



## Beyond Corona: Getting EU Economic Security Right

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*The corona crisis, the US-China great power competition and lacklustre international rules vividly demonstrate the vulnerability of economic interdependence.*

*Interdependence is a power struggle, not a mutual aid society. For the vast benefits of a globalised economy to continue to outweigh its risks, policies to build greater resilience are necessary.*

*For the EU, the unprecedented events also offer an opportunity to forge a new economic security approach to better manage its dependencies in strategic sectors.*

Will we be able to patch up the wounds of globalisation once the pandemic cedes? This question consumes discussions around the globe. But rather than patching things up, it will be more important to consider how we can preserve the

best of what globalisation offers, while becoming better at managing its risks.

Risks are there. The coronavirus vividly demonstrates this point, particularly in respect to globe-spanning supply chains. For example, states' dependency on pharmaceutical imports and other critical medical supplies such as masks and ventilators are emblematic for the kind of risk human health – and by extension the state – faces when supply is interrupted. Even the EU could not prevent [supply disruptions between Member States](#), causing political agitation and questions over EU solidarity. “Globalisation”, Henry Farrell and Abraham Newman remind us [in a recent essay](#), “[...] creates extraordinary efficiencies but also extraordinary vulnerabilities.”

### THE POLITICS OF INTERDEPENDENCE

The corona-shock revealed the vulnerable mechanism at play: an interdependent global economy in which individual dependencies can expose states to vulnerabilities should there be interruptions. Here the pandemic is not the only troublemaker. Powers can also [weaponize](#) these dependencies should this be in their political

interest. And they do it increasingly so: access to [finance](#), the flow of [investment](#), the export of [technology](#), [chemical](#) inputs – or, indeed, the [export of live saving drugs](#) during a pandemic. The great powers instrumentalize everything and trade networks are particularly vulnerable.

International rules, which may curb this behavior, have seen better days. Take the World Trade Organization (WTO). Its ability to work – that is to de-politicize trade flows and settle trade brawls through law, not power – is in a coma. Its lifeline, a new multilateral compromise on all its functions, looks all too distant. Will the corona crisis embolden the global community to overcome their differences? One [EU initiative](#) provides a lifeline for the optimistically-minded. The crisis may however also accelerate the opposite trend of fragmentation and confrontation.

This does not spell the end of globalization. In the big picture, global economic interdependence is here to stay. But the corona crisis is yet another catalyzer for the question where the balance lies between on the one hand the vast economic benefits of interdependence, and on the other hand states' feeling of incapacity to defend the health of citizens – or other security interest it may have.

This question is of course by no means new. Already Adam Smith in *Wealth of Nations* [considered](#) “defense [...] of much more importance than opulence.” The defense of citizens' health maybe a more obvious reason for states to intervene in global markets. Today, few politicians would disagree that we should minimize the risks of an interdependent economy for essential medical supplies, given their significant national security implications, even if such a policy means increased costs.

Things get more complicated in other sectors, such as emerging technologies. Especially for those with a [“general purpose”](#) for civilian and military application. Artificial intelligence, for example, and its input – data – is not only considered as an economic opportunity, but also to disrupt security competition and societal futures. It is but one example in a ballooning list of strategic technologies.

This strategic value, which eclipses mercantilist or protectionist logics, makes states less willing to expose themselves to the potential risks of over-dependence on global networks – or rival governments. The US-China competition is chiefly played out the technology domain. But they are not the only governments to translate the politics of interdependence into questions of economic security and national security.

### A POWER STRUGGLE

Interdependence is a power struggle, not a mutual aid society. It can, of course, also provide mutually beneficial outcomes when we minimize that struggle through rules-based global governance, as we have quite successfully done in past decades (and, with exceptions, have excelled at in European integration). But today's limits to international compromise are glaring. Neither the United States nor China seem willing or able to take up a leadership role in forging a new compromise. The EU, though willing, has not been able for the moment to tip the scales.

That does not mean it should renounce its quest for international cooperation. But the EU must also not be like a fish, which fails to notice the expansion and contraction of the ocean surrounding it. The EU has yet to embrace the role of sailing on the waves, not merely swimming beneath them.

Sailing – to use it as our analogy here – requires positioning the ship and considering the waters (and tides) it traverses. It means to position the EU in the rivalry between the great powers “as an independent actor that forges its own relations with each of the others”, as Sven Biscop [has argued](#) on numerous occasions in this Egmont series. To do so, the EU should advance a strategy of *triangulation*, that is to say engage one power without prompting the other to disengage, and vice versa. Not equidistance between Washington and Beijing, but drawing red lines, which can be enforced unilaterally if need be, with either. Be it Washington’s ballooning sanctions policy or Beijing’s promises, time and again, to provide equal market access.

The corona pandemic is another testbed for this position. For the great powers, it was never *just* a health or economic crisis, but another platform for geopolitical jousting. Beijing’s brisk [mask diplomacy](#) with various EU Member States, while necessary and ([often](#)) appreciated, exemplify the geopolitics involved, when China links its political narrative to the medical support. Xinhua News, a Party mouthpiece, even threatened that Beijing could impose [pharmaceutical export controls](#) on those challenging its narrative.

So far, China’s mask diplomacy in the EU seems to [run aground](#). But we should not forget that it is only the latest iteration of great powers leveraging economic dependencies for political gain. Consider China’s threat [to sanction German car exports](#) over the latter’s possible Huawei exclusion, or the White House’s threat [to sanction EU imports](#) in response to some Member States’ ambitions to tax digital services. The list goes on – and gives substance to the worry over Europe’s independent decision-making. Independence in an interdependent world is an illusion, of course, but this general

truth should not blind governments from necessary risk mitigation.

The EU designated Beijing as a systemic rival last year. But it also, rightfully, stressed *cooperation* as key to tackle global transnational challenges, including fighting climate change and the corona pandemic. A sound strategy to wither the politics of interdependence must juggle these two realities. Forgetting about the rival part over China’s mask diplomacy, or any other lever Beijing may apply, risks wrecking the EU ship on the rocky shores of interdependence. The “struggle for influence through the politics of generosity”, as [HRVP Borrell warned](#), is but one episode in whole geoeconomic series characterising international politics. Put differently: pushing back against the corona narrative is a one-off remedy; systematically protecting EU vulnerabilities is a strategy.

### A NEW ECONOMIC SECURITY

Reducing the Union’s vulnerabilities from an interdependent, great power world requires more active management of its dependencies. The EU should forge a *new* approach to *economic security* which can alert policy-makers to the geopolitical security risks the Union faces – not from invading armies but from economic dependencies for strategic goods and sectors.

Risks are varied. Disruptions in the supply chain, compromised equipment, coercion, or the erosion of a strong industrial and technological base are examples. Some of these risks are not isolated economic or technological concerns but can spill-over into the EU’s long-term ability to defend and promote its interests. Where that is the case, economic security becomes a critical insurance policy.

That means to figure out what EU strategic goods and sectors comprise. No easy task in a Union of 27. It also invites pushback for such interventions, even if commenced with the best intentions, may become protectionist and offer shelter for vested national interests. Welfare and consumer benefits may suffer at the expense of security. These are genuine concerns. But geopolitical and security considerations – health or otherwise – have become fully eclipsed. In this geoeconomic era, the EU must strike a new balance between economic and security concerns.

The pandemic evidenced that medical supplies are goods whose availability in a crisis we cannot allow to be solely dependent on global markets or on governments intent on weaponizing their supply. The announcement to create an [EU strategic stockpile](#) for medical equipment and a new [EU pharmaceutical strategy](#) are good Commission initiatives to that end.

Beyond health policy, the EU also curates a list for [critical raw materials](#), for which reliable and unhindered access is vital to the EU economy and the development of digital technologies (e.g. cobalt for batteries). Securing and diversifying access to these materials in foreign markets via trade agreements, for example, is only one side of the coin. Increasing geopolitical risk to the EU's heavy raw material dependency has drawn [several EU initiatives](#) to manage this vulnerability, including to shore up local production, support relevant technology innovation, produce better data over local availability, and coordinate with the Circular Economy Strategy.

Horizontally, the dependency risks are also addressed in the recently published [EU industrial strategy](#). In it the Commission notes cautiously, but rightly, that next to critical materials, reducing dependencies in “technologies, food, infra-

structure, security and other strategic area” is critical to economic security. The EU investment screening regulation, the EU 5G toolbox, and other financial and regulatory instruments to support EU strategic technologies are exemplary for a shift in EU policy to better operationalise economic security.

### **ECONOMIC SECURITY AFTER CORONA**

Groundwork has been laid. But even for investment screening and a common 5G position, significant gaps remain across the Union. The corona crisis further demonstrates that the EU will require a more systematic approach to managing interdependence – one which preserves most of its benefits, while allowing to minimize risks.

The turbulent corona times catapulted economic security to the front line. For example, new EU guidelines last week urged Member States that still lack a mechanism for vetting foreign investments to acquire one and do everything to prevent [“loss of critical assets and technology.”](#) Germany, meanwhile, set up a [bailout fund](#) to “temporarily” take over struggling German companies, before foreigners snatch up strategic assets.

Things are moving unusually fast in a crisis. That is not necessarily good news. Getting economic security right requires more than shooting from the hip, even though the crisis currently demands it. It will require a methodology for the assessment of risk, calculation of advantage, and the availability of a defensive armour.

The EU and Member States could, for example, more actively subsidise firms which want to reduce their dependency on China (a policy the Japanese government [initiated](#)). The experience from the critical raw materials strategy could

further help as framework how to coordinate external and internal instruments as well as R&D and financial instruments to address specific dependencies.

If the silver lining of the corona crisis would amount to a more systematic EU approach to the question what dependencies we are willing to risk in an emergency, or a period of great power competition, the EU sailing boat would be better equipped to weather the currents. Interdependence is here to stay. How we manage it is what matters.

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