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Charting Belgium's Economic Security – a complex country in a complex world

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ABOUT THE AUTHOR

In the aftermath of the publication of the Belgian National Security Strategy, a dedicated informal working group was established to delve deeper into the theme of economic security. This working group included public officials, diplomats, representatives from the private sector, and academic experts in the field of economic security, spearheaded by the Egmont Institute. The group also benefitted from the input of various officials from the federal and regional governments, each acting in a personal capacity. The resulting output in this Egmont Paper is the product of their expertise, contributions, and feedback provided. Victor De Decker wrote this text. He is indebted to all Economic Security WG members for sharing their insights and comments. This text does not necessarily represent the individual views of each member of the group; the responsibility for any errors lies with the author alone.

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Economic Security is mentioned as one of the four pillars of the Belgian National Security Strategy (NSS). Ever since the inception of the NSS, the geoeconomic arena has been turbulent – Russia's invasion of Ukraine and the consequential sanction regime against Russia, supply chain fragmentation, rising US-China tensions, the resurgence of economic nationalism, among other evolutions and events have irreversibly shaken up the world economy. With the European Commission having shared its proposal for a Strategy for Economic Security, a thorough review on why and how Belgium can contribute to this debate and provide sustainable solutions that strike the right balance between prosperity and resilience imposes itself.

This Egmont paper addresses key aspects of Belgium's national economic security. It begins by defining the scope and terminology of economic security, followed by an analysis of global challenges to Belgium's national economic security. Then the essential tools and instruments within the economic security 'toolkit' will be detailed. Lastly, Belgium's unique position in the European economic security architecture will be explored, considering its federal structure with divided competencies among regions. This comprehensive analysis aims to provide insights and policy recommendations for safeguarding Belgium's economic security interests.

1. ECONOMIC SECURITY

Economic security is not an entirely new concern for governments. Instruments of economic nature have long been part of the toolkit of statecraft. Economic security was traditionally confined to providing security from manipulation by other countries that wielded these instruments. A state that was unable to shield itself from these manipulations, could be considered as economically vulnerable.[1]

After the Fall of Communism, the era of liberalisation and globalisation tempered anxiety for economic vulnerability, pushing economic security measures away from the political agenda. Integration of countries into the liberal world order would provide a platform for interdependence and mutual cooperation, or so the story went.

However, coincidingly, globalisation created a world in which flows of finance, goods, and information across borders created both a multi-interdependence as well as concentrations of economic activities with the potential of being instrumentalised as tools for power projection. Trade and finance flows have become globally integrated, rendering global markets multi-interdependent. Nevertheless, critical economic activities are mostly concentrated along a handful of nodes: global finance is mainly managed in financial centres like New York and London, critical mineral refining happens disproportionately in China, and advanced microchip production happens overwhelmingly in Taiwan. This development has pushed economic security to the front of the agenda once again. Rather than "flattening" the world, globalisation created asymmetric network structures that set the scene for "weaponised interdependence", