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# Shields Up: How China, Europe, Japan and the United States Shape the World through Economic Security

EUROPE IN THE WORLD

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#EconomicSecurity
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## Executive Summary

With geopolitical tensions on the rise and increasing trade and investment restrictions worldwide, the European Union adopted an Economic Security Strategy in June 2023. This paper compares the EU's evolving economic security policies with the strategies of three other prominent global actors–the United States, China and Japan–to better understand the Union's approach and contribute to the debate shaping Europe's economic security agenda. The paper highlights motivations, historical developments, institutional structures and policy interventions to compare and contrast the different approaches. The paper also illustrates the negative emulation effect of economic security measures, which increase the risk of a balkanisation of global supply chains. The analysis shows that the United States and China have more long-standing traditions of economic statecraft compared to more recent economic security concerns in Japan and the EU. The US is reviving and repurposing Cold War tools for new challenges. China has shifted from a development-oriented economic policy to a security-oriented agenda, but regime security has remained a constant motivation. Japan's territorial dispute with China has catalysed Tokyo's shift towards supply chain resilience since 2010 and contributed to recent initiatives for the institutionalisation of economic security. In this context, the EU stands out with its *sui generis* institutional constraints, most notably how security remains a competence of member states. At the same time, the EU must develop better instruments to protect itself from global headwinds. Adopting the Economic Security Strategy is a step in the right direction, but it is not enough. The lack of European governance structures and shared risk assessments is an institutional flaw that hinders the development of long-term thinking that can more readily be found in

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Beijing and Washington. The Union needs to establish a more dynamic, responsive and inclusive infrastructure involving both member states and the business sector–two key actors in the implementation of the European economic security strategy. Our key recommendations are to establish an Economic Security Commissioner to facilitate coordination and lead the process, create an Economic Security EU Council configuration to incentivise member states in creating their own structures and establish a Forum on Economic Security to bring together member states and companies to adjust the risk evaluation methodology and lead to the creation of a European Agency on Economic Security, tasked with developing analytical instruments for monitoring and foresight objectives. The paper also emphasises the role of the Single Market as the Union's main economic security asset and how it should be seen not only as a space for fair competition but also as a space for capacity mutualisation. The EU should also draw inspiration from the Japanese concept of 'strategic indispensability' in critical technologies to position itself as a crucial actor in global technology value chains and fortify niche technology leadership. At the same time, the Union should reinvigorate its partnership efforts, as international and trade agreements remain a comparative strength.

## Introduction

Rising geopolitical tensions are beginning to impact global trade networks, supply chains, and investment flows.[1] These fissures are compounded by advances in digital technology that introduce new advantages and vulnerabilities. Such structural shifts have contributed to an increase in **trade and investment restrictions**, not only as government responses to economic disputes but as **integral components of broader national security strategies**.

However, pursuing such measures in an interconnected world presents a challenge. **The global economy remains an interdependent network in which actions taken by one country reverberate across borders.**[2] Economic security measures therefore have far-reaching implications, potentially disrupting production systems and inviting tit-for-tat retaliation.

The challenge for policymakers is to navigate a **thin line between openness and security**. Open markets have long been driving economic growth and innovation, but domestic and international pressures to shield critical sectors of the economy from foreign influence have increased significantly in recent years. Balancing these competing priorities requires a nuanced understanding of the global economy and the strategies governments employ to advance their (perceived) national interests.

**Our paper contributes to the debate over the European Union's economic security agenda.** As one of the world's most open economies, the EU has tried to readjust its deep integration in global trade and investment networks to a more hostile external environment, including political dysfunction in the United States, the growth of Chinese influence, and Russian belligerence at its borders. Most notably, these efforts have resulted in the June 2023 European Economic Security Strategy and in a January 2024 package of proposals designed to put the strategy into action.

1 Aiyar, Shekhar, Ilyina, Anna, and others (2023). Geoeconomic Fragmentation and the Future of Multilateralism. Staff Discussion Note SDN/2023/001. International Monetary Fund. https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2023/01/11/Geo-Economic-Fragmentation-and-the-Future-of-Multilateralism-527266

2 OECD. (2023). *Deglobalisation? The reorganisation of global value chains in a changing world* (OECD Trade Policy papers). https://www.oecd.org/publications/deglobalisation-the-reorganisation-of-global-value-chains-in-a-changing-world-b15b74fe-en.htm

To better understand the EU's evolving approach towards economic security, **we compare and contrast it with the strategies of three other crucial actors: China, the United States and Japan**. We **highlight the motivations and challenges these countries face in their economic security agendas and identify policy interventions** that could also help strengthen EU processes. Moreover, we write with an eye towards the cumulative long-term effect of economic security measures, which raises questions about a fragmentation of the global economy and its potential impact on economic growth and development, and the fight against common enemies of humanity like climate change or pandemics.

## I • What is economic security?

Finding a comprehensive definition of economic security is in itself a challenging exercise. Historical precedent shows how relative shifts in economic capabilities influence national security priorities.[3] At the same time, **each country has a unique mix of interest groups, commercial strategies and foreign policies that shape its outlook on the potential and limits of economic statecraft**. Therefore, economic security is closely tied to a country's ability to strategically integrate and remove itself from international economic relations in a way that protects and advances idiosyncratic interests. In other words, economic security lies in the eye of the beholder.

This is exacerbated by the fact that in each capital, **different epistemic communities drive at times conflicting narratives**. Economic security agendas sit at the **intersection** of at least two sets of policymakers: in one corner, **the security policy community**, which tends to see the world as a zero-sum competition, and in the other, **economic policymakers** who traditionally value positive-sum effects from the international division of labour. Both groups have distinct internal incentive structures and follow different logic. Both groups are also shaped by the rise of populist movements demanding protection from real and perceived risks of globalisation.

**The debate over de-risking and decoupling vis-a-vis China illustrates this point**. The EU has preferred a de-risking terminology, which implies a gradual approach to improving economic security by reducing significant vulnerabilities while mostly maintaining open trade and investment relationships. In contrast, discussions of economic security in the US have been dominated by a rhetoric of decoupling, a term that implies the disconnection between economic systems, including separate technological and manufacturing spheres. Notably, the EU, with a trade-to-GDP ratio of 43 per cent, is much more dependent on international trade and investment than the US, with a trade-to-GDP ratio of 26 per cent.[4] Moreover, the EU continues to have limited sway over national security issues, while the military-industrial complex is a key player in Washington power games.[5]

While the US has recently started to follow EU de-risking terminology to describe its engagement with China, questions remain if there is a gap between rhetoric and action. Senior US officials, such as National Security Advisor Jake Sullivan and Treasury Secretary Janet Yellen, have stressed that the US is limiting itself to calibrated

3 Gilpin, R. (1981). *War and Change in World Politics*. Cambridge University Press. https://doi.org/10.1017/cbo9780511664267

4 European Commission (2021), *DG Trade Statistical Guide*. Note that EU figures exclude intra-EU trade.

5 Pemberton, M. (2022). *Six Stops on the National Security Tour: Rethinking Wartime Economies*. Routledge.

economic security measures, the so-called 'small yard with a high fence'.[6] However, there is significant collateral damage from recent US policies on the Chinese economy. China imports more semiconductors than oil, and only a small fraction of semiconductors are procured by the Chinese government, including for military and intelligence applications.[7] This could imply that the 'small yard' is a rather large park, and the stated US intention for technological supremacy goes beyond a calibrated approach for dual-use goods.

In this context, it is **helpful to differentiate between the short-term and long-term aims of economic security policies**.[8]

Some economic security measures have a short-term outlook focusing on **immediate responses to crises or emerging threats**, such as medical supplies during a pandemic or armaments during a war. They emphasise quick, reactive measures to **ensure supply chain resilience and mitigate the immediate risks posed by economic coercion or market disruptions**. The challenge lies in **balancing these protective measures with** another immediate need: maintaining economic stability. Interventions in companies' trade and investment networks must therefore be limited to avoid disrupting their operations.

This contrasts with economic security measures that contribute to long-term policy planning at the highest levels of government (so-called 'grand strategies'). Whether or not any plan can withstand changing political currents over a longer period of time, such economic security measures can at least lock in path dependencies. Longer-term economic security measures in this context include **strengthening domestic innovation capacity, investing in critical technologies with dual-use applications, diversifying supply chains, enhancing domestic production capabilities, and forging strategic international partnerships for reliable market access and sourcing of imports**. They aim to create a robust economic foundation to withstand external shocks and advance geopolitical interests. In contrast to the positive-sum logic of economic integration, **they often more closely follow the zero-sum logic of national security**. Therefore, long-term economic security measures are shaped by a country's relative strength in the international system, e.g., whether they are a middle power, a hegemon, or a rising power.

Over the last decades, the geopolitical background against which countries define their economic security policies has also significantly shifted. During the bipolar Cold War era, the positive externalities from economic integration through membership in the GATT's most favoured nation (MFN) system were primarily internalised amongst US allies but also shared with the 'third-world' countries that were on the fence between the Western and Eastern blocs.[9] In the unipolar period of the

6 Yellen, J. L. (2023, April 20). *Remarks by Secretary of the Treasury Janet L. Yellen on the U.S. - China economic relationship at Johns Hopkins School of Advanced International Studies*. U.S. Department of The Treasury. https://home.treasury.gov/news/press-releases/jy1425 ; Sullivan, J. (2023a, April 27). *Remarks by National Security Advisor Jake Sullivan on renewing American economic leadership at the Brookings Institution*. The White House. 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/

7 Hill, A. (2022, December 7). The great chip war — and the challenge for global diplomacy. *Financial Times*. https://www.ft.com/content/7de40326-58a9-457b-a828-edf86031883e ; Edgecliffe-Johnson, A. (2023, January 17). Companies race to work around choke points in world trade. *Financial Times*. https://www.ft.com/content/a8ebdf55-1bdf-42da-90cd-73ceb960e60f; Yoon, J. (2022, December 23). A fake baby bump shows the limits of US chip sanctions on China. *Financial Times*. https://www.ft.com/content/a59224da-e86d-4289-aa95-41e6b7a04c0d

8 Cf. the typology developed by Paulsen, M. (2024). The past, present, and potential of economic security. *Social Science Research Network*. https://doi.org/10.2139/ssrn.4604958

9 Gowa, J. (1995). *Allies, adversaries, and international trade*. Princeton University Press. https://doi.org/10.1515/9780691221342

