Weinhardt et al., 2022). A key concern in these studies has been the trade-off between the EU's defence of the principle of economic openness on the one hand, and the desire to increase its autonomy and sovereignty in economic policy-making to minimize perceived security risks on the other (Gehrke, 2022; Herranz-Surrallés et al., 2024). What has received scant attention so far, however, are the implications of the ongoing geoeconomic turn for the EU's objectives of eradicating poverty and integrating developing countries into the world economy. Considering effects on developing countries, also known as "policy coherence for development," is a Treaty obligation of the EU under Article 208(1) of the Treaty on the Functioning of the European Union. Yet, scholars of development policy have pointed out that the EU has in recent years become more likely to (re-)integrate, and perhaps subordinate, development goals into the wider foreign policy system (Bergmann et al., 2019; Hackenesch et al., 2021).

Examining whether this trend also holds for the EU's new autonomous trade and investment instruments allows us to re-evaluate the EU's role as a global actor. Against the backdrop of rising tensions between China and the US, the EU seeks to position itself as a more "strategically autonomous" actor amongst major powers (Gehrke, 2022). Yet, doing so also depends on relations with Global South countries as it seeks to diversify its supply chains to "friendly" partner nations. Whether or not its geoeconomic turn takes the interests of developing countries into account thus matters not only from the perspective of "decentering" EU external relations (Onar & Nicolaïdis, 2013) but also for what Ikenberry (2024, p. 123) describes as the competition between the three worlds of the West, East and South. According to his view, Europe (as part of the West) is increasingly competing with the East, and in particular China, for "support and cooperation of the global South."

Empirically, this article critically reviews the implications of the recent geoeconomic shift in EU trade and investment instruments for developing countries. We focus on a set of recently initiated autonomous instruments, which we introduce below. We examine their likely impact on developing countries, and whether the EU has considered development goals in the design of these instruments to limit potential negative impact. Our analysis is based on desk research of official documents, trade data, and secondary literature complemented with and corroborated through six expert interviews: (a) interview with two officials from the Directorate-General (DG) for International Partnerships of the EC dated 5 December 2023; (b) interview with two officials from the DG for Trade on 13 December 2023; (c) interview with one official from the DG for Trade on 14 December 2023; (d) interview with one official from the DG for Trade on 22 December 2023; (e) interview with one official from the DG for Trade on 19 January 2024; and (f) interview with one counsellor of the EU Mission to the World Trade Organization in Geneva (European External Action Service) dated 24 January 2024.

We find that while not all of the EU's recent geoeconomic instruments are likely to have significant negative implications for developing countries, such trade-offs are particularly pertinent in sustainability-related instruments. Perhaps surprisingly, differential treatment of developing countries rarely features in the design of these instruments. These findings allow us to re-assess the recent geoeconomic turn in EU trade and investment policies by shedding new light on implications for developing countries. In doing so, we complement existing scholarly debates on the capabilities of the EU as a geoeconomic actor (Meunier & Nicolaïdis, 2019; Olsen, 2022; Weinhardt et al., 2022). Our findings indicate that the geoeconomic turn has made it more difficult to align the different objectives in the EU's trade and investment policies and that the EU has become more willing to relegate development concerns to the background.

2. The Geoeconomic Turn and the EU's Response

While scholarship on the strategic use of economic policies, so-called economic statecraft, has existed for decades (Luttwak, 1990), attention to geoeconomics has increased significantly in the past years. Roberts et al. (2019) prominently speak of an emerging geoeconomic order. While scholars disagree on how to precisely define geoeconomics, most adhere to the understanding that it entails the use of economic policies to pursue foreign policy goals or to protect one's domestic policies against foreign interference (Blackwill & Harris, 2016, p. 8; Olsen, 2022). The role of the US as a geoeconomic actor, in particular vis-à-vis China, has received the most attention (Blackwill & Harris, 2016; Farrell & Newman, 2019; Roberts et al., 2019). Recently, scholars have also turned their attention to the EU as a geoeconomic actor, including in energy, trade relations, and the field of investment (Babić et al., 2022). They note an increasing willingness to use economic policies for strategic purposes, as evidenced by the unprecedented turn towards unilateral trade instruments (De Ville et al., 2023; Gehrke, 2022). Given these new instruments, scholars have become interested in analysing the EU's capabilities as a geoeconomic actor (Meunier & Nicolaïdis, 2019; Weinhardt et al., 2022).

