

Economic security: A new EU paradigm?

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Executive summary

Given the watershed moment of Russia's invasion of Ukraine and the unstable and contested global environment, there is a need to establish economic security as one of the key transformations EUrope will have to achieve. This means achieving greater economic security as a defence against aggression but also as a means of using economic instruments in global conflicts and as the basis of a reinvigorated hard security sector.

Economic security is a European public good, but achieving it will entail painful trade-offs. Nevertheless, it needs to be prioritised. Prioritising everything will deliver nothing. This will require a change in mindset, starting with a transnational strategic debate. Achieving this paradigm shift will take time, but there are actions at the EU level that can be taken now to set us off in the right direction, to be reflected in the forthcoming European economic security strategy.

Introduction

The watershed moment of Russia's invasion of Ukraine¹ has reinforced the political focus on EU economic security but it is not a new debate. EUrope has a long-standing dependency on imported energy, which, for several decades, has raised questions about the security of supply. More recently, there have been concerns about the vulnerability of EU companies regarding global supply chains and markets, as well as access to and leadership in key enabling technologies. This has led to developing concepts such as open strategic autonomy and digital sovereignty and, inter alia, policy developments in areas such as industrial policy and trade.

Russia's war of aggression against Ukraine is also a war against liberal democracy. It painfully exposed EUrope's dependencies, in particular on Russian gas, which comes at a high price. EUrope can now observe that interdependence can be weaponised by a regime that does not hesitate to use economic warfare, regardless of the human cost this inflicts on populations on all sides. Geopolitics is trumping economics, and the defence of European democracy, sovereignty and security has taken over as the primary concern despite the economic costs involved. At the same time, the EU, in cooperation with the US, has also had to use economic means to respond to Russia's aggression, most obviously in the multiple sanction packages the EU has put in place.

Defending the EU economy

To achieve greater economic security under the conditions of a permacrisis² and in the context of a more contested global environment, all economic security dimensions need to be taken into account. Clearly, it must encompass a greater ability to withstand weaponised interdependence, greater control over critical supply chains, and security of supply for critical resources, including energy. This implies de-risking where possible but also de-coupling where necessary, despite the costs this will impose.

De-risking, particularly from China, rather than de-coupling, a concept developed by Commission President Ursula von der Leyen in her speech at EPC/MERICS,³ is an important pillar of future economic security.

This involves identifying specific current and future vulnerabilities (not only with respect to China) and then taking appropriate action to build greater economic resilience by reducing dependencies through, for example, diversification of supplies. For particular sectors, resources or technologies, it might also imply making significant domestic investments, taking greater control of supply chains, and, in specific cases, re-shore activities within the EU or friend-shore in like-minded countries to build an economic security framework that guarantees cooperation in times of conflict without excluding other countries that want to maintain global cooperation and governance. This is also necessary to future-proof the relationship with the US, where future political changes might create a far more challenging political and economic situation for EUrope.

A broader concept of economic security

The concept of economic resilience must be considered on an economy-wide level. Countries that are economic determinants of the EU economy, i.e. those with a systemic effect, could potentially pose a (much) more severe challenge than what has been experienced with Russia. While, arguably, the de-coupling from Russian energy can be achieved without significantly lowering the EU's long-term economic potential, this is not the case when de-coupling from systemically important economies, where the long-term effect will likely lead to reduced living standards. While this is not desirable, it might be necessary, at least to some extent, and the EU needs to start planning for these contingencies.

Economic resilience must be considered on an economy-wide level.

Economic security must also encompass the ability to withstand economic attacks, for example, on the financial system, or being hit by implicit or explicit economic restrictions or sanctions. But even if these major global shocks are not caused deliberately, for example, in the case of global pandemics, greater

economic security entails being able to withstand such shocks. This also implies the ability to take control of critical economic infrastructure, including, for example, key elements of the financial system, and be able to set and enforce standards for key enabling technologies to ensure access in times of conflict.

The EU's economic security also depends on the economic security and stability of others; focusing on the Union alone will not be sufficient. This implies that the EU has to become the economic security guarantor in its neighbourhood, for example, by providing a financial umbrella in case of global economic insecurity.