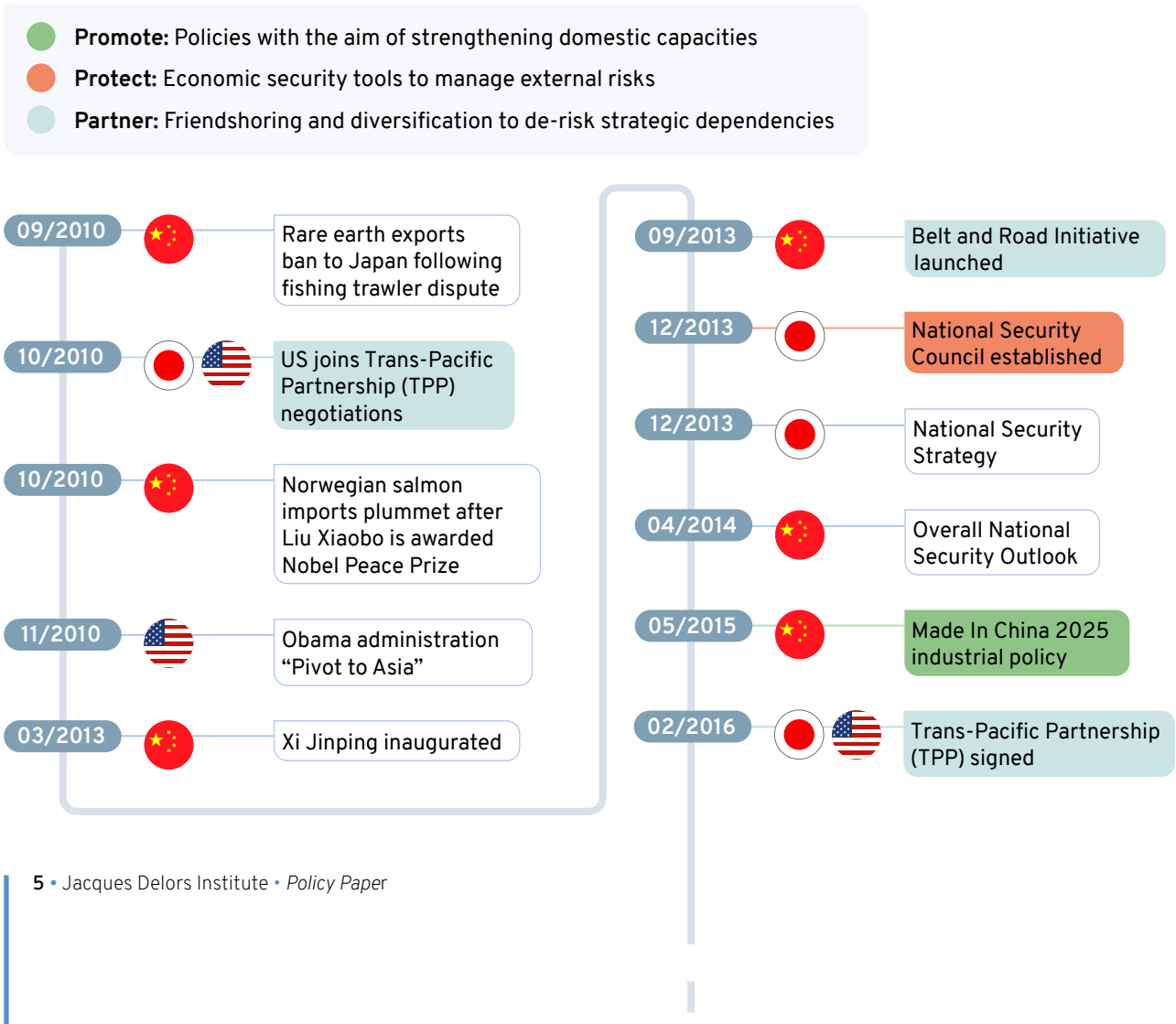
1990s and 2000s, with a few exceptions, the world essentially became an increasingly integrated market. The guiding policy amongst the US and its allies was that economic integration would facilitate interstate peace and rising middle classes would support the transition towards democracy. Importantly, if global economic integration were to reverse in the coming decades, the process would be easier to manage for countries with a large domestic market and high economic complexity.

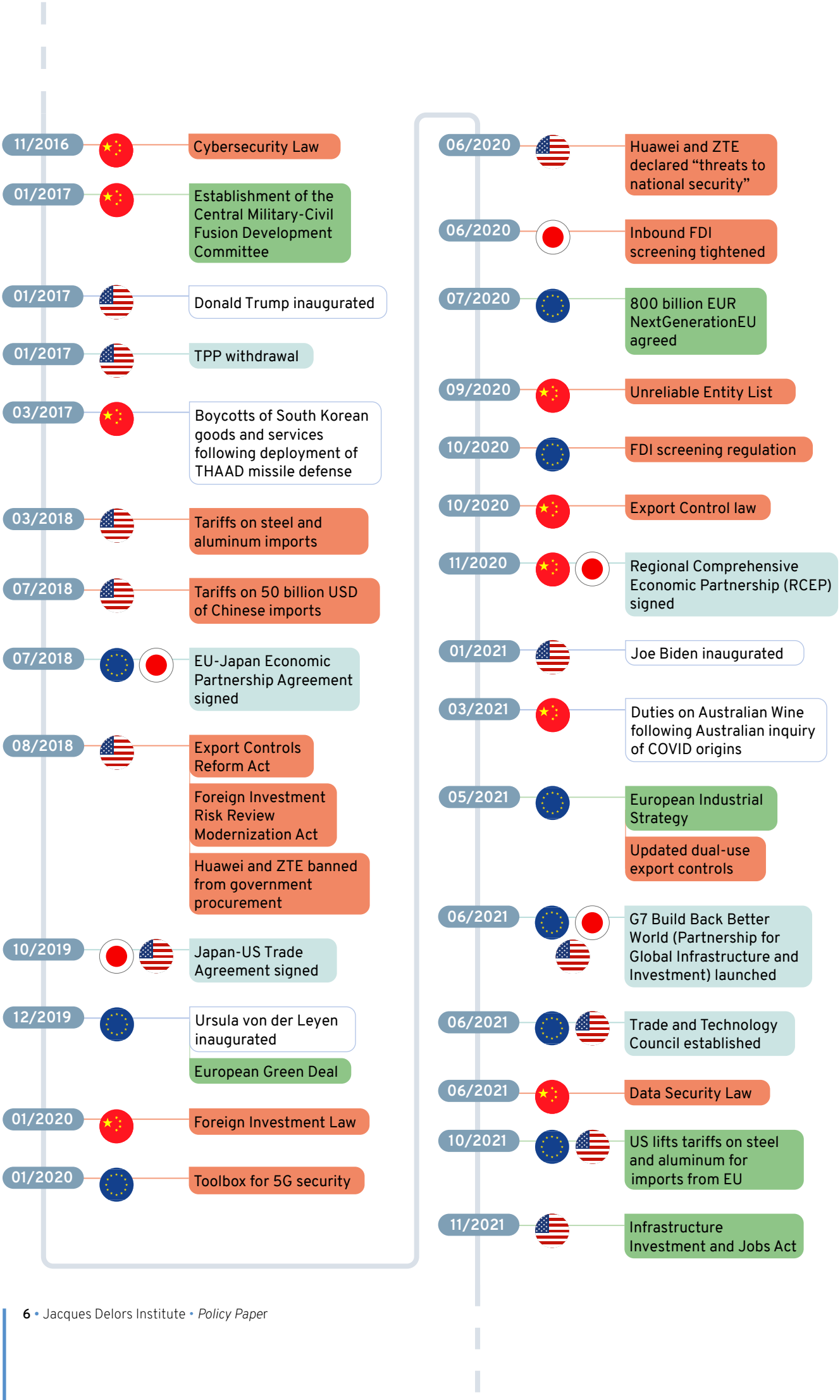
Such **trade-offs between economic integration and national security** matter for how a country defines its economic security strategy. Diversifying supply chains through friend-shoring and reshoring measures increases costs, as reliance on the most cost-efficient supplier is reduced in favour of what are considered more secure alternatives that are more expensive. While this diversification may be crucial for improving economic security, especially in some critical sectors, it leads to higher consumer prices and reduced competitiveness for businesses in the global market. In turn, lower competitiveness and growth in the long run also translate to less power and influence on the world stage.

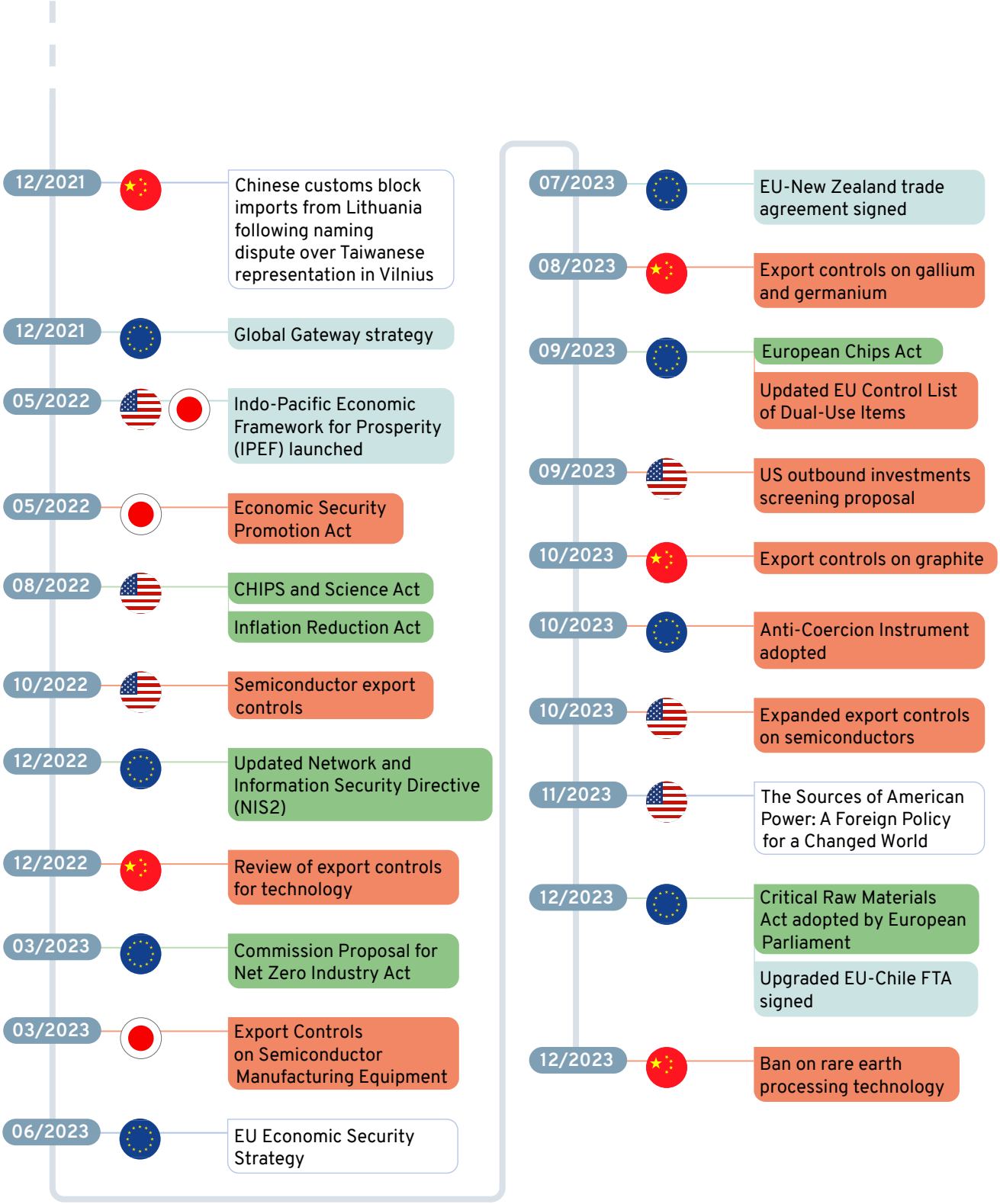
**Economic security is, therefore, clearly not a monolithic concept.** Its definition varies depending on the size of an economy, domestic interest groups, and strategic interests. This diversity of objectives underscores the need for analytical clarity. The effectiveness and implications of economic security policies can only be fully appreciated through a context-specific examination of specific measures.

The following section examines the motivations and actions of the key players. Figure 1 below provides an overview of the main developments since 2010.

**FIGURE 1.** The evolution of main economic security initiatives




11/2016
Cybersecurity Law
01/2017
Establishment of the Central Military-Civil Fusion Development Committee
01/2017
Donald Trump inaugurated
01/2017
TPP withdrawal
03/2017
Boycotts of South Korean goods and services following deployment of THAAD missile defense
03/2018
Tariffs on steel and aluminum imports
07/2018
Tariffs on 50 billion USD of Chinese imports
07/2018
EU-Japan Economic Partnership Agreement signed
08/2018
Export Controls Reform Act
Foreign Investment Risk Review Modernization Act
Huawei and ZTE banned from government procurement
10/2019
Japan-US Trade Agreement signed
12/2019
Ursula von der Leyen inaugurated
European Green Deal
01/2020
Foreign Investment Law
01/2020
Toolbox for 5G security
06/2020
Huawei and ZTE declared “threats to national security”
06/2020
Inbound FDI screening tightened
07/2020
800 billion EUR NextGenerationEU agreed
09/2020
Unreliable Entity List
10/2020
FDI screening regulation
10/2020
Export Control law
11/2020
Regional Comprehensive Economic Partnership (RCEP) signed
01/2021
Joe Biden inaugurated
03/2021
Duties on Australian Wine following Australian inquiry of COVID origins
05/2021
European Industrial Strategy
Updated dual-use export controls
06/2021
G7 Build Back Better World (Partnership for Global Infrastructure and Investment) launched
06/2021
Trade and Technology Council established
06/2021
Data Security Law
10/2021
US lifts tariffs on steel and aluminum for imports from EU
11/2021
Infrastructure Investment and Jobs Act




## II . Comparative Perspectives

### I ECONOMIC SECURITY IN THE UNITED STATES: OLD TOOLS IN NEW SHEDS.

In **November 2017**, the Trump administration's national security strategy declared that ***'economic security is national security'***. It was the latest evolution in decades of US economic statecraft, according to Trump's trade policy adviser Peter Navarro the '***new organising principle for strategic policy***', and a concept imparted to the Biden administration. However, **most of the economic security tools the US uses today have already been in place since the Cold War**, and thus belong to a lasting tradition of economic statecraft. The infamous Section 232 of the Trade Expansion Act,

which was cited in 2018 to impose tariffs on steel and aluminium imports on national security grounds dates back 1962, and the 1974 Trade Act similarly contains provisions for trade defence measures. Export control regulations and the Committee on Foreign Investment in the United States (CFIUS) have been around since the 1970s, with some powers derived from the Defense Production Act of 1950 and a Western export control coordination mechanism established in 1949.[10] While the Trump administration merely revived tools that had been dormant for much of the unipolar period during the 1990s and 2000s, its national strategy was the turning point for a new era of US economic statecraft. It called for a fusion of information from the diplomatic, military and economic domains, a revitalisation of the US industrial base and the preservation of technological advantage in response to the new strategic context, and increased economic competition in the aftermath of the 2008 global financial crisis.

One of the main objectives of Trump's national strategy was to respond to China's trade and commercial practices of foreign states, which it defined as a "***revisionist power***". While China had already started to receive more attention in Washington after Obama's 2011 '*pivot to Asia*', the US continued to follow a more cooperative approach before the Trump administration. In October 2011, for example, Secretary Clinton was still open to discussing Chinese purchases of American high-tech products[11] in exchange for certain market reforms, while in 2018 Trump's United States Trade Representative (USTR) openly accused China of "*stealing our technology*" and declared the need to protect US innovation.[12] Beginning with the Trump presidency, **the China shock thus became a key interpretive lens of the new US approach to economic security** and was soon shared across the political spectrum.[13] In April 2023, Treasury Secretary Janet Yellen rejected any attempt to decouple from China, stressing that US initiatives were not aimed at stifling Chinese economic growth and technological improvement and that measures would be narrowly focused and targeted.[14] But whether the actual impact of US economic security initiatives matches these claims is debatable. Finally, in a bipartisan spirit, the US House of Representatives also **established a new Committee on the Chinese Communist Party (CCP) in January 2023** by a vote of 365 to 65.[15] Former House Speaker McCarthy made it clear that the committee would address issues such as bringing jobs back to the US, protecting intellectual property and moving supply chains to the domestic economy. Accordingly, in December 2023, the Committee adopted a report containing around 150 policy recommendations that outline a decoupling approach.[16]

The other major driver of US economic security policy is a **rethinking of the role of globalisation and the US government in the economy and of the neoliberal**

10 The Coordinating Committee for Multilateral Export Controls (CoCom).
11 Clinton, H. (2023, February 11). Hillary Clinton: America's Pacific Century and the Pivot to Asia. *Foreign Policy*. https://foreignpolicy.com/2011/10/11/americas-pacific-century/
12 Politi, J. (2018, November 20). Trump's trade hawk prepares to swoop on Beijing. *Financial Times*. https://www.ft.com/content/0cf1948c-ebba-11e8-89c8-d36339d835c0
13 E.g., see Foroohar, R. (2023, November 2). Jennifer Harris: 'Everything costs something in foreign policy terms. There are no free lunches here either.' *Financial Times*. https://www.ft.com/content/f52fb843-e419-4cd9-8e2d-b7485c5cda7d
14 See note 4.
15 146 Democrats voted in favour. Zengerle, P. (2023, January 11). New U.S. House creates committee focused on competing with China. *Reuters*. https://www.reuters.com/world/us/new-us-house-creates-committee-focused-competing-with-china-2023-01-10/
16 *Reset, Prevent, Build: A Strategy to Win America's Economic Competition with the Chinese Communist Party*. (2023, December 12). Select Committee on the CCP. https://selectcommitteeonthecccp.house.gov/media/policy-recommendations/reset-prevent-build-strategy-win-americas-economic-competition-chinese

**policies that have defined the last three decades.**[17] This dimension is a byproduct of the Biden administration in response to the health, industrial, climate and China crisis, but, as with the China policy, originated in the Trump administration. In March 2021, the National Economic Council Director, Brian Deese, illustrated the core of the new US industrial policy. Mentioning a certain short-sightedness in the private sector and public approach to domestic production, Deese defined five pillars to put **security, sustainability and resilience back at the centre of American economic statecraft**. Supply chain resilience targeted public investment, public procurement, climate resilience and equity were identified as the pillars of a new industrial policy for a new economic and competitive global environment[18]. Accordingly, National Security Advisor Jake Sullivan claimed that "*international power depends on a strong domestic economy [...] which [...] works for all Americans and is free of dangerous dependencies*"[19]. In line with this belief, on several occasions, the idea of tearing down the barrier between domestic and foreign policy came out[20]. A new national industrial policy thus appears to have a key role in shoring up the US' national and economic security[21].

**Strong domestic manufacturing and de-risking** – as announced in Jake Sullivan's April 2023 "small yard, high fence" doctrine – thus emerge as the main components of Biden's approach to economic security.[22] Three big pieces of legislation were aimed at doing so, the bipartisan **Infrastructure Investment and Jobs Act** (November 2021), the **CHIPS and Science Act** (August 2022), and the **Inflation Reduction Act** (August 2022). Several executive orders dealing with supply chains have also been adopted within this framework.[23] Yet we should **not consider this legislation to be country-agnostic**, to the contrary. In April 2023 the US Dept. of Energy issued an interpretative rule[24] for the definition of "foreign entity of concern" (FEOC) first presented in the Infrastructure Investment and Jobs Act and then maintained both in the CHIPS and Science Act and in the IRA. FEOCs are thus entities linked to the People's Republic of China, the Russian Federation, the Democratic People's Republic of North Korea, and the Islamic Republic of Iran. On 1 December, 2023, the US Dept. of Treasury clarified that eligibility to IRA's tax credits and incentives is restricted starting in 2024 for vehicles containing battery components manufactured or assembled by an FEOC and starting in 2025 for vehicles containing any critical mineral extracted, processed or recycled by an FEOC[25].

As seen globally over the last decade, the American **de-risking** policy is also **based on export controls and investment screening** (both inbound and outbound). **Investment controls are overseen by the CFIUS, first established in 1975**, which reviews

17 Fazili, S., Flegal, J., Harris, J., Jones, J., Rahman, K. S., Wu, T., & Tucker, T. T. (2023). *Industrial Policy Synergies: Reflections from Biden Administration Alumni.* Roosevelt Institute. https://rooseveltinstitute.org/wp-content/uploads/2023/04/RI_Industrial-Policy-Synergies-Reflections-from-Biden-Administration-Alumni_Report_202304.pdf

18 Deese, B. (2021, June 23). *The Biden White House plan for a new US industrial policy.* Atlantic Council. https://www.atlanticcouncil.org/commentary/transcript/the-biden-white-house-plan-for-a-new-us-industrial-policy/

19 Sullivan, J. (2023, November 28). The Sources of American Power: A Foreign Policy for a Changed World. *Foreign Affairs.* https://www.foreignaffairs.com/united-states/sources-american-power-biden-jake-sullivan

20 E.g., see Biden Administration National Security Strategy (2022) and ibid.

21 See note 18.

22 See note 4.

23 Weinstock, L. R. (2022). *Summary of Selected Biden Administration Actions on Supply Chains.* Congressional Research Service. https://crsreports.congress.gov/product/pdf/IN/IN11927

24 *Interpretation of Foreign Entity of Concern.* (2023). Federal Register. https://www.federalregister.gov/documents/2023/12/04/2023-26479/interpretation-of-foreign-entity-of-concern

25 U.S. Department of the Treasury. (2023, December 1). *Treasury Releases Proposed Guidance to Continue U.S. Manufacturing Boom in Batteries and Clean Vehicles, Strengthen Energy Security* [Press release]. https://home.treasury.gov/news/press-releases/jy1939

investments that may result in foreign control of US businesses, of non-controlling stakes of businesses involved with critical technologies, infrastructures or sensitive personal data, and of real estate near-certain critical infrastructure.[26] Its statutory authority derives from the 1950 Defense Production Act. It was only in **2018** that the Foreign Investment Risk Review Modernization Act (**FIRRMA**) **expanded the committee's jurisdiction**, thereby granting CFIUS the powers to review investments in non-controlling stakes in the abovementioned businesses and real estate in the proximity of critical infrastructure.[27] In **August 2023**, President Biden also issued an **executive order controlling US outbound investments in certain critical technologies** made in selected countries of concern, an unprecedented initiative in investment screenings.[28]

Current US export controls seem to aim to limit the technological advancement of rival countries, an approach similar to that of the CoCom, although no similar institutionalised coordinating mechanism has emerged so far.[29] Today, the US governs **export controls** via the **1976 Arms Export Control Act** (AECA), the **1977 International Emergency Economic Powers Act** (IEEPA) and the **2018 Export Controls Reform Act** (ECRA). The ECRA also requires establishing an interagency process to determine new controls on emerging and foundational technologies.[30] In February 2024, the National Science and Technology Council published the latest **list of critical and emerging technologies, identifying 140 categories**. While this list is not binding nor a strategic document, it serves to inform efforts aimed at reinforcing technological leadership and guaranteeing national security.[31] A key actor in administering export licensing and enforcement functions for the export of dual-use goods is the **Bureau of Industry and Security (BIS), established in 1985 and whose law enforcement authority was expanded by ECRA in 2018**. The BIS contributes to the determination of emerging technologies critical to US national security and manages the Entity List, where persons involved or likely to be involved in activities against US national security are reported and denied export licences. The BIS was thus among the main actors restricting Huawei's technology exports starting in 2019.

Another crucial dimension of US economic security is found in **cybersecurity and infrastructure resilience**. Protecting national critical infrastructure emerged as a concern during the late 1990s, with the 9/11 attacks becoming a key turning point. The **Department of Homeland Security** (DHS) was created as a response to the attacks, with responsibilities including securing cyberspace and critical infrastructure; preserving and upholding America's prosperity and economic security, and strengthening preparedness and resilience.[32] Most of DHS authority relates to three

26 Cimino-Isaacs, C. D., & Sutter, K. M. (2023). *The Committee on Foreign Investment in the United States*. Congressional Research Service. https://crsreports.congress.gov/product/pdf/IF/IF10177 & Mulligan, S. P., & Linebaugh, C. D. (2023). *National Security Review Bodies (Part I): Legal Context and Comparison*. Congressional Research Service. https://crsreports.congress.gov/product/pdf/LSB/LSB11034

27 Ibid.

28 Semiconductors and microelectronics, quantum information technologies and artificial intelligence.

29 Coordinating Committee for Multilateral Export Controls (CoCom), a Western coordinating mechanism applying strategic export controls on technologies to countries part of the Council for Mutual Economic Assistance (Comecon), an economic organisation (1949-1991) aimed at coordinating socialist economies.

30 Kerr, P. K., & Casey, C. A. (2021). *The U.S. Export Control System and the Export Control Reform Act of 2018*. Congressional Research Service. https://crsreports.congress.gov/product/pdf/R/R46814

31 Fast Track Action Subcommittee on Critical and Emerging Technologies & National Science and Technology Council. (2024). *Critical and Emerging Technologies List Update*. https://www.whitehouse.gov/wp-content/uploads/2024/02/Critical-and-Emerging-Technologies-List-2024-Update.pdf

32 Mission | Homeland Security. U.S. Department of Homeland Security. https://www.dhs.gov/mission

key domains for economic security: law enforcement, emergency management, and infrastructure protection.[33] **In 2018, the Cybersecurity and Infrastructure Security Agency was established within the DHS and in 2019, it identified 56 National Critical Functions** (NCF), which should serve as the basis for a nationwide risk management approach. The idea is to decompose an NCF in multiple layers and adopt a **functional perspective to analyse critical infrastructure.** This, in turn, is integrated with an **Infrastructure Resilience Planning Framework** (IRPF), which serves as guidance for communities at every level in the US "to identify critical infrastructure, assess related risks, and develop and implement resilience solutions".[34] The IRPF aims to do so via very specific advice and actionable activities, going from critical infrastructure identification and risk assessment to implementation and evaluation.

Finally, trade initiatives aimed at creating and strengthening international partnerships and diversifying suppliers and markets deserve some consideration. **A stark difference can be noted here compared to the EU, Japan and China.** While they all engaged in extensive international partnerships via trade deals or infrastructure projects, **the US approach is characterised by the style of the last two presidencies.** On one hand, while the negotiation of the Transatlantic Trade and Investment Partnership (TTIP) were halted in November 2016, just before the election of **Trump, his conception of trade as a zero-sum game** led to the withdrawal from the TPP,[35] to the replacement of North-American Free Trade Agreement (NAFTA)[36] by the United States-Mexico-Canada Agreement (USMCA)[37] but also to the Japan-US Trade Agreement and to the Blue Dot Network,[38] a global infrastructure development initiative launched together with Japan and Australia in 2019. On the other hand, **Biden aimed to establish broader multi-national partnerships and reduce friction with allies.** In 2021, Biden launched the G7 Build Back Better World[39] and the Trade and Technology Council (TTC) with the EU - allowing for suspending the 2018 tariffs on steel and aluminium. Then, in 2022, the Indo-Pacific Economic Framework (IPEF) was launched with the goal of strengthening partnerships in the Indo-Pacific region and countering China's influence. Yet despite huge financial pledges and vast programs, Biden's international partnerships do not deliver as while further market access was denied by domestic pushback. Thus, despite greater efforts in engaging with international partners compared to the Trump administration, it appears that under Biden international partnerships were also not at the core of the US economic security approach.

## I ECONOMIC SECURITY IN CHINA: A FOUNDATION OF REGIME STABILITY

Since the foundation of the People's Republic of China in 1949, preserving the centrality of the Chinese Communist Party (CCP) in the ruling system has led to an extensive national security approach with **economic security as the cornerstone of broader political and regime security.** The regulatory framework of economic security has been under constant change. But, since his arrival into power in 2012, **Xi Jinping has strongly contributed to institutionalising and expanding the scope**

33 Gerstein, D. M., & Ligor, D. C. (2023). *Economic Security and the U.S. Department of Homeland Security: Addressing a Changed World and Evolved Threat Landscape.* RAND. https://www.rand.org/pubs/perspectives/PEA2210-1.html

34 *Infrastructure Resilience Planning Framework.* (2024). Cybersecurity & Infrastructure Security Agency. https://www.cisa.gov/resources-tools/resources/infrastructure-resilience-planning-framework-irpf

35 Trans-Pacific Partnership, a twelve nations trade deal including the US, Japan, Mexico, Canada, Australia, New Zealand, Vietnam, Peru, Chile, Malaysia, Singapore, and Brunei.

36 North American Free Trade Agreement, entered into force in 1994.

37 United States-Mexico-Canada Agreement, replacing NAFTA and entered into force in 2020.

38 *Blue Dot Network.* United States Department of State. https://www.state.gov/blue-dot-network/

39 Renamed in 2022 as Partnership for Global Infrastructure Investments.

**of economic security,** owing to the belief that globalisation might increase some risks. Since Deng Xiaoping, regime stability was obtained primarily via a development-driven economic policy, but they took care to "open the window [to foreign technologies and access to global markets, critical inputs] with a mosquito net [against excessive competition, destabilising short-term investment flows]".[40] Instead, Xi reframed economic security as the "foundation" of political and national security, as stated in 2014[41] and 2022[42]. His **economic policy has been increasingly driven by strategic objectives linked to national security**, with industrial policy goals being awarded greater importance than socio-economic ones.[43]

Yet, there is a continuity between these periods with China's "**innovation imperative**",[44] which earlier had the short-term goal of catching up technologically and now has the long-term goal of developing new technologies to sustain China's economic growth and rise to power. **The evolution in economic security policies can thus be traced back to the evolution of the "innovation imperative"** in different stages – and the consequent US reaction. Technological development is at the core of the issue, as most of China's economic security measures deal with controlling technology exports or investments. Today, economic security is not only a reactive concept but also proactive, given the significant presence of industrial policies within this framework. With legislation aiming to protect "national security and interests", and having very broad goals and mandate, **economic security soon becomes a "big yard with moving fences"** to rephrase the expression of US National Security Advisor Jake Sullivan.

In April 2014, the Central National Security Commission of the CCP presented its "Overall National Security Outlook" covering eleven areas (politics, territory, military, economy, culture, society, science and technology, information, ecology, nuclear and natural resources), and providing a first very comprehensive definition of Chinese national security. In May 2015, China's Central State Council called for an improved examination of foreign investment, and **in July 2015, the National Security Law** of the PRC **called for a "comprehensive understanding of national security" and to build a "national security system (…) with Chinese characteristics"**. The arrival of Xi thus determined the construction of a coherent, structured and comprehensive body of legislation for national and economic security, driving a rapid evolution of the legal and regulatory framework compared to the previous period, where policy initiatives were mostly perceived as inconsistent and uncoordinated.

2015 was also the year China issued its "**Made in China 2025**" industrial strategy aiming to **develop all high-tech industries,**[45] achieve greater indigenous innovation and reduce reliance on foreign suppliers for basic components and materials. The

40 Rodrik, D. (2024, February 15). « Chinamérique » : sortir de l'hypocrisie. *Les Echos*. https://www.lesechos.fr/idees-debats/editos-analyses/chinamerique-sortir-de-lhypocrisie-2076428

41 "[T]he security of the people is the purpose, the security of politics is the bedrock, and the security of the economy is the cornerstone" in Tsuchiya, T. (2021). China Strengthens Its Economic Security. Japan Institute of International Affairs. https://www.jiia.or.jp/en/column/2021/05/12-china-strengthens-its-economic-security.html

42 "Political security as the bedrock (根本), economic security as the foundation (基础), military, scientific, technological, cultural and social security as the assurance (保障)". Report at the 20th National Congress of the CCP (October 2022), as translated in Ghiretti, F. (2023). *Supply Chain Resilience: China's Search for Vertical Integration*. Institut Montaigne. https://www.institutmontaigne.org/ressources/pdfs/publications/china-trends-17-sailing-seas-economic-security.pdf#page=10

43 Zenglein, M. J., & Gunter, J. (2023). *The Party Knows Best: Aligning Economic Actors with China's Strategic Goals*. MERICS. https://merics.org/en/report/party-knows-best-aligning-economic-actors-chinas-strategic-goals

44 Kennedy, A., & Lim, D. J. (2018). The innovation imperative: technology and US–China rivalry in the twenty-first century. *International Affairs*, *94*(3), 553–572. https://doi.org/10.1093/ia/iiy044

45 Automotive, telecommunications, robotics, AI, aerospace, biomedicine, etc.

plan caused great concern in the US, fearing a significant loss in competitiveness and Chinese technological breakthroughs. Yet, Trump's trade war in 2018 resulted in China further focusing on core technologies, industrial protection, and supply chain resilience. The CCP's reference to "**self-reliance" dates from the late 1930's,**[46] but Xi prioritised the objective with its **dual circulation strategy in May 2020**. Its internal dimension implied (with an increase in internal consumption) a decreased reliance on foreign markets and an upgrade of Chinese supply chains. **Increased supply chain resilience** is thus seen as a pivotal factor for broader economic security, a necessary response to growing export restrictions imposed by the US, the EU and Japan,[47] and must be reached **via both vertical integration of national industries and strategic stockpiling of critical raw materials**. Vertical integration is obtained either via a top-down process exploiting state owned enterprises' role in the economy or via a bottom-up approach, letting private companies develop their own Chinese supply chain (e.g., the vertical integration of BYD's supply chains allowed for 50% self-sufficiency). Strategic stockpiling has been going on since 2012, with commercial reserves started in 2016, but some scholars highlighted downgrading rather than improving effects on Chinese supply chain resilience as it leads to greater price and market volatility during crises.[48] In this direction also go the **consolidations of the rare earth refinery sector**, which happened with a series of mergers in December 2021,[49] **and of solid-state battery** development, which officially started in January 2024 with the establishment of a consortium bringing together government, academia and industry.[50] In January 2023, Xi Jinping confirmed the importance of enhancing the competitiveness and security of supply chains, as well as of increasing self-reliance in science and technology, to overcome foreign dependencies and make China a global technological leader.[51]

Concerning inbound and outbound investment, China adopted **in 2018 the Administrative Measures for Outbound Investment by Enterprises**, providing criteria for investments abroad based on sensitive regions and industries. **In January 2020**, it adopted the **Foreign Investment Law**, aiming to supersede the "three foreign investment laws" – adopted during the Deng era for the first opening-up[52] - and foreseeing a review mechanism for foreign direct investment (FDI) to screen investments potentially impacting national security. In **December 2021**, the updated **Negative List for Foreign Investment Access** was issued, **reducing the number of sectors**

46 Long, Y. (2019). Self-reliance. In C. Sorace, I. Franceschini, & N. Loubere (Eds.), *Afterlives of Chinese Communism: Political Concepts from Mao to Xi* (pp. 231–236). ANU Press. http://www.jstor.org/stable/j.ctvk3gng9.40

47 See note 43.

48 Mancheri, N. A., Sprecher, B., Bailey, G., Ge, J., & Tukker, A. (2019). Effect of Chinese policies on rare earth supply chain resilience. *Resources, Conservation and Recycling*, *142*, 101–112. https://doi.org/10.1016/j.resconrec.2018.11.017

49 Chang, F. K. (2022, March 2). *China's Rare Earth Metals Consolidation and Market Power*. Foreign Policy Research Institute. https://www.fpri.org/article/2022/03/chinas-rare-earth-metals-consolidation-and-market-power/

50 Tabeta, S. (2024, February 12). CATL, BYD, others unite in China for solid-state battery breakthrough. *Nikkei Asia*. https://asia.nikkei.com/Business/Technology/CATL-BYD-others-unite-in-China-for-solid-state-battery-breakthrough

51 Political Bureau of the CCP Central Committee. (2023, January 31). *Xi Jinping Emphasizes the Need to Accelerate the Construction of the New Development Pattern and Enhance the Security Initiative in Development During the Second Collective Study Session of the Politburo of the CCP Central Committee*. CSIS Interpret. https://interpret.csis.org/translations/xi-jinping-emphasizes-the-need-to-accelerate-the-construction-of-the-new-development-pattern-and-enhance-the-security-initiative-in-development-during-the-second-collective-study-session-of-the-politb/

52 Law on Chinese-Foreign Equity Joint Ventures (1979); Law on Foreign-funded Enterprises (1987); Law on Chinese-Foreign Cooperative Enterprises (1988).

**where FDI is restricted or prohibited from 33 to 31.**[53] A second list applying solely to foreign investors that also saw a partial opening is the **Negative List for Foreign Investment Access in Pilot Free Trade Zones**, which reduced the **sectors restricted or prohibited to FDI from 30 to 27.**[54] In both lists, investments were liberalised for automobile manufacturing and satellite television broadcast ground receiving facilities,[55] signalling a slight opening in the Chinese manufacturing industry. The second list also saw restrictions lifted in the leasing and business services industry.[56]

In regard to trade restrictions, the **Foreign Trade Law** determined in **1994** the policies and governance system of import/export of goods and technologies, as well as international trade in services.[57] China was slowly opening up and preparing to enter the WTO. The Law (further liberalised in 2004) included rules for the imposition of import/export quotas and licensing requirements.[58] It was only in **December 2020,** that the **Export Control Law** provided a comprehensive framework for military and dual-use technologies export (and re-export) control, with a review of the 2001 list of technologies already reviewed in 2008. The scope and rules of the list are vaguely formulated, which provides Chinese authorities with discretion and **strategic ambiguity**. The latest revision of the list (2023) introduced new restrictions on biotechnology, rare earths, photovoltaics, and autonomous vehicles, for a total of 139 items, of which 24 were prohibited from export and 115 facing restrictions. In response to the US Entity list, China drew up an Unreliable Entity list in September 2020, which lists foreign companies that cannot benefit from Chinese technology exports. An **extraterritorial regulation** was also added **against foreign sanctions**. After the Rules on Counteracting Unjustified Extraterritorial Application of Foreign Laws and Other Measures of January 2021, the Anti-Foreign Sanctions Law of June 2021 extends the coverage of sanctions and retaliatory measures.

Another pillar of the Chinese approach to economic security concerns **data flows and cybersecurity**, including **legislation aiming to achieve "cyberspace sovereignty".**[59] The Cybersecurity Law requires the localisation of Big Data within the country, and the Data Security Law of September 2021 regulates the overseas transfer of data related to export-controlled technologies affecting China's national security. The **data localisation** aspect is particularly important as it concerns the technological competition dimension already mentioned and is thus considered needed to maintain the competitive advantage in technologies enabled by Big Data,

53 *China - Issued new Negative List for Foreign Direct Investment.* (2022, January 1). UNCTAD Investment Policy Hub. https://investmentpolicy.unctad.org/investment-policy-monitor/measures/3792/issued-new-negative-list-for-foreign-direct-investment and *2022 New Rules: Negative List for Access of Foreign Investments of China.* (2022). Kneppelhout. https://kneppelhout.com/news/2022-new-rules-negative-list-for-access-of-foreign-investments-of-china/

54 *China Free Trade Zones Negative List for Foreign Investment - English.* (2021, December 28). China Briefing. https://www.china-briefing.com/news/china-free-trade-zones-negative-list-for-foreign-investment-english/

55 Please note that this sector remains on the Negative List for Market Access, implying that regulatory approval is mandatory for both Chinese and foreign investors wishing to invest in this sector, see Gigler, C. (2022, February 3). *New Negative Lists for Foreign Investment Access in China.* Rödl & Partner. https://www.roedl.com/insights/negative-list-china-market-access-restriction-foreign-investment

56 Ibid.

57 Godement, F., Zhu, V., Duchatel, M., & Aguignier, P. (2021). *China's Selective Opening Up - The Case of Foreign Direct Investment.* Institut Montaigne. https://www.institutmontaigne.org/ressources/pdfs/publications/china-trends-11-chinas-selective-opening-case-foreign-direct-investment.pdf

58 Ghiretti, F. (2023). *From opportunity to risk: The changing economic security policies in Australia, China, the EU, Japan, South Korea, the UK and the US.* MERICS. https://merics.org/sites/default/files/2023-02/merics-report-changing-economic-security-policies-2023.pdf

59 Cybersecurity Law (2016); National Intelligence Law (2018); Data Security Law (September 2021); Personal Information Protection Law (November 2021).

like AI,[60] as already certified in 2015 by the State Council Action Plan for Promoting Big Data Development.[61] These efforts should also be read under the "innovation imperative" perspective and as instrumental in achieving greater economic security and self-reliance.

China also aims to increase its international partnerships via infrastructure initiatives and bilateral and trade agreements. **In 2013, the Belt and Road Initiative** was launched, initially promoting an improved physical connection between East Asia and Europe – to be achieved via Chinese infrastructural investments – and then expanded to Africa, Oceania, and Latin America. **In 2014,** China launched together **with its BRICS partners**[62] **the New Development Bank**, created as a more inclusive alternative to the World Bank and the International Monetary Fund. Between 2014 and 2023, China also signed bilateral trade agreements with three main directions of influence: with geographically close but politically distant regional partners (South Korea, Australia); with EU candidates (Serbia, Georgia); and with developing economies (Mauritius, Nicaragua, Ecuador). **In November 2020,** China also **signed the Regional Comprehensive Economic Partnership (RCEP),** including 14 Indo-Pacific countries[63] and representing the world's largest share of global goods trade, global GDP and population.[64] **In September 2021**, China also **applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP),**[65]. A final mention should be given to the **Russia-China** relationship, reinforced over the last decade up until the "**friendship without limits**" declaration right before the Russian full-scale invasion of Ukraine in February 2022.[66]

As part of its economic statecraft, during the last decade, China has also often imposed **economic coercion** on those countries with which it had disagreements, trying to nudge them towards positions more aligned to Chinese interests. From **restricting rare earth exports to Japan** following a territorial dispute (**2010**) to supporting **consumers' boycott of South Korean goods and services** after the deployment of US missile defence systems in the country (**2017**) to the **restriction of Lithuanian imports** in China following Lithuania's decision to open a Taiwanese representation in Vilnius (**2021**). The anti-dumping investigation **launched against imports of French cognac** (**2023**), is also considered a very coercive targeted response to the alleged French support to the EU investigation on Chinese electric vehicles.[67]

60 Roberts, A., Moraes, H. C., & Ferguson, V. (2018, December 3). *Geoeconomics: the Chinese Strategy of Technological Advancement and Cybersecurity*. Lawfare. https://www.lawfaremedia.org/article/geoeconomics-chinese-strategy-technological-advancement-and-cybersecurity

61 State Council. (2015, September 5). *Notice of the State Council on Issuing an Action Plan to Promote the Development of Big Data* [Press release]. https://www.gov.cn/zhengce/content/2015-09/05/content_10137.htm

62 Brazil, Russia, India, China, South Africa.

63 Including Australia, Brunei Darussalam, Cambodia, China, Japan, Indonesia, Laos, Malaysia, New Zealand, Philippines, Singapore, South Korea, Thailand and Vietnam

64 Cimino-Isaacs, C. D., Dolven, B., & Sutherland, M. D. (2022). *Regional Comprehensive Economic Partnership (RCEP)*. Congressional Research Service. https://crsreports.congress.gov/product/pdf/IF/IF11891

65 Including Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore and Vietnam.

66 Deng, C., Simmons, A. M., Gershkovich, E., & Mauldin, W. (2022, February 4). Putin, Xi Aim Russia-China Partnership Against U.S. *WSJ*. https://www.wsj.com/articles/russias-vladimir-putin-meets-with-chinese-leader-xi-jinping-in-beijing-11643966743?mod=article_inline

67 Other examples include the decrease in Chinese imports of Norwegian salmon following the awarding of the Nobel Peace Prize to Liu Xiaobo in 2010, and the duties imposed on Australian wine in 2021 following Australia's inquiry into the origins of Covid-19.

## ECONOMIC SECURITY IN JAPAN: RESILIENCE THROUGH INNOVATION

A complex relationship with neighbouring China has driven the development of Japan's economic security agenda. As a treaty ally of the United States, **Japan is closely aligned with Washinton's regional policies,** and following the China-US détente **in the late 1970s, export-oriented Japanese companies were at the forefront of integrating China** into their regional production networks. Consequently, the Chinese and Japanese economies became deeply intertwined: **by the mid-2000s, China had become Japan's largest trading partner**, and it continues to be the third most important investment destination for Japanese companies.[68] However, economic integration has occurred against **historical tensions stemming from a difficult colonial past and territorial disputes**. The marked rise of Chinese power over the last two decades has exacerbated these pressures greatly.

When a Chinese fishing trawler collided with two Japanese Coast Guard patrol boats in **2010**, tensions between Japan and China escalated. The incident led to a diplomatic standoff, after which **China restricted exports of rare earth elements to Japan, which highlighted the vulnerability of Japan's supply chains.**[69] At the time, Japan relied on China for more than 80% of its rare earth imports and the episode catalysed discussions in Tokyo to revisit its approach to economic interdependence. **Japan has since embarked on a multifaceted strategy to bolster its economic security and mitigate risks.**

Japan's economic security policies are embedded in other major policy shifts in Japan's broader national security agenda over the past decade, especially under the premiership of Shinzō Abe, such as the creation of a **National Security Council in 2013**, the **2014** reinterpretation of Article 9 of the Japanese Constitution to include ***collective* self-defence** (allowing for greater international security cooperation), and the **2016 Free and Open Indo-Pacific (FOIP) strategy.**[70] These institutional turning points were linked to Abe's nationalistic positions (when compared to his predecessors) and intended to deal with growing Chinese power in Japan's neighbourhood.[71]

Japan had already begun in the late 2000s to use trade agreements, such as the **Trans-Pacific Partnership (TPP)** and **Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP),** to secure a more proactive role in shaping the future regional economic architecture.[72] Japan's trade strategy, including its **emphasis on rule-making on international economic standards and the negotiation of deep integration trade agreements**, continues to be a key contributor to its broader economic objectives of ensuring access to foreign markets, enhancing the competitiveness of its global supply chains, and securing its economic future in the face of demographic trends and a shifting global power balance.

Following the 2010 dispute with China, Japan also began rethinking its approach to promoting domestic capacities to reduce its dependence on rare earths from China. Consequently, Japan has been a first-mover among G7 countries to develop

68 *OECD International Direct Investment Statistics 2022*. (2022). OECD iLibrary. https://www.oecd-ilibrary.org/finance-and-investment/oecd-international-direct-investment-statistics-2022_deedc307-en

69 The veracity of this account has recently been disputed by Evenett, S., & Fritz, J. (2023, July 19). *Revisiting the China–Japan Rare Earths dispute of 2010*. CEPR. https://cepr.org/voxeu/columns/revisiting-china-japan-rare-earths-dispute-2010

70 Igata, A., & Glosserman, B. (2021). Japan's New Economic Statecraft. *The Washington Quarterly*, *44*(3), 25–42. https://doi.org/10.1080/0163660x.2021.1970334

71 Watanabe, T. (2019, October 30). *Japan's Rationale for the Free and Open Indo-Pacific Strategy*. Sasakawa Peace Foundation. https://www.spf.org/iina/en/articles/watanabe_01.html

72 Solis, M. (2017). *Dilemmas of a Trading Nation: Japan and the United States in the Evolving Asia-Pacific Order*. Brookings Institution Press. https://www.jstor.org/stable/10.7864/j.ctt1hfr247

a toolbox for economic security policies that protect the country against foreign influence. In the **early 2010s**, the Ministry of Economy, Trade and Industry (METI) developed **schemes to incentivise recycling and provide research funding to encourage the reduction and substitution of rare earths in production processes**, which reduced dependence on rare earth imports from China from 80% to 60% between 2010 and 2021.[73]

Moreover, the acceleration of Chinese Military-Civil Fusion policies in the 2010s raised concerns in Tokyo about the transfers of dual-use technologies. In response, Japan changed its investment screening to prevent illicit technology transfers and to manage the risk posed by foreign investments and personnel to protect critical industries and sectors. **In June 2020, a revision of the Foreign Exchange and Foreign Trade Act** lowered the threshold for regulatory approval of foreign investments from 10% to 1% and provided the government with wider leeway to assess potential national security threats.[74]

Several institutional changes have elevated economic security issues within the Japanese government. The **National Security Secretariat launched a new division focused on economic security issues in April 2020**, which, with 20 staff, is its largest among a total of seven divisions.[75] In **February 2021, Japan's Public Security Intelligence Agency (PSIA) also created a new unit to deal with technology transfers.**[76] Prime Minister Kishida has underlined the importance he attaches to the topic by creating a **new cabinet-level position for economic security in October 2021** and establishing an advisory group, the **Council of Experts on Economic Security Legislation, in July 2022.**

Concurrently, the Japanese government adopted a **comprehensive economic security legislation in May 2022, the Economic Security Promotion Act (ESPA)**, which aims to strengthen national security through strategic economic measures and implements the economic security goals of Japan's 2022 National Security Strategy (NSS).[77] **ESPA focuses on ensuring a stable supply of critical goods, protecting essential infrastructure, promoting the development of critical technologies, and managing the disclosure of patent applications that could threaten national security.**

ESPA defines specified **critical goods** as 'materials that significantly affect the existence, ordinary lives and economic activities of the Japanese public.'[78] Implementing cabinet orders have since identified **eleven products to fall under this definition**: semiconductors, rare earths, medical supplies, fertilisers, ship parts, liquefied natural gas, aircraft parts, cloud applications, antimicrobials, storage batteries, industrial robots and machine tools.[79] Competent government ministries are instructed and firms encouraged to develop plans for the stable supply of these products through a reinforcement of the production base, a diversification of supply sources, stockpiling,

73 See note 71.
74 *Japan's revisions to the Foreign Exchange and Foreign Trade Act mark a significant shift in Japan's oversight of foreign investment.* (2020, July 13). Hogan Lovells. https://www.hoganlovells.com/en/publications/japans-revisions-to-the-foreign-exchange-and-foreign-trade-act
75 See note 71.
76 Ibid.
77 *Outline of the Economic Security Promotion Act.* https://www.japaneselawtranslation.go.jp/outline/75/905R403.pdf ; *National Security Strategy.* Ministry of Foreign Affairs of Japan. https://www.mofa.go.jp/fp/nsp/page1we_000081.html
78 Articles 6 to 48 of ESPA.
79 Asahina, H. (2022, December 21). Japan seeks to release rare earths, 10 other critical items from China's grip. *Nikkei Asia.* https://asia.nikkei.com/Spotlight/Supply-Chain/Japan-seeks-to-release-rare-earths-10-other-critical-items-from-China-s-grip

the development of production technologies, and the development of alternative products.[80] Businesses producing or importing specified critical goods can apply for government grants and other financing to implement these plans.[81]

ESPA defines essential infrastructure as services whose disruption 'could pose a large risk to the security of the nation and its citizens'.[82] Draft implementing rules identify **eleven essential infrastructure sectors**: electricity distribution; gas pipelines; railways and cargo transport; air transport and airports; telecommunications; terrestrial broadcasting; postal service; banking, fund transfer, insurances and financial markets; and payment systems.[83] Essential infrastructure services are **subject to risk assessment screenings from the government**. In case competent ministries assess a high risk from foreign suppliers, competent ministries will issue recommendations to change the installation or maintenance of essential infrastructure services.[84]

ESPA also supports the **development of critical technologies to achieve 'strategic indispensability'** in sectors where Japan has the potential to have a global competitive advantage and control chokepoints in technology value chains.[85] The Japanese government has identified **twenty designated critical technologies (DCTs) in which it wants to achieve such a global lead**: biotechnology; medical and public health technology; artificial intelligence and machine learning; advanced computing; microprocessor and semiconductor technology; data science, analysis, storage and management; advanced engineering and manufacturing technology; robotics; quantum information science; advanced surveillance, positioning and sensing technology; neurocomputing and brain interface technology; advanced energy and energy storage technology; advanced information, communication and networking technology; cybersecurity; space technology, marine technology; transport technology; hypersonics; chemical, biological, radiation and nuclear technology; and advanced materials science.[86] ESPA also designates that a **newly established Research Institute for Technological Studies will survey technological developments in DCT sectors, and public-private cooperation councils for DCTs will determine research directions.**[87] Firms in these sectors are supported through dedicated government funding.[88]

Lastly, **ESPA proposes a system for the non-disclosure of patent applications for sensitive technologies.**[89] A draft proposal from the government includes a list of military, space, and nuclear technologies that would fall under this system.[90] ESPA instructs the Japan Patent Office to forward patent applications in the designated technology fields to the Cabinet Office, which conducts a review based on detrimental national security implications and the industry impact due to non-dis-

80 See note 78, *Outline of the Economic Security Promotion Act.*
81 Ibid.
82 Ibid.
83 Concepts for Designation Criteria for Specific Social Infrastructure Projects and Operators in the System Ensuring the Stable Provision of Specific Social Infrastructure Services (Draft). (2023). https://www.cas.go.jp/jp/seisaku/keizai_anzen_hosyohousei/r5_dai5/siryou8.pdf
84 See note 78, *Outline of the Economic Security Promotion Act.*
85 Ibid.
86 Suzuki, K. (2023, May 9). *How Will the Economic Security Law Change Japan's Sci-Tech Policy?* The Tokyo Foundation for Policy Research. https://www.tokyofoundation.org/research/detail.php?id=943
87 Ibid.
88 Japanese Cabinet Office. (2023). *Basic Policy on Economic and Fiscal Management and Reform.* https://www5.cao.go.jp/keizai-shimon/kaigi/cabinet/honebuto/2023/decision0616.html
89 See note 78, *Outline of the Economic Security Promotion Act.*
90 *Progress of studies into the operation of the closed system for patent applications.* (2023). https://www.cas.go.jp/jp/seisaku/keizai_anzen_hosyohousei/r5_dai7/siryou3.pdf ; ESPA specifies a full legal guideline for the non-disclosure of patent applications to be released by May 2024.

closure. The Cabinet Office will then notify the patent applicant and prohibit the disclosure of invention details, obligate safe handling of invention information, require approval for sharing the invention with other businesses, prohibit a patent filing in other countries, and compensate the patent applicant for losses due to this procedure.[91]

Japan has also **recently tightened its export controls on dual-use items**. Following consultations with the United States and the Netherlands, it **added 23 items related to advanced semiconductor manufacturing equipment** (cleaning, deposition, annealing, lithography, etching, and inspection equipment) **to its control list in March 2023**. The list is applicable to all destinations to prevent the proliferation of sensitive technologies through third countries. Moreover, in September 2022 Japan issued voluntary guidelines for enhancing export controls of goods and technology that could be misused and lead to serious human rights violations or abuses. In addition, Japan has notification requirements for outbound investment in fisheries, weapons, narcotics and leather goods, and is therefore one of the few countries to have pioneered outward FDI controls (which are currently championed by the US).

Japan has recently joined new partnerships to diversify its supply chains, such as the **Supply Chain Resilience Initiative (SCRI), a trilateral grouping with Australia and India**, which aims to share best practices on supply chain resilience and encourage the diversification of supply chains through investments, and the **US-led Indo-Pacific Economic Framework for Prosperity (IPEF)**. Finally, Japan is actively participating in global efforts to counter economic coercion and ensure the security of supply chains, such as the **G7's "Coordination Platform on Economic Coercion",** to facilitate a collective response against economic coercion.

## ECONOMIC SECURITY IN THE EU: LEVERAGING THE SINGLE MARKET FOR COLLECTIVE STRENGTH

The Biden administration's pressure on the Dutch company ASML to ban the sale of certain semiconductor manufacturing equipment to China was a decisive factor in the European Commission's announcement that it would develop a European economic security strategy in March 2023. However, the institutional security architecture of the EU is very different from that of the US, China or Japan. **In the EU, security remains largely a national competence, and the commitment to risk reduction varies as much as the tools adopted by member states**. The lack of coordination makes each member more vulnerable to foreign influence or economic coercion, with repercussions across the Single Market. The **economic security strategy presented on 20 June, 2023,**[92] thus marks a **doctrinal shift**. While continuing to support fair competition rules for the stability of the global system, the EU cannot maintain its basic market openness stance without a de-risking strategy.

The EU only linked security and economic policy when the Trump administration launched trade wars on several fronts and sharply reduced its commitment to the World Trade Organisation (WTO), in particular by blocking the Appellate Body of its dispute settlement system, which forced Brussels to anticipate the risks associated with offensive unilateral actions. In addition to adopting the **FDI screening regulation in March 2019**, the emphasis on "**open strategic autonomy**" defines the goal of maintaining the **EU's ability to act autonomously without resorting to protectionism**. It paved the way for a comprehensive **approach to economic security** illustrated by three pillars: **promote, protect, and partner**. The mantra "**as**

91 See note 78, *Outline of the Economic Security Promotion Act.*
92 *An EU approach to enhance economic security.* (2023, June 20). European Commission. https://ec.europa.eu/commission/presscorner/detail/en/IP_23_3358

**open as possible, as closed as necessary**" remains the cornerstone of what can be considered an "open" economic security strategy. However, while the European approach to partnerships is clearly distinct from that of the US, its strategic autonomy is narrower when it comes to building the promotion and protection pillars. On the one hand, the EU risks lagging behind the massive financial capabilities of the US and China in enhancing production capacity, while on the other, its calibration of the "protection" pillar risks being subject to strong external pressure to align itself with the measures of so-called trusted countries (such as the control of outward investment, which Washington has strongly advocated).

**Partnering, however, is a comparative advantage of the EU's economic strategy.** In the new era of economic coercion, excessive dependence is a vulnerability shared worldwide. In fact, **EU economic growth depends more on external demand** when compared with the US. The EU also has **fewer natural resources** than the US, and its **value chains are more deeply integrated with the Chinese economy.** While the US Congress has given up on new market opening and supports protectionist measures that infringe the multilateral rules of the World Trade Organisation, the EU emphasises keeping global supply chains open. Its trade agreements support diversification and shape standards, actions which further contribute to strengthening EU competitiveness and security of supply. Following the **EU-Japan trade agreement** (**2019**) and the **agreements with New Zealand** (**2022**) and **Chile** (**2023**), efforts to conclude an agreement with Mercosur or Australia are coupled with the relaunch of other bilateral negotiations (with India in June 2022 and with individual ASEAN countries). The **EU-US Trade and Technology Council, launched in June 2021** to discuss a large scope of global and bilateral issues, addresses many economic security-related issues. The EU's **Global Gateway Initiative** (2021), followed by G7 coordination through the **Partnership for Global Infrastructure Investment** (2022), proposed sustainable alternatives to investment practices that expose partners to the coercive behaviour of their creditors, while supporting the diversification of European supply chains. However, the visibility of these initiatives and the EU's ability to attract private investment need to be strengthened.

The "**promote**" pillar aims to strengthen the competitiveness and growth of the EU by enhancing its scientific, technological, and industrial bases. It has been supported since the launch of the **Green Deal** (**2019**) by increased investment in the green and digital transitions through the **July 2020 NextGenerationEU package** (€800 billion recovery instrument) and incentives for the private sector to invest in the pillars of the **EU industrial strategy** (**May 2021**) such as the **Acts on Chips** (**September 2023**), **Critical Raw Materials** (**December 2023**), and the **Net Zero Industry Act** (**February 2024**). The massive investment by the Biden Administration in the domestic industry led the EU to shift in **March 2023** to an **unprecedented but temporary relaxation of state aid** (Transition Framework to further support the transition towards a net-zero economy). The high level of concern about energy security caused by the Russian invasion of Ukraine accelerated the adoption of these initiatives to increase renewable energy production in the EU. However, **the failure to agree on significant funding for the Strategic Technologies for Europe (STEP) platform**, with only €1.5 billion to support the development and production of strategic technologies (clean technologies, advanced technologies, digital technologies and biotechnologies), **reflects the reluctance of member states to commit to a European industrial policy.** The Commission's January 2024 economic security package does not address the need for major public or private funding for early-stage, capital-intensive critical technology projects.[93] The EU continues to **lack a strategy for serious innovation funding**. In an era of economic security,

93 *Commission proposes new initiatives to strengthen economic security.* (2024, January 24). European Commission. https://ec.europa.eu/commission/presscorner/detail/en/IP_24_363

**the Single Market cannot simply be built on strict competition rules. It should be seen as a space of capacity mutualisation.** Acknowledging that the investment of a member state benefits the entire Single Market and that for certain strategic supplies, it is better to rely on another member state than on certain third countries would be a notable change in economic doctrine.

