

Europe

Choke Points, Competitiveness, and Competition

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Over the last 10 years, “choke points” have become a standard notion for trade and security policymakers in our conflict-driven, globalized interdependent world. Choke points may be defined as vulnerabilities in supply chains, technology, and market access to production or financial networks, which may be strategically set up, aggravated, and/or exploited. If the threat of choking off suppliers, competitors or customers is carried out, this leads to a disruption of existing economic or financial functions and causes wider damage.

Choke Points in Goeconomics

The notion of choke points has been popularized by Farrell & Newman² regarding countries which turn economic infrastructure such as the internet, payment and clearing systems or pipelines into political weapons. The concept has usually been applied to public actors who use their direct or indirect control or leverage over public or private firms or assets, through legal or de facto means, for their own benefit.³ Recent examples would include U.S. activities to choke China off from highly advanced computer chips⁴, Russia choking off its western customers from gas, and the U.S. in turn trying to use access to financial markets as a choke point to starve firms involved in circumventing sanctions by manufacturing and delivering weapons to Russia.

Analyzing choke points, which hold the potential for economic threats, is part of the wider field of goeconomics. Formalizing the idea of economic coercion, Clayton et al.⁵ use the notion of “micro power” of countries over sectors

whose supply inputs are widely used, with poor substitutes and providing the power to make feasible and valuable threats. They distinguish between goods which have these properties due to physical constraints (e.g. rare earths, oil and gas) and those which have them due to increasing returns to scale and natural monopolies (e.g. the dollar-based financial infrastructure of payment and clearing systems). They refer to “macro power” in cases of sectors with high influence on world output due to endogenous amplification such as R&D and IT technology.

EU Economic Security Strategy

While analysis of current fragmentation⁶ and of historical economic coercion⁷ show that economic weaponization does not substitute, but might instead even lead to war, the EU has accepted the geopolitical reality of strategic conflict. In its [European Economic Security Strategy of 2023](#), the EU has set out its defense plan with the three strategic goals of “(1) promoting our own competitiveness; (2) protecting ourselves from economic security risks; and (3) partnering with the broadest possible range of countries who share our concerns or interests on economic security.”

The most prominent horizontal element of this defense so far is the Anti-Coercion Instrument (“ACI”). The 2023 [ACI Regulation](#) defines economic coercion as a situation “where a third country applies or threatens to apply a third-country measure affecting trade or investment in order to prevent or obtain the cessation, modification or adoption of a particular act by

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² Farrell, H. & Newman, A. (2020), “Choke Points,” Harvard Business Review 124-132; Drezner, D., Farrell, H. & Newman, A. (2021), The Uses and Abuses of Weaponized Interdependence, Brookings; Farrell, H. & Newman, A. (2023), Underground Empire – How America Weaponized the World Economy.

³ But see Giblin, R. & Doctorow, C (2022), Choke Point Capitalism, Scribe, who use the concept also for private actors acting in their own interest.

⁴ For an analysis of the chip war see Miller, C. (2023), Chip War: The Fight for the World’s Most Critical Technology, Scribner.

⁵ Clayton, C., Maggiori, M. & Schreger, J. (2023), A Framework for Goeconomics, NBER Working Paper.

⁶ Harding, R., & Harding, J. (2017), The Weaponization of Trade: The Great Unbalancing of Politics and Economics, London Publishing.

⁷ Mulder, N. (2022), The Economic Weapon: The Rise of Sanctions as a Tool of Modern War New Haven, Yale University Press.

the Union or a Member State, thereby interfering in the legitimate sovereign choices of the Union or a Member State.” The objective of the ACI, which gives the EU the powers to take countermeasures, is to deter countries from restricting or threatening to restrict trade or investment in the first place. In addition, with its [2024 White Paper on outbound investment](#), the EU has started to look into how to better control the risks of technology and know-how leakage. While the ACI provides a counter-threat option, outbound investment control could contribute to preventing countries from holding up EU firms or using EU technology against the EU.

Identification of Choke Point Sectors

The harder and potentially more consequential step, however, is to identify and then mitigate potential choke points. The current U.S. administration, in its [2021 report](#) on resilient supply chains, has been early and forthright in focusing on semiconductors, batteries, pharmaceuticals, and rare earth minerals. The U.S. has also implemented a [process of mapping supply chain risks](#). The EU Strategy looks more broadly into risks for economic security and wants the private sector to conduct its risk management, and for civilian and military intelligence to join forces in working towards the detection of possible threats. In its [2023 recommendation](#), the Commission identifies critical technology areas for the EU’s economic security, prioritizing advanced semiconductors, AI, quantum computing, and biotechnologies.