Projecting power

Economic security cannot only be defensive. In a more contested global environment, projecting economic power is a critical component of effective international relations. Not only does it imply a greater voice in economic developments that directly affect Europe's prosperity and security, but there is also a necessity to have the capability to conduct economic warfare, if necessary, by being able to withhold access to critical economic infrastructure and technology from adversaries, and by imposing sanctions as demonstrated in the case of Russia. Moreover, in a world where 'my-country-first' is increasingly undermining global economic governance and the rules-based international order, the ability to project economic power is becoming increasingly important.

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At the same time, Russia's aggression has shown that there continues to be a need for hard security in Europe. While NATO under US leadership will continue to play a critical role in this area, Europe will have to take greater responsibility for security, especially in its neighbourhood. Consequently, there is a need for massive increases in security spending to continue providing military support for Ukraine, to replace weapons that have already been transferred and build new capacity and capabilities. This implies that economic security also has to encompass the economic and fiscal capacity to provide the necessary hard security investment and a defence sector with the capacity to deliver. But it is not only about increased spending but also about maximising the available resources, so common action and procurement, member state cooperation with the EU, and NATO will be key. Building capacity in defence and security will take time, coordination and cooperation, requiring a sustained effort over the coming decade.

Economic security foundations

To achieve these different dimensions of economic security, certain preconditions will have to be met; economic security cannot be achieved in isolation. The starting point must be a robust economy that can withstand the demands imposed by economic security. This implies being a player in key enabling technologies, including in areas at the interface between economic and hard security, for example, when it comes to cybersecurity. As noted above, it implies a revitalised hard security/defence sector, where the economic benefits from increased investment, militarily and economically, are realised jointly within the EU. Building on the joint action already being pursued at the EU level, the goal should be that increased military spending is done in a coordinated manner. It also requires building economic capacity, including, for example, the Capital Markets Union to strengthen cross-border capital markets, reducing the need to rely on external

finance and investment. Rather than replacing market mechanisms, companies need to be incentivised to contribute to Europe's economic security with public money, including EU-wide borrowing in specific cases, and create framework conditions, including innovative risk management tools, building on mechanisms like the Investment Plan for Europe.

However, there is also a potential contradiction at the heart of the debate. Systemic, structural transformations will require public intervention that can undermine the Single Market, which is the key strength the EU has both in terms of domestic economic development and its interaction with the rest of the world. On a very basic level, the only way to maintain the Single Market is by acting together. What we are currently seeing, for example, is the effective renationalisation of state aid resulting in fragmentation, where national action takes

precedence over EU action. This is inevitable without common EU action; many member states see an absolute political need to address these challenges.

But there is a more fundamental question that underlies the debate: how do you maintain free exchange and competition that generate economic welfare far more effectively than any other economic system? When it comes to the external dimension, the EU is developing instruments to safeguard reciprocity and exchange, also recognising that other countries are intervening to a much greater degree, which is a particular concern with respect to China. Within the Single Market, the debate has essentially not moved on, leading to renationalisation. The Commission, supported by those countries that want to defend the Single Market, needs to develop a new industrial policy - with significant spending at the EU level - that maintains competition wherever possible but also recognises that there is an efficiency price worth paying to achieve greater economic security. However, this should be done in a transparent and challengeable way that ensures it is not simply a fig leaf for protectionism.

The considerations of economic security have to integrate the perspective of the private sector while making it clear this is a necessary precondition for the operation of Europe's economy in future. Given the European economic interdependence, the EU will not be able to change its economic foundations to prevent all economic pain in case of conflict, so it will require developing the capacity to absorb pain. In this context, it is critical to distinguish between short- and long-term security, building the capacity to withstand short-term costs while also gathering the means and starting the process to adjust structurally in the medium-term.

A new paradigm?