Others are more interested in unpacking changes and continuities at the paradigmatic level that underpin the EU's recent trade and investment instruments. Most scholars acknowledge the increasing prominence of security and other foreign policy goals in economic policy initiatives (Weinhardt et al., 2022), but also acknowledge the continuity of liberal market policies (Jacobs et al., 2023) and point out that struggles between neo-mercantilists and neo-liberals have a long tradition within the EU (Lavery et al., 2022). In the realm of trade, the EU's proclaimed goal to pursue "open strategic autonomy" captures these competing poles, given the tensions between economic openness and the more defensive and neo-mercantilist stance that strategic autonomy entails. Similarly, in energy, scholars note that the EU is shifting from a liberal to a strategic approach, which gives rise to tensions and inconsistencies (Siddi & Kustova, 2021). Some critically dissect how the EU justifies its geopolitical turn in trade policy discursively by contrasting it with presumably "bad" geopolitical trade actors and its own previous “naïve” normative trade discourse (Couvreur et al., 2022). Others unpack the role of think tanks in contributing to the geoeconomic turn by facilitating an “ideas shift” (Schmitz & Seidl, 2023; Veselinovič, 2022).

What has received scant attention, however, is the impact of the EU’s (partial) geoeconomic turn on its relations with developing countries. While some policy-oriented studies highlight that individual new trade and investment instruments of the EU are likely to have negative implications for developing countries (African Climate Foundation & The London School of Economics and Political Science, 2023; Komba et al., 2023), there is so far no comparative assessment that looks comprehensively at the EU’s new unilateral trade toolbox. Most academic studies concentrate on the carbon border adjustment mechanism and the deforestation regulation and highlight potential negative implications for developing countries (Magacho et al., 2024; Partzsch et al., 2023).

3. Conceptualising the EU’s Geoeconomic Turn in Economic Policies: Implications for Developing Countries

This section develops a conceptual framework that allows for the comparative assessment of the implications for developing countries of the EU’s new trade and investment instruments. We propose two main steps for the comparative analysis: (a) an assessment of the potential impact of the instrument on developing countries and (b) an analysis of the extent to which the design of a given instrument takes development concerns into account. For this step, we make use of the concept of “differential treatment” of developing countries.

To facilitate the comparative assessment of the set of new EU geoeconomic instruments, we categorize them into three groups (cf. De Ville et al., 2023; Erixon et al., 2022; Gehrke, 2022): (a) competitiveness-related instruments that seek to address market distortions and establish a “level playing field” for EU businesses; (b) security-related instruments that allow for the use of economic instruments to further security goals; and (c) sustainability-related instruments that want to mitigate negative environmental externalities related to trade and investment. This leads us to select eight recently introduced geoeconomic instruments (see Table 1) that aim to improve EU competitiveness and security and to protect its sustainability measures from being undermined by competition from or policies in third countries. Our selection does not include other potential measures that are at the time of writing (April 2024) at an early stage in the legislative process, like the proposal for an instrument to monitor EU outbound investment. We also do not include the revised Trade Enforcement Regulation, which allows the EU to adopt countermeasures when the other party in a dispute appeals a ruling into the void or fails to cooperate on the adjudication of the dispute. While the revised Trade Enforcement Regulation is also a response to geopoliticisation, in contrast to our selection it does not regulate trade substantially but only sets the procedures under which the EU can respond to third countries’ policies.

Note that we assume that not only security- but also competitiveness- and sustainability-related instruments have a geoeconomic dimension to them (cf. Gehrke, 2022; Goldthau, 2021; Matthijs & Meunier, 2023, p. 175). Competitiveness-related instruments follow a geoeconomic logic because they tend to be based on a perception of economic exchanges as zero-sum rather than positive-sum games in relation to rivals. Similarly, sustainability instruments have a geoeconomic dimension as states fear that being greener than competitors will hurt their relative economic strength. Moreover, states increasingly perceive the

Table 1. Three categories of new EU trade and investment instruments.

Competitiveness-related	Security-related	Sustainability-related
International procurement instrument Foreign subsidies regulation	Investment screening regulation Anti-coercion instrument	Carbon border adjustment mechanism Deforestation regulation Corporate sustainability due diligence directive Forced labour regulation

sustainable transition as a green technology race that may leave some states overdependent on third countries for critical technologies or materials. Yet, motives behind sustainability-related instruments are likely to be mixed. In the case of EU attempts to undermine "carbon leakage," for instance (see Section 4.3.1), the EU aims both to halt climate change and prevent deindustrialization, given that EU-based firms could in the absence of these instruments consider relocating to countries with less stringent climate policies. While there may be an overlap between the three types of instruments, we nonetheless find this distinction helpful for analytical purposes (De Ville et al., 2023, p. 25).

In the first step of our analysis, we assess the "potential impact" of these instruments on developing countries. To identify who counts as a developing country—a highly contested category in global politics (Farias, 2022; Schöfer & Weinhardt, 2022)—we use the World Bank classifications of "low-income" and "lower-middle-income country" as a proxy. Conversely, "upper-middle" or "high-income" economies count as developed countries. We conceptualize potential impact as the extent to which a country's exports or investments are exposed to the new EU instruments. This exposure is a function of (a) the importance of the EU as an export or investment destination for a developing country, (b) the overlap between the sectoral scope of the EU instrument and the export structure of a country, and (c) the relationship between the practices regulated by the EU instrument and the domestic practices or policies in a developing country. Where possible, we use quantitative data to analyse the exposure of developing countries to the EU's new unilateral instruments. However, relevant quantitative evidence is not always available. We currently lack detailed data on the participation of different countries in EU procurement markets, on the countries of origin of inward investment into the EU, or on the amount of subsidies provided to exporting firms by developing countries. Consequently, for some instruments our analysis of potential impact is based on a more qualitative assessment of available knowledge about developing countries' trade and investment flows and domestic policies.

Second, these instruments may also vary in the extent to which the EU has considered development concerns when designing them. Here, we consider the extent to which the instruments allow for the *differential treatment of* developing countries to address development concerns in light of the respective instrument's goals. This principle of differential treatment is prevalent in many global regimes (see Dingwerth et al., 2024) and is particularly central to the global environmental (common but differentiated responsibilities [CBDR]; cf. Farias & Roger, 2023) and trade regimes (special and differential treatment [SDT], cf. Ukpe & Khorana, 2021). In the context of the EU's new instruments, we expect that differential treatment can either be highly formalized, e.g., in the form of legal provisions, or take on a more informal nature (Dingwerth et al., 2024). Concerning the latter, thresholds that limit the application of the instruments could de facto exclude developing countries, or discretion given to the EC may allow it to spare

Table 2. Formal and informal options to include the differential treatment of developing countries in new instruments.

Formalised differential treatment	Legally codified explicit differential treatment provisions (e.g., exemptions from regime obligations, or direct access to financial assistance)
Informal differential treatment	Legally codified thresholds that limit the application of a given instrument and may de facto facilitate the exclusion of developing countries
	Instrument grants discretion to the EC to apply it selectively, with the possibility to exclude developing countries

developing countries in pursuit of policy coherence for development (see Table 2). Thresholds remain informal, however, as long as they do not explicitly target countries classified as "developing" or are not based on indicators that measure a country's level of development. For this research step, we rely on the analysis of legal texts of the instruments at stake, and how they evolved.

Taken together, this conceptualization allows us to comparatively assess the implications of the EU's new trade and investment instruments for developing countries. High-impact instruments that lack formal and informal differential treatment provisions are most likely to have a negative impact; conversely, high-impact cases that include differential treatment can—depending on the specific design—potentially facilitate coherence for development and mitigate trade-offs.

4. EU Trade and Investment Instruments: Implications for Developing Countries

The following section presents the empirical analysis of the new trade and investment instruments of the EU. We start with discussing instruments that have a potentially limited impact, before turning to those with a potentially high impact on developing countries.