Additionally, at the turn of 2024, the EU's diversification of critical minerals supply, notably with an objective of domestic refinery capacity, is hindered by China's December 2023 ban on exports of rare earth refinery technologies and Beijing's attempt to blackmail the EU to choose between the green transition and protectionism. The EU has adopted a **country-agnostic approach to economic security that is coherent with its alignment on multilateral rules based on non-discrimination.** However, the concentration of manufacturing for clean technology components in China makes it challenging for the EU to accelerate its own manufacturing of technologies for domestic renewable energy production, while China intends to keep access to the European market to flow out its overcapacity of clean tech. The Chinese anti-dumping investigation on French brandy imports, thus targeting the luxury sector that was not seen as a priority for a de-risking strategy focused on technologies, is intended to prevent the European Commission from concluding its anti-subsidy investigation on Chinese electric vehicles imports with higher tariffs, or Beijing would take more aggressive unilateral measures. **Therefore, building the "protect" pillar of the economic security strategy without resorting to protectionism requires careful calibration.**

In **March 2023**, Ursula **von der Leyen** underlined that the EU wants to "**de-risk but not to decouple**".[94] De-risking is about protecting from high risks. It, in turn, led the Biden Administration to distance itself from a decoupling rhetoric. While Washington calls for partners to align to avoid circumvention of its tech export bans and leverage their impact, the **priority for the Europeans remains to guard against competition distortions hindering the resilience of their supply chains.**

The "**protect**" pillar of the EU's strategy is thus first **building upon the new autonomous trade defence instruments recently adopted.** When the US blocked the Appellate Body of the WTO Dispute Settlement Mechanism, it amplified the risks of trade distorting practices. The EU, along with Japan and others, supported the establishment of a Multi-Party Interim Appellate Arbitration (MPIA) agreement. But the new set of autonomous trade defence instruments complementing the FDI screening now enables the EU to take unilateral measures to protect the Single Market: the **International Procurement Instrument** (IPI) in **June 2022**, the **Foreign Subsidies Regulation** (FSR) in **July 2023**, and the **anti-coercion instrument** (ACI) in **December 2023**. Adopting these instruments has given new competencies to the European Commission, but **they will prove efficient only if member states ensure the necessary political support for their use**. The reservations of certain member states regarding the ACI, which have led to the determination of coercion being entrusted to the Council, are just as likely to diminish the instrument's deterrent effect if there is insufficient political support. But a foreign policy instrument voted on by qualified majority still shows progress and some, albeit limited, willingness on the part of member states to cede competences.

The EU is constrained to a defensive posture against US and Chinese initiatives to consolidate this pillar. **New initiatives** are also **largely limited to incentivising member states to coordinate their efforts** to avoid gaps in the overall infrastruc-

94 *Speech by President von der Leyen on EU-China relations to the Mercator Institute for China Studies and the European Policy Centre.* (2023, March 30). European Commission. https://ec.europa.eu/commission/presscorner/detail/en/speech_23_2063

ture of European economic security. Consequently, the Commission's January 2024 economic security package builds on the existing framework of FDI screening regulation to call for faster harmonisation among member states (a shift from a voluntary to a mandatory approach, compelling all member states in a new legislative proposal to establish a control mechanism, with harmonised risk factors and rules, and an expansion of the scope to cover intra-EU investments). Lessons learned since implementing FDI screening are now used to promote early harmonisation of new national tools. **If the Commission cannot encroach on member states' competencies, it intends to play an active role in building a shared culture of risk assessment** by encouraging member states to conduct their own risk assessments and to engage in a process allowing for progressive convergence. **The process must be highly inclusive to involve businesses closely.** However, while remaining faithful to the Community's functional method of incremental steps, harmonising national systems cannot proceed quickly enough to withstand external pressure if economic security issues – such as export controls on dual-use goods – are not raised to the appropriate political level.

The **Regulation on dual-use export controls** was **revised in 2021**, focusing on sensitive emerging technologies. **In October 2023**, the Commission presented a **list of ten critical technology areas, inviting member states to assess the risks of knowledge leakage for four of them: advanced semiconductors, artificial intelligence, quantum computing, biotechnologies.**[95] The forum announced for 2024 to discuss dual-use export controls at the European level should encourage member states to coordinate this assessment at the national level in advance. The Commission will also propose a recommendation on voluntary notifications about national export controls in the early summer of 2024, and the evaluation of the current EU regulation is anticipated at the beginning of 2025. The efficacy of these export controls would also be reinforced by outbound investment controls, which have been strongly suggested by Washington and are already planned by Japan. While member states and businesses have expressed strong reluctance against such a control measure, the Commission is even more cautious in calibrating this instrument, with a two-year timeline planned: a public consultation on data gathering issues (January-April 2024), followed by a Recommendation to the member states (summer 2024) and a risk assessment report (summer 2025), will finally lead to a Commission proposal (autumn 2025).

**The January 2024 package emphasises the security of research on technologies with dual-use potential** to avoid technology leaks that could lead to increased strategic dependencies or erosion of the EU's technological advantage. A white paper on dual-use research includes an extension of guidance for Horizon 2020 programs to member states' funding agencies and academic institutions and the extension of control to cooperation with actors based in the EU but controlled by unreliable countries. A Council Recommendation proposal aimed at enhancing research security suggests the creation of a "European Center of Expertise on Research Security" tasked with combating foreign interference in R&D. It would aim to raise awareness of the risks associated with sharing sensitive knowledge and technology that a foreign research partner may direct towards military purposes, foreign influence on EU higher education and academic research, and the use of technologies to undermine the EU's fundamental values. Finally, the **protection of strategic infrastructures** has led to a **Council Recommendation (December 2022)** to strengthen the resilience of critical infrastructures and to adopt a **Cyber Resilience Act (December 2024)**.

95 *Commission recommends carrying out risk assessments on four critical technology areas: advanced semiconductors, artificial intelligence, quantum, biotechnologies.* (2023, October 3). European Commission. https://ec.europa.eu/commission/presscorner/detail/en/ip_23_4735

**TABLE 1.** Key economic security initiatives by country

| | United States | China | Japan | European Union |
|---|---|---|---|---|
| **Objective** | Global leadership | Regime security | Rules-based, open world economy | Rules-based, open world economy |
| **Key document** | The Sources of American Power: A Foreign Policy for a Changed World (November 2023) | Overall National Security Outlook (April 2014) | Economic Security Promotion Act (May 2022) | Economic Security Strategy (June 2023) |
| **Promote** | • Infrastructure Investment and Jobs Act<br>• CHIPS and Science Act<br>• Inflation Reduction Act<br>• Executive orders on supply chains | • Made in China 2025<br>• Dual circulation strategy<br>• Vertical integration<br>• Consolidation of rare earth refinery sector<br>• Consolidation of the solid-state battery production | • Recycling schemes and research funding (METI)<br>• Development of critical technologies<br>• 'Strategic indispensability' | • Green deal<br>• NextGenEU<br>• EU Industrial Strategy<br>• Chips Act<br>• Relaxation of state aid rules<br>• Critical Raw Materials Act<br>• Net Zero Industry Act<br>• STEP |
| **Protect** | • Inbound and outbound investment screening (CFIUS)<br>• Export controls for dual-use goods, critical and emerging technologies (BIS)<br>• Cybersecurity and infrastructure (NHS & CISA) | • Inbound and outbound investment screening<br>• Export controls for dual-use goods, critical and emerging technologies<br>• Blocking regulations against foreign laws<br>• Cyberspace sovereignty | • Inbound investment screening<br>• Tightened export controls on dual-use items<br>• Disclosure of patent applications threatening national security<br>• Critical infrastructure | • Inbound investment screening<br>• Export controls on dual-use items<br>• Risk assessments on critical technologies<br>• International procurement instrument<br>• Foreign subsidies regulation<br>• Anti-coercion instrument<br>• Cybersecurity and critical infrastructures |
| **Partner** | • Japan-US trade agreement<br>• Blue Dot Network<br>• Partnership for Global Infrastructure Investments<br>• TTC<br>• IPEF | • Belt and Road Initiative<br>• New Development Bank<br>• RCEP<br>• Russia-China friendship without limits | • Trade agreements with US and EU<br>• CPTPP<br>• RCEP<br>• Supply Chain Resilience Initiative<br>• IPEF<br>• G7 Coordination platform on economic coercion | • Trade agreements with Japan, New Zealand, Chile<br>• TTC<br>• Global Gateway initiative<br>• Partnership for Global Infrastructure Investments |

## Conclusion

### CRISIS MANAGEMENT AND LONG-TERM STRATEGIES

The overall picture of the economic security strategies and policies of the US, China, Japan and the EU shows the extent to which states have intervened to protect their economies from the weaponization of interdependence. The timeline of initiatives across countries in Figure 1 show an **emulation effect**, whereas countries adopted de-risking measures akin to their counterparts. The additional export restrictions announced by China at the end of 2023 indicate **a negative spiral of economic coercion mechanisms that could lead to a balkanisation of global supply chains into regional blocs**. However, it is still difficult to anticipate the impact of current developments, and the cumulative effect of supply disruptions, bottlenecks and widening innovation gaps. The potential damage to the competitiveness of the EU, which heavily dependent on global value chains, explains the cautious calibration of its strategy and why the EU, together with Japan, another open economy, supports the need for multilateral dialogue on anticipated risks (such as a subsidy war) or unforeseen risks caused by the de-risking strategies of major players. In addition, democracies have less scope than autocracies to pass on the costs of risk reduction to their citizens and may face additional risks of social unrest.

A comparative analysis shows that the timing of measures differs for each actor. The "Protect" pillar of the EU strategy, which has been the driving force for a common European approach, allows for a discussion of both timing and effectiveness. **The US and China have a much older economic statecraft tradition in designing export and investment controls**. This dimension implies not only already existing legal tools but also the **existence of governance systems and knowledgeable human resources**. These elements clearly impact the effectiveness of the measures put in place and the capacity of public administrations to manage them. The simple fact that the EU is not a single sovereign state has implications not only on the governance aspect – i.e. the fact of having 27 different administrations with different political cultures – but also on the actual nature of the measures per se. Indeed, the only binding legal text produced under the "protect" pillar is the update of the FDI regulation proposed on 24 January. Thus, **the "protect" dimension is simultaneously propelling and hindering the development of a joint European economic security approach**. Propelling as that has been the core of the strategy presented in June 2023, with initiatives under the "promote" and "partner" dimensions mostly predating the adoption of the strategy. Hindering as it touches upon competencies and prerogatives of the member states, with the consequence of significantly delaying the set-up of a relevant European economic security governance (e.g., see the lengthy consultation foreseen for a potential outbound FDI screening mechanism).

The EU's institutional organisation may also have more profound political implications. **Europeans continue to struggle to develop a long-term strategy corresponding to the "Union interest"**. The Anti-Coercion Instrument (ACI) merely presents a process for determining the "Union interest" based on a precautionary approach to possible hindrances rather than any tentative definition.[96] However, **the de-risking strategies of the US and China correspond to long-term strategies with a profound impact on the framework of economic competitiveness underpinned**

96 Article 9 of ACI on the determination of the "Union interest" mentions that "those interests include primarily the preservation of the ability of the Union and its Member States to make legitimate sovereign choices free from economic coercion, and all other interests of the Union or the Member States specific to the case, the interests of Union economic operators, including upstream and downstream industries, and the interests of Union final consumers affected or potentially affected by the economic coercion or by Union response measures."

**by globalisation.** US trade restrictions aimed at preserving a technological advantage are leading to a profound transformation of markets. **The European economic security strategy is instead born out of defensive crisis management.**

The realisation of the need for a joint European approach for export controls, FDI screening, and supply chain resilience led to the creation of the strategy, with the merging of the "promote" and "partner" pillars into the newly designed "protect" one. Yet, a significant difference also exists between these two others. While partnership has always been a key feature of EU initiatives, thanks to the exclusive competence of the European Commission in commercial policy, promoting industrial development has always been a member state competence, with the few initiatives launched at the EU level always characterised by a structural lack of funding (see, for example, the Strategic Technologies for Europe Platform - STEP).

The "promote" and "partner" dimensions also highlight striking differences from the other analysed countries. While several estimates[97] consider that the funding of the Inflation Reduction Act (IRA) is comparable to the overall financial volume of various programs already launched by the EU and its member states to achieve climate objectives and facilitate the green transition, policies aimed at promoting technological innovation in the US and China are competitive on another level, both in terms of funding and scale. This underscores the **absolute priority of actively completing and deepening the Single market to improve the competitiveness of European economies and their innovation capacity.** The publication in 2024 of the **Letta Report** on the future of the Single Market and the **Draghi Report** on European competitiveness **should receive strong political support** from the Commission and, most importantly, **from the member states**. This could create momentum to resume those unfinished initiatives (for example, the Capital Markets Union) that would significantly benefit and upgrade the EU's "promote" pillar.

**The EU should also draw inspiration from Japan's approach of "strategic indispensability".** While the EU, like Japan, depends on technologies where the US and China have acquired leading (AI, supercomputing, digital, etc.) or even monopolistic positions (rare earth refinery), it can rebalance this excessive dependence by investing, as Japan intends to do, in niche leadership enhancing its "technological indispensability" (such as ASML). The EU could leverage this new strategic approach to interdependence[98] even more, given its larger domestic market compared to Japan's, allowing it to wield greater influence in this more targeted power dynamic. Moreover, Japan and the EU share a desire to promote fair competition and have an incentive to strengthen their partnership if protectionism in the United States continues to rise.

Furthermore, **the EU's ability to negotiate partnerships is an asset** it currently holds vis-à-vis the US and one that it must actively consolidate by better considering the expectations of its partners. The challenges faced in finalising the trade agreement with Mercosur and gaining the support of European public opinions

97 *The US Inflation Reduction Act: How the EU is affected and how it should react.* (2023, October 17). CEPR. https://cepr.org/voxeu/columns/us-inflation-reduction-act-how-eu-affected-and-how-it-should-react, and Kleimann, D. et al (2023, February 23) How Europe Should answer the US Inflation Reduction Act, Bruegel.

98 Gehrke, T., & Ringhof, J. (2023, September 12). *Indispensable leverage: How the EU can build its technological edge.* ECFR. https://ecfr.eu/article/indispensable-leverage-how-the-eu-can-build-its-technological-edge/ ; Baverez, D., Fabry, E., & Köhler-Suzuki, N. (2023). Rebalancing trade dependency on China: de-risking scenarios by 2035. In Bermann, S. & Fabry, E. (edited by) *EU and China between De-Risking and Cooperation: Scenarios by 2035* (Report n.126, pp. 54–64). Jacques Delors Institute. https://institutdelors.eu/en/publications/eu-and-china-between-de-risking-and-cooperation-scenarios-by-2035/

call for adjusting the format of these negotiations, while China itself expands its international partnerships through various initiatives, despite the "debt trap" and numerous complaints filed against it at the WTO. The US suspended most of its trade partnership efforts after Trump's arrival, and its global infrastructure development initiatives have yet to yield significant results. Even a forum like the TTC struggles to produce concrete outcomes despite facilitating transatlantic dialogue. The EU has always acted according to its values and messages, supporting multilateral institutions, rules-based international trade and least-developed and developing countries. However, **criticisms targeting the extraterritorial dimension of its sustainability regulations limit its ability to form new partnerships.**[99] The new security dimension of today's envisaged partnerships (notably for access to critical raw materials), including through more targeted ad hoc agreements, calls for a rethink of the "Brussels effect" to better integrate the impact of EU regulations on third countries and to prioritise a win-win principle that facilitates partnerships.

## RECOMMENDATION FOR EUROPEAN ECONOMIC SECURITY GOVERNANCE TO ENHANCE UNITY BETWEEN MEMBER STATES

The Commission has elevated the stakes to the right strategic level, **the Single Market, which is the Union's main asset for economic security**. It has adopted a comprehensive narrative that gives coherence to the project while emphasising excessive risks to differentiate between de-risking and competitiveness clearly. Economic security comes at a cost, and administrations and businesses cannot be overwhelmed. However, enhancing the EU's economic competitiveness remains a significant factor in risk reduction, and this risk-based approach of the outgoing Commission could lead to streamlining the economic security objective in broader European policies, such as in the financial or food sector. Developing a European economic security strategy will be a long-term project at the heart of the next Commission's mandate for 2024-2029, as the scale advantage of the US and China relying on centralised economic statecraft suggests that **exploiting the full potential of the Single Market requires a political leap forward**. The EU must equip itself with more delegated competences and agencies, such as the US DARPA (Defense Advanced Research Projects Agency) or OFAC (Office of Foreign Asset Control), a shared intelligence capacity on vulnerabilities and competitive advantages, a significant investment capacity in innovation, and harmonised defence tools against the leakage of technological know-how.

In order to deepen the Single Market, the Commission wants to guide the member states towards a common assessment of the new risks arising from a more conflictual international environment. This can be achieved through a consultation process that mobilises bottom-up expertise and is gradually adjusted. While the Commission has nudged member states to carry out individual risk assessments, national capitals have been slow to establish inter-ministerial coordination mechanisms that would speed up the process. In most cases, efforts are isolated within specific ministries without a framework for inter-departmental collaboration. The varied backgrounds of member state representatives in the Outbound Investment Control Expert Group illustrate the different national approaches to economic security and the broad spectrum of required expertise required, such as investment, engineering, and cybersecurity.

99 Lamy, P., Pons, G., Van Der Ven, C., & Azevedo, C. (2023). *EU trade and the environment: Development as the missing side of the triangle*. Europe Jacques Delors. https://www.europejacquesdelors.eu/publications/greening-trade-14

Time is of the essence, and in order to quickly establish a shared risk assessment culture, it is imperative to set up a support infrastructure that encourages the development of bottom-up expertise and engages the member states.[100]

- **Creating a Commissioner for Economic Security:**
  The next Commission President should appoint a Commissioner with a horizontal portfolio on economic security. In addition to facilitating the coordination of initiatives and ensuring policy coherence, this would help keep the issue high on the agenda and maintain the commitment of national governments. Regular visits to all Member States to maintain an ongoing dialogue with national governments, national parliaments and stakeholders (business, trade unions, and NGOs) would help to maintain a continental perspective.

- **Establishing an Economic Security Council within the EU Council:**
  Simultaneously, there should be a push to create a format for an Economic Security Council within the EU Council, encouraging all member states to create the position of Minister for Economic Security. This would promote inter-ministerial coordination on economic security issues within each member state.

- **Reviewing the Strategic compass:**
  A revision of the EEAS's Strategic Compass as the doctrinal basis for the EU's economic security strategy: the common approach to the security and defence threats and challenges facing the Union agreed in 2022 should be used to bring member states on board with a common economic risk culture. The next Commission term should also be used to forge closer links between the Commission and the EEAS, which remain far too distant.

- **Launching a one-stop shop on economic security on the Commission's web page:**
  A comprehensive overview of all (past and future) initiatives related to the Economic Security Strategy is key to ensure ownership by all stakeholders. A dedicated page on the European Commission's website (a 'one-stop-shop') should provide access to this information and allow progress to be tracked. In addition to EU-level initiatives, it would present member states' regulations related to economic security (such as export controls or inward investment) and the relevant national authorities. For companies operating in different member states, this would make it easier to raise awareness of economic security issues at different levels of management. This would make the differences in regulations and resources between member states more visible and help to promote the exchange of best practices.

- **Establishing a Forum on Economic Security:**
  The European Commission's consultation procedures (e.g. on critical technologies or the control of outbound investment) should be complemented by the establishment of a High Level Economic Security Forum. The White Paper on Export Controls proposes the creation of a High Level Forum "to discuss export controls developments and foster a common EU position". Such a forum should cover all issues related to economic security and aim to bring together representatives of member states and companies to adapt the risk assessment methodology. Businesses are at the frontline of de-risking and need to be closely involved. The Forum would help identify subsets of critical technologies, analyse the diffusion of shocks across supply chains, assess the impact of sanctions, allocate the costs

100 Some recommendations were drawn from an expert seminar on the European Economic Security Strategy, jointly organised by the Jacques Delors Institute and the Clingendael Institute in Paris on 10 October 2023.

of de-risking between producers, consumers and taxpayers, and identify additional side effects.

Beyond initial assessments of critical dependencies based on customs data, effective monitoring would require companies to share certain data. They would be incentivised to do so if they could benefit from this collective intelligence to anticipate potential shocks in their supply chains. The Forum would also help to identify the relevant data needed to assess risks, including at the micro level of companies, and to prepare the technological infrastructure to provide sufficient confidentiality for a public-private partnership with the European Commission on data sharing.

The Forum could pave the way for the creation of a **European Agency for Economic Security** to develop analytical tools for continuous monitoring and long-term foresight to better anticipate future risks.[101]

A shared understanding of the economic security issues should also be built with global partners.

- **Adding economic security to the WTO agenda:**
  Notwithstanding the difficulties in advancing the WTO agenda, a debate on economic security issues should be launched at the 14th Ministerial Conference in Cameroon in 2026. The issue must be discussed in international fora to increase the legitimacy of these concerns and to clarify that reducing over-dependence should not be seen as a hostile act but rather as an action aimed at increasing the stability and resilience of the system. This would include discussing critical technologies and their potential impacts, as agreed by the US and China on AI following their November 2023 summit in San Francisco; how to reduce and avoid restrictions on the flow of critical minerals and green technologies, two key elements in the fight for climate resilience and technological development of developing countries; and a joint risk assessment of emerging dual-use technologies. The debate should also emphasise that the right approach to addressing economic security concerns is country-agnostic and that some measures are aimed at levelling the playing field rather than being hostile actions directed at specific countries. More balanced trade relations should enhance rather than undermine the security of the system. Actions by other countries to reduce potentially dangerous over-dependencies should be encouraged while reinforcing the idea that these should take place within the WTO and reinforce a rules-based world order. Finally, it would seek to anticipate the negative impact of some economic security measures, particularly on developing countries.

- **Adding economic security to the G20 agenda:**
  Discussions on economic security issues should take place not only amongst the G7, but also within the G20 framework, in order to increase the legitimacy of economic security and reduce tensions, particularly between "Western" countries and the "Global South". The G20 forum would also allow for frank discussions with China and middle powers that share their concerns.

101 This European Agency on Economic Security would have similar functions as the standing EU Economic Security Council (EU-ESC) proposed by Swieboda, P., & Riekeles, G. (2024). *Europe's Make-or-Break Moment Putting Economic Security at the Heart of the EU's 2024-2029 Strategic Agenda*. European Policy Centre. https://www.epc.eu/en/publications/Europes-make-or-break-moment-Putting-economic-security-at-the-heart~57d26c

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