De-risking by diversifying supply and building up capacities in the EU raises immediate challenges and opportunities for competition and state aid policy. In rationally identifying the sectors with the above choke point characteristics and mapping the supply chain risks, competition policy and in particular merger decisions can be a valuable source of information. While competition decisions usually have a short-term, two-year horizon and are usually agnostic about the political risk and the systems dimension of an industry, they often

provide a good snapshot of relevant markets, barriers to entry and expansion, as well as the potential for competition and therefore substitutability and market power.

An important way of improving the information available would be to better organize the information flow between competition policy, trade instruments such as the Foreign Direct Investment Screening, and the new Foreign Subsidies Regulation to allow for a strategic look into sectors. Much like the U.S., the EU should organize a centralized data hub. Based on data, including on trade⁸, the analysis to be carried out would involve identifying: (1) indispensable goods whose production is heavily geographically concentrated in as well as controllable by another jurisdiction and (2) to which the EU and long-term allies do not have alternative access as well as (3) the political risk that this jurisdiction uses as well as carries the threat of choking the EU off, including the necessary asymmetry in costs (high for EU/low for other jurisdiction).

Policies to Incentivize Supply

If the strategic goal is to create or enhance supply in the EU territory in potential choke point sectors over a limited period, where physical presence is necessary, the EU currently often opts for direct payments (instead of tax breaks). In trying to react to the 2022 U.S. Chips Act, the 2023 [EU Chips Act](#) intends to facilitate state aid for semiconductor production. Additionally, the Commission has approved an Important Project of Common European Interest (“IPCEI”) on microelectronics and communication technologies. Also in reaction to the U.S. 2022 Inflation Reduction Act, the EU adopted the Temporary Crisis and Transition Framework (“TCTF”) in 2023, also with the specific aim of allowing for state aid if investment is at risk of being diverted from Europe due to the availability of foreign subsidies. Joint arrangements to mitigate the risk of an uncoordinated subsidies race and a glut on the

⁸ For example, Welslau, L. & Zachmann, G. (2023), “Is Europe failing on import diversification?,” Bruegel blog post, based on Eurostat trade data, display import concentration with the Herfindahl-Hirschman-Index (“HHI”), showing that the EU, contrary to its own goal, has become more dependent on China.

respective goods markets would obviously be desirable.

Other policies and instruments to incentivize supply from EU territory would include public procurement as well as local content requirements. The current EU pharmaceutical reform also intends to secure supply, among others by contemplating contingency stock requirements. With regard to all measures so far, the EU at least has vowed to remain in compliance with EU competition and WTO rules.

Competition and Economic Security

Different from state aid, competition policy so far has undergone no economic security adaptation. What can be expected as an argument is that in choke point sectors there would be a need to relax competition rules (i) to have European champions on the supply side or (ii) countervailing (joint purchasing) power on the demand side. With regard to the first potential line of argument, Bradford has pointed out that in particular big tech players can be converted from vertical regulatory targets into horizontal tools in the hegemon battle with other jurisdictions.⁹ Digital platforms as the key providers to access to information, content and services are a case in point. U.S. Big Tech firms themselves have already re-framed the “China defence” from an economic level (“we compete with bigger, subsidized competitors”) to a security level (“you need our unconstrained power in the geopolitical battle”).

Such policy-loosening on the supply side would not be desirable. It is already hardly feasible,

since EU competition policy, as a symmetric and horizontal rule of law regime, cannot distinguish between EU and non-EU actors (a feasible option might be sector-specific rules). It is not desirable, since competition feeds into economic security and resilience: First, firms in markets with fierce competition tend to be more dynamic and flexible. They better adapt to shocks and changes in capacity. Second, more competition leads to more differentiated supply chains. This helps to reduce choke points and structural dependencies. Third, for state aid, competition is necessary to guarantee an optimal take-up and efficient use of the subsidies. For these reasons, the German Federal Ministry for Economic Affairs and Climate Action has submitted a proposal for a new competition instrument for the next European Commission.

What could be considered for competition policy, is the idea presented above of allowing for countervailing power through joint purchasing of EU firms on the global stage if this would help long-term competition and security. The newly adopted [EU Critical Raw Materials Act](#) provides for such possibility of joint purchasing, while at the same time committing participating firms to comply with competition rules.

Another option for competition policy would be to more systematically consider high and clear risks of market ruptures due to conflicts and the use of choke-points in forecasting decisions on markets developments such as in particular merger assessments. In principle, competition and the preservation of capacity should feed into long-term competitiveness and economic security.

⁹ Bradford, A. (2023), *Digital Empires: The Global Battle to Regulate Technology*, OUP.