4.1. Instruments With Potentially Limited Impact: De Facto Differential Treatment

4.1.1. Foreign Subsidies Regulation

The foreign subsidies regulation (FSR) aims to counter unfair advantages enjoyed by subsidized third-country firms when acquiring a company or winning a public contract in the EU. If the EC finds that a foreign distortive subsidy exists and the overall impact on the EU market is negative, it can prohibit a merger or acquisition (M&A) or award of a public contract, or can ask for redressive measures and commitments, like divestment of certain assets. While larger lower middle-income countries like India are regularly targeted by EU anti-subsidy measures against *imports*, we expect this new instrument in the domains of M&A and public procurement to affect developing countries only to a limited extent. According to the United Nations Conference on Trade and Development data, developing countries are responsible for 30.8% of global foreign direct investment (FDI) outflows (United Nations Conference on Trade and Development, 2023, p. 6). But, following the classification of the United Nations Statistical Office, this includes China, which assumes a major share of this volume. Least developed countries only take up less than 0.1% of global FDI outflows. While we lack data on the countries of origin of companies or consortia winning public procurement bids in the EU, it is reasonable to assume that these will source only to a limited extent from developing countries (interview 3; see Section 4.2.1). The first couple of investigations done by the EC under the FSR—against Chinese firms participating in public tenders for delivering trains, solar parks, and wind turbines to EU member states—show that this instrument will mostly be used against subsidized firms from large countries in sectors that the EU considers strategic for security or sustainability reasons.

The FSR does not contain an explicit exemption of developing countries. However, several thresholds relating to the value of the transaction and the volume of subsidies involved for the activation of the investigation apply, further limiting the probability that (small) developing countries will be affected. Even if a developing country's firm would be found to have profited from a distortive foreign subsidy, the EC has discretion in deciding which redressive measures to apply to M&As and public procurement bids, which leaves room for the preferential treatment of developing countries (European Union, 2022a, articles 25, 26, 30 and 31; interview 5).

4.1.2. Anti-Coercion Instrument

The anti-coercion instrument (ACI) aims to avoid or remedy economic coercion—when countries (threaten to) use trade or investment restrictions to unduly influence policy decisions in the EU—by third countries applied to the EU or member states. When the EC finds that a third country is applying economic blackmail to the EU, it can in cooperation with member states decide on a response measure, like the suspension of tariff concessions or the exclusion of the right to participate in public procurement tenders.

The ACI does not include the formal exemption of developing countries but can be expected to be applied only exceptionally to developing countries. The ACI's aim is to deter or remedy coercion by geoeconomic rivals of the EU, which are rarely developing countries. Moreover, to be able to apply *economic* coercion to the EU, a third country needs to hold economic leverage over the EU. This is less likely for developing countries than for developed or emerging economies. The ACI allows for discretion both at the stage of determining economic coercion and when deciding on appropriate countermeasures (European Union, 2023a, articles 3, 7 and 9 of the regulation). Lastly, in an ideal-case scenario, these countermeasures will never have to be applied, given the ACI's primary aim is to *deter* economic coercion (Interview 3).

4.1.3. FDI Screening Regulation

The FDI screening regulation—in force since October 2020—establishes a mechanism for information-sharing and cooperation between the EC and member states on incoming investments that may threaten security or public order in the EU. It enables the EC or member states to issue opinions on threats of inward investments and sets certain requirements for national investment screening mechanisms. Member states keep the autonomy to decide on inward investments and are so far not obliged to do investment screening.

The FDI screening regulation does not foresee any exemptions or specific treatment for firms from developing countries in inward investment screening. But as (small) developing countries are only a limited source of incoming investment into the EU (see Section 4.1.1) and they are rarely considered geoeconomic rivals, the impact of this instrument on them is presumably limited. Here, discretion in applying the instrument lies with the member states.

4.2. Instrument With Moderate Impact and Formal Exemption of Least Developed Countries

4.2.1. International Procurement Instrument

The international procurement instrument (IPI) allows the EU to restrict access to its procurement markets for companies based in countries that do not reciprocate the EU's liberalization of public procurement. Public procurement is an increasingly important sector, accounting for 15–20% of global GDP. The EU holds the view that it has liberalized its procurement market to third-country bidders significantly more than most other countries have opened their procurement markets to EU companies. The IPI aims to level this playing field.

The impact of the IPI on developing countries varies depending on the economic size of developing countries. There are three modes of public procurement: (a) a company based abroad wins a bid in the EU; (b) a subsidiary of a foreign company based in the EU wins a bid; and (c) a foreign company participates indirectly in a bid by providing intermediate goods and services to a firm winning the bid (Cernat & Kutlina-Dimitrova, 2016, p. 2). For most developing countries, with few large companies, only the last category is likely to be potentially affected by the instrument. Conversely, larger developing countries are more likely in a position to access the European procurement market through their own firms or subsidiaries in Europe. They could therefore be negatively affected by the IPI in several ways. Judging from official EU documents and press coverage, the IPI seems to target primarily high-income or upper-middle-income countries such as China or the US. Yet, as EC officials themselves acknowledge, it is difficult to assess which countries will be affected by the IPI and to what extent (interview 2). This is because existing databases on public procurement only cover the first mode of procurement, which is least important in economic terms. No database exists on the second or third modes, which are the most important ones (Cernat & Kutlina-Dimitrova, 2016, p. 2).

In terms of design, the IPI is unique among the instruments studied in this article in that it holds formal differential treatment provisions in place that explicitly exclude the group of least developed countries from the scope of the instrument. Article 4 of the regulation states that "the Commission shall not initiate an investigation in respect of least developed countries…unless there is evidence of circumvention of any IPI measure" (European Union, 2022b). Such an explicit exemption is the strongest way to ensure that new unilateral instruments take development concerns into account, and this is only done in the IPI. This exemption is "easy" to make for the EU in the sense that it is unlikely to affect the first and second modes of international procurement. Yet, for selected products such as cotton, the exemption could matter for least developed countries (interview 3). For a relatively simple textile product, e.g., used for work clothing in the public sector, the cotton that the firm within the EU relies upon could be sourced from a least developed country. The value of cotton imported into the EU could be up to 50% of the good if there is very little processing (interview 3). While least developed countries thus potentially benefit from this exemption, the IPI's design does not foresee differential treatment of economically more advanced developing countries.

4.3. Instruments With Potentially High Impact: No Differential Treatment of Developing Countries

4.3.1. Carbon Border Adjustment Mechanism

The EU's carbon border adjustment mechanism (CBAM) aims to preserve the integrity of the EU's climate policies by preventing "carbon leakage," that is when EU-based companies move production to third countries with less stringent (and costly) climate policies or when EU production gets displaced by imports from these countries. Through CBAM, a price must be paid—through the purchase of emission permits—for the emitted CO_2 embedded in imports equivalent to the price paid for CO_2 emitted when producing in the EU under the EU's emissions trading scheme. CBAM will initially apply to imports of upstream energy-intensive sectors exposed to the risk of carbon leakage: cement, iron and steel, aluminium, fertilisers, electricity, and hydrogen. CBAM will gradually be phased in over the period 2026–2034 in parallel to the phasing out of free emission allowances for the covered sectors.

In terms of absolute impact (value of exports falling under CBAM), the most affected countries are—except for India—upper-middle income or high-income countries: Russia, China, Turkey, Korea, and the US. Yet, what matters from the perspective of third countries is the *share* of countries' exports that is potentially affected by the EU's CBAM. Put this way, the country that is most exposed to CBAM is from the group of least developed countries: Mozambique. Around one-fifth of Mozambique's total exports consist of exports of aluminium to the EU. When we calculate the exposure of all countries according to their World Bank classification, we see that low and lower-middle income countries are relatively more exposed to CBAM than upper-middle and high-income countries (see Figure 1). It is important to note that the final impact depends not only on exposure but on other dynamic variables like carbon intensity of production, demand and supply elasticity of covered products, trade diversion, the question if CBAM will incentivize other countries to adopt similar measures, etc. (see also Magacho et al., 2024). World Bank staff (Maliszewska et al., 2023), who in their "relative CBAM exposure index" integrate the carbon intensity of exports in the calculations, arrive at very similar findings to the ones presented here. EU officials confirmed that they have received disapproval from some developing countries on CBAM (interviews 3, 4). Opposition, however, is not uniform, as other developing countries have already moved towards practical discussions about implementation (e.g., question on traceability and integration with existing schemes; interview 4).

CBAM does not include an exemption of developing countries, although this was a point of debate in the EU's legislative process. This was seen as inopportune given the aim of the mechanism of avoiding carbon leakage, as a ton of CO^2 leaked to a developing country is as bad for the global climate as a ton leaked to a developed economy. As additional justification, an EU official argued that there were legal concerns that a "least developed country exemption" would not be possible under World Trade Organization rules (interview 2). Moreover, EU officials were sceptical that this exemption would have made sense even in terms of development objectives: It could create the wrong incentives and lead to "carbon sinks," as firms with high levels of CO_2 emissions may relocate to least developed countries. This would, in turn, be

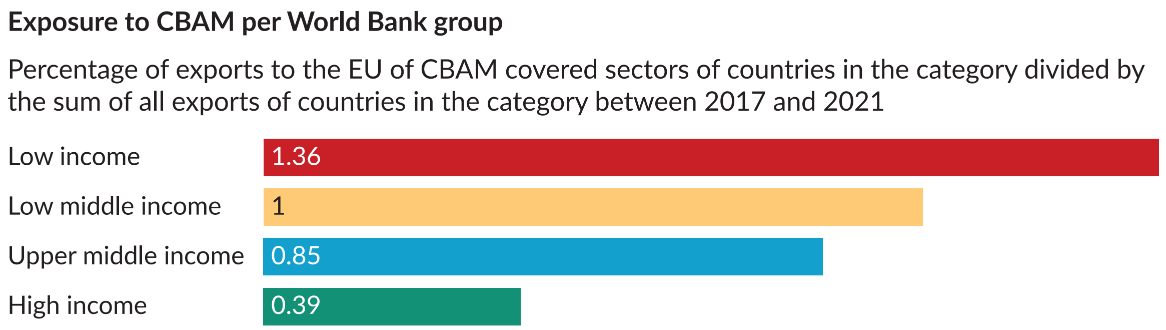

Figure 1. Exposure to CBAM per World Bank group. Source: Authors' own calculations based on WITS data.

detrimental to the long-term transformation of least developed economies towards a green economy (interviews 3, 4). Lastly, EU officials argue that CBAM applies at the company level and that it is mostly large multinational firms that are affected. These firms, however, are considered to have the means to comply with CBAM. For instance, South Africa—a country opposed to CBAM—exports steel to the EU. Yet, as an EU official argued, its largest exporter, the firm ArcelorMittal, already has the technology for green steel production (interview 4). To compensate developing countries for the potential economic losses because of the instrument, the European Parliament had proposed in its position on CBAM to "finance least developed countries' efforts towards the decarbonisation of their manufacturing industries with an annual amount corresponding at least to the level of revenues generated by the sale of CBAM certificates" (European Parliament, 2022, recital 55 and article 24a). This has not been included in the final regulation as this was seen as impossible under the EU's budget rules (interview 6). The relevant recital now only commits the EU to "continue to provide financial support through the EU budget" (European Union, 2023b, recital 73).

4.3.2. Deforestation Regulation

The deforestation regulation aims to avoid that EU consumption of certain goods contributes to deforestation and forest degradation worldwide. This should in turn help reduce greenhouse gas emissions and global biodiversity loss. The regulation bans imports (as well as EU-based production) of products sourcing from land that has been subject to deforestation or forest degradation after 31 December 2020. The regulation applies to the commodities cattle, cocoa, coffee, oil palm, soya, and wood, as well as relevant products that contain, have been fed with, or have been made using these commodities. The prohibition is enforced by obliging operators to follow due diligence procedures, thereby ensuring that only commodities and products for which the risk that they contributed to deforestation is negligible can be placed in the EU market. A key feature of the regulation is the country benchmarking system, through which the EC will assess the risk that countries produce relevant commodities and products that are not deforestation-free, resulting in three possible levels of risk: low, standard, or high. Obligations on operators are more stringent when they import commodities or products from countries with a higher risk assessment.

The regulation does not contain any exemption for developing countries. The regulation may affect developing countries disproportionally in two ways: A significant number of developing countries—and within them in particular smallholder businesses (cf. Zhunusova et al., 2022)—are specialized in the covered products and have a higher probability of being qualified as "high risk" countries for deforestation (at the time of writing, this country classification is still being drawn up by the EC). For several least developed countries and developing countries, exports to the EU of commodities covered by the regulation represent a very significant share of their total exports. An extreme example is São Tomé and Príncipe, a lower-middle income country, whose exports consist mostly of cocoa, the bulk of which goes to the EU. Other least-developed countries and developing countries like Ivory Coast, East Timor, Honduras, Cameroon, Sierra Leone, Ethiopia, Uganda, Burundi, and Ghana are significantly exposed to the deforestation regulation. When we again calculate the exposure according to World Bank income categories, we see that lower-middle and low-income countries are relatively more exposed to the deforestation regulation than upper-middle and high-income countries (see Figure 2). It is thus no surprise that, similar to CBAM, the deforestation regulation has created a lot of friction with developing countries (interview 3). An EU official acknowledged that the regulation could be more detrimental for developing countries compared to CBAM because (a) it affects smallholders rather than large multinational companies, (b) there is a very short

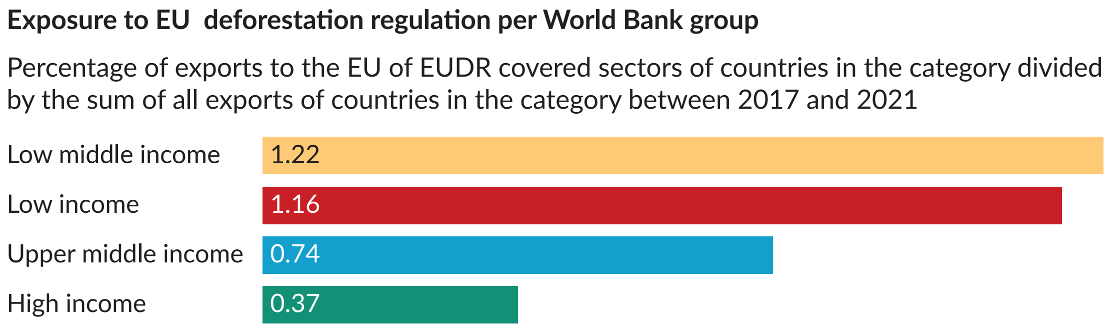

Figure 2. Exposure to deforestation regulation per World Bank category. Note: EUDR stands for the EU deforestation regulation. Source: Authors' own calculations based on WITS data.

transition period (2 years) compared to CBAM, and (c) it relies on a benchmarking system that could impose a classification of "high risk" on developing countries from the outside (interview 4).

4.3.3. Corporate Sustainability Due Diligence

The corporate sustainability due diligence directive (CS3D) aims to stimulate sustainable and responsible behaviour by companies with a large presence in the EU market throughout their supply chains. Companies will be required to monitor and, where necessary, prevent, end, or mitigate the negative impacts of their activities on human rights and the environment. This obligation applies to relatively large companies. The original proposal by the EC has been amended throughout the legislative process, and its scope has been reduced within the Council of the EU after difficult negotiations. The new version of the text, which at the time of writing still must be approved by the Council and the European Parliament, will only apply to a small number of very large companies with at least 1,000 employees and a turnover of 450 million euros. Moreover, while the original proposal lowered the threshold further in sectors with a "high risk" of human rights and environmental violations, this has now been eliminated.

The directive does not include any exemption of developing countries. To the extent that human rights and environmental violations are more frequent in lower-income countries, the CS3D may de facto have a higher impact on developing countries. Scrapping the "high risk" provision lowers the probability that developing countries will be disproportionately affected by the directive, as they are more specialized in the sectors that were considered of high risk in the original proposal. Still, while many civil society organisations welcome the CS3D, some experts are concerned about the potential negative impact that the directive may have on developing countries and smallholders in particular (e.g., Ellena, 2023).

4.3.4. Forced Labour Regulation

In March 2024, a year and a half after the proposal by the EC, the EU institutions reached a provisional agreement on a regulation to ban products made with forced labour on the EU market, applying to domestic products, exports and imports alike. The number of people in forced labour is estimated by the International Labour Organisation to be 27.6 million. The EC, which is responsible for implementing the ban on forced labour taking place outside the territory of the EU, would apply the ban through a risk-based enforcement approach, identifying in a database specific economic sectors in specific geographic areas for which there is reliable and verifiable evidence that there exists forced labour imposed by state authorities. These data will be used to inform the decision to open an investigation into the existence of forced labour. If forced labour is found, the EU can ban these products from entering the EU market until the violation is eliminated.

The regulation does not include any exemption or special treatment of developing countries. It also does not include de minimis thresholds, nor exemptions for small firms, as the aim of the regulation is to ban *all* goods produced with forced labour from the EU market. Because of the risk-based enforcement approach, it is plausible that the instrument will de facto have a relatively strong impact on developing countries. According to the International Labour Organisation et al. (2022, p. 17), state-imposed forced labour is much more prevalent in low-income countries (2.1 per 1,000 inhabitants) than in lower-middle (0.1), upper-middle (0.7) and high-income countries (0.1).

The results of our comparative analysis are summarized in Table 3. Instruments with a potentially high impact and no differential treatment are likely to have the most significant negative implications for developing countries.

5. Conclusion

The EU's trade discourse and policies have recently shifted significantly. We have seen the creation of new trade and investment instruments that seek to re-position the EU in a context of geoeconomic competition, coupled with an accelerated climate crisis. This article has examined the implications for development. We find that the potential impact varies as a function of both the overlap between the instruments' scope and developing countries' economic and political practices and policies, as well as the extent to which design features allow for the differential treatment of developing countries to offset, or alleviate, negative implications.

As a result, the differential potential impact varies between the three categories of new instruments. Competitiveness and security instruments tend to have potentially limited impact on developing countries.

Table 3. Mapping of instruments: Implications for developing countries.

	No flexibility for developing countries (no differential treatment)	Possible flexibility for developing countries (informal differential treatment)	Explicit flexibility for developing countries (formal differential treatment)
Limited impact		FSR FDI screening regulation ACI	
Medium impact		IPI (developing countries other than least developed countries)	IPI (least developed countries)
High impact	CBAM Deforestation regulation CS3D Forced labour regulation		

They rarely include differential treatment, but this is not too problematic, as developing countries present only a limited threat (or attractive export market) to EU firms or national security. Instead, these instruments target primarily high-income or upper-middle-income countries such as the US, Japan, Canada, Brazil, and China. One notable exception is the lower middle-income country India, which as the fifth largest economy in the world may also be exposed to the EU's new unilateral security and, especially, competitiveness instruments such as the IPI. Sustainability instruments are likely to have the most significant negative impact on developing countries. These instruments tend to target specific high-risk products and/or countries and developing countries will often come into these instruments' focus. Giving developing countries no preferential treatment, or even implicitly treating them less preferentially through risk assessments, is seen as necessary to make the EU's sustainability policies effective. There seems to be a hope amongst EU policy-makers that the fears about negative impacts on developing countries will be overblown and that the market will help these countries adapt, and perhaps even benefit from the EU's new policies. Yet, developing countries often disagree with this positive take (Guillot & Kijeweski, 2023).

Our findings complement existing debates that tend to focus on the capabilities of the EU as a geoeconomic actor (Meunier & Nicolaïdis, 2019; Olsen, 2022; Weinhardt et al., 2022). We find, first, that coherence for development seems to be relegated to the background. This echoes research on financial assistance that finds that development concerns have increasingly become integrated into wider foreign policy goals (Bergmann et al., 2019). Yet, this may undermine the EU's attractiveness as a partner for Global South countries, also in light of increasing competition with countries from the "East" (Ikenberry, 2024). Second, our findings indicate that the geoeconomic turn has made it more difficult to align the EU's different foreign policy objectives. Under the previous (neo-liberal) paradigm, claiming to pursue a coherent trade policy was easier. Trade liberalization could be presented as a silver bullet that would bring global prosperity, peace, and sustainability all at once. The new geoeconomic paradigm recognizes that trade and investment liberalization come with significant (risks of) negative development, ecological, and security externalities. In this more complicated exercise of reconciling different objectives under the shifted paradigm, new trade-offs between different goals may thus arise. This confronts the EU with difficult questions. Is the EU sacrificing development on the altar of sustainability and geopolitics in its new trade and investment policy instruments? How to ensure that mitigating climate change or biodiversity loss does not result in burden-shifting on developing countries? If compensation is not integrated into the design of the agreements themselves, does the EU pursue this sufficiently through other means, such as the EU–Africa Green Energy initiative, the Global Gateway, or bilateral initiatives and funding instruments?

Our analysis has some limitations. First, we discuss, based on their design, the potential impact of new instruments that the EU only begins to apply at the time of writing, or that are even still to be formally adopted by the EU institutions. In the coming years, future research will be able to analyse more directly the *actual* effect of these instruments on developing countries. Second, our analysis suffers from a lack of precise data on some of the instruments. The implementation of these instruments will produce new detailed data, which can be tapped in future research. Finally, our analysis also did not consider how developing countries themselves perceive and react (economically and politically) to these new instruments. This provides a fascinating avenue for future research, which will also shed interesting light on the question of how effective the EU's geoeconomics turn will eventually turn out to be, and how this will affect its future (bilateral) relations with developing countries.

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Conflict of Interests

The authors declare no conflict of interests.

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