The most important step to achieving economic security is a change in mindset. Economic security needs to be considered a European public good that can only be delivered by joint action. It should not be seen as another slogan used to repackage existing policies but rather as a genuine structural shift in our policy thinking and development. This will also require an honest discussion on where our strengths and weaknesses lie, also appreciating the temptation to see comfort in the European progress illusion, i.e. the belief that the progress we are making is sufficient to match the scale and scope of the challenges we are facing.⁵

At the outset, there is a need for a process of EU-wide strategic political thinking, taking a holistic view of EU policies at all government levels and across national frontiers, to determine Europe's long-term political objectives. The focus here, as elsewhere, should be on an intergenerational mindset, taking into account the effect today's actions will have on the ability of future

This will require support from the population. Citizens must understand better that these conflict situations directly threaten their long-term well-being and that short-term sacrifices are necessary. Unfortunately, an honest debate about cross-border trade-offs is currently absent, partly because of fears of the political consequences of such a debate. But this is a necessary stepping stone to get citizens on board and maintain the scale and scope of action this requires over the next decade. Only if there is population buy-in will it be possible to carry out the necessary public investments. Inevitably, economic security will impose costs, so the distributional effects within and between countries need to be considered.

Working together will enhance economic security, while fragmentation will undermine it.

As with any security question at the EU level, the Union can only act convincingly if there is cooperation between all member states and the institutions to deal with conflict and threats from outside. Working together will enhance economic security, while fragmentation will undermine it. While speaking with a united voice is preferable, if this critically limits ambition, new mechanisms have to be found, for example, changing decision-making procedures.⁴

generations to defend their values and interests. This should also be the political debate in the context of the European Parliament election, highlighting that these elections matter for the long-term security of EU citizens.

While economic security is undoubtedly a new horizontal priority, it does not sit in isolation. Europe needs to deal with crucial transformations: sustainability, technology and demography. At times, the objectives of economic security are going to coincide, and clearly, these are areas to prioritise for policy action and investment. But trade-offs are also present, for example, in the availability of public investment. Given the inevitable trade-offs, there needs to be honest debate and clear decisions on what has precedence and how the negative effects can be mitigated. It also means being transparent about what we are doing less or investing less to free space for economic security.

Policy must be relentlessly forward-looking, so there is a need to construct realistic future political economy scenarios, asking the ‘what if’ questions. Simultaneously, the EU needs to plan for worst-case scenarios, asking difficult questions, for example, where Europe would stand in a global conflict between superpowers or in the demise of a transatlantic alliance. This world of contingencies and anticipation requires much better independent intelligence and analysis that is integrated far more into policy processes, providing forethought rather than foresight, i.e. thinking through future policy

scenarios to determine policy responses that can change the trajectory of outcomes. The economic security paradigm needs to be embedded at the highest level of decision-making within the Commission, linked closely with the leadership in member states. At the heart, there needs to be a risk management strategy, dealing with the likelihood of adverse events but also their potential magnitude, identifying where the potential pain is greatest. That should provide a guide to prioritisation; prioritising everything will deliver nothing.

Doing, not just saying

An economic security strategy needs means and instruments; it is not sufficient to set out targets and goals without spelling out how they will be reached. This includes specifying what the member states must do, given that much of the action cannot be delivered solely at the EU level. At the same time, there will need to be more common and integrated policy action. Hence, the need to pool more sovereignty to achieve economic security needs to be recognised, and concrete steps in this direction need to be taken and put on track.

The need to pool more sovereignty to achieve economic security needs to be recognised.

Achieving economic security will require a much higher level of government intervention in the economy along the lines of a wartime economy framework.⁶ This is already happening in the rest of the world and also at the

member state level in response to the global challenges which all countries are facing. In the EU, there is a real need to ensure that this does not lead to a fragmentation of policy along national lines. At the same time, the member states will need to engage in an economically and politically difficult discussion about the trade-offs necessary to achieve higher levels of (economic) security. There is a need to prioritise and focus, but the interests and positions of the EU27 differ immensely across different policy areas. This debate cannot and should not be avoided. It remains to be seen whether member states are willing to go beyond paying lip service to the requirements of this new era, addressing the various national taboos concerning European cooperation.

The key area where the EU needs to continue to make progress is industrial policy, which is at the heart of economic security. Industrial policy should be understood here in a broad sense, encompassing energy, single market, technology, research & development and so on. At a minimum, policies should be assessed for their impact on economic security, addressing those policies that undermine European economic resilience. At the same time, new policies need to be implemented that enhance Europe’s capacity to act, including, for example, the European Sovereignty Fund.^{7&8}

Recommendations

Economic security should be a new paradigm for the EU, but achieving it will require a long-term effort to change policymaking and the level of EU cooperation. Given the enormity of the scale of the challenge and the distribution of competences and instruments, with many levers at the national level, one might conclude that there are few actions that can be taken forward at the EU level at this moment in time. But this is far from the truth; there are several steps that could be taken in the near future. These include:

- ▶ Jointly defining economic security and Europe’s long-term objectives in this field, being reflected in the economic security strategy.
- ▶ Drawing up an action plan for the next Commission, setting out short, medium and long-term policy changes that need to happen to enhance economic security, including, for example, the European Sovereign Fund, and identifying the next steps on industrial policy to enhance economic resilience and de-risking and counter the current trend towards re-nationalisation.

- ▶ Facilitating a pan-European debate about the defence sector and the economic policy changes required to deliver the capacity step-change that is needed, including drawing up a ten-year horizon for the defence sector in Europe.
- ▶ Screening all relevant policies for their economic security impact.
- ▶ Building the political and economic foundations for economic security, including engaging with citizens about the sacrifices and trade-offs that are needed.
- ▶ Identifying critical economic infrastructure and systems and drawing up contingency plans in case of conflict.
- ▶ Proposing ways in which executive capacity and decision-making at the EU level in areas relevant to economic security can be enhanced, including changes in decision-making procedures.

- ▶ Developing a blueprint for global economic security cooperation between like-minded countries together with these countries, covering issues such as sanctions.
- ▶ Engaging with the EU's neighbourhood to foster cooperation on economic security and set out where the Union can act as a guarantor.
- ▶ Investing in analytical capability to be better able to anticipate and change policies and decisions in advance rather than only reacting after security has been compromised.

Economic security will not be achieved overnight. But, equally, unless we start to act more decisively now, Europe's agency in the future will be even more constrained, and its economic security will continue to be undermined. There is no time to lose: it is high time that Europe begins the difficult and costly process of taking the economic security paradigm seriously.

¹ Zuleeg, Fabian (2022), www.epc.eu/en/publications/A-watershed-moment-in-European-history-Decision-time-for-the-EU~4628f0, Brussels: European Policy Centre.

² Zuleeg, Fabian, Janis A. Emmanouilidis and Ricardo Borges de Castro (2021), www.epc.eu/en/Publications/Europe-in-the-age-of-permacrisis~3c8a0c, Brussels: European Policy Centre.

³ European Commission (2023), [Speech by the President on EU-China relations \(europa.eu\)](https://www.europa.eu).

⁴ Zuleeg, Fabian and Janis A. Emmanouilidis (2022), www.epc.eu/en/Publications/Overcoming-the-ambition-unity-dilemma~4bef74, Brussels: European Policy Centre.

⁵ Zuleeg, Fabian (2023), www.epc.eu/en/Publications/Overcoming-the-European-Progress-Illusion~505c44, Brussels: European Policy Centre.

⁶ Mollet, Frederico and Georg E. Riekeles (2022), www.epc.eu/en/publications/Europe-must-prepare-for-a-wartime-economy~475b94, Brussels: European Policy Centre.

⁷ Zuleeg, Fabian (2022), www.epc.eu/en/publications/Applying-an-intergenerational-mindset-to-European-technology-investmen~4ca324, Brussels: European Policy Centre.

⁸ Riekeles, Georg E. and Philipp Lausberg (2022) www.epc.eu/en/publications/The-EUs-trillion-euro-question~4cc64c, Brussels: European Policy Centre.

NOTES

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The **Europe's Political Economy programme** is dedicated to covering topics related to EU economic policy, in a context of increasing globalisation and rapid technological change. From an intra-EU point of view, the programme provides expertise on reforming and strengthening the Economic and Monetary Union and regional economies; ensuring a holistic approach to industrial policy; supporting the Single Market and digital policy; and optimising the use of the EU budget and its programmes. Within the international context, the programme focuses on trade policy and multilateral governance systems. The team is also informed on the process of Brexit and the long-term relationship between the EU and the UK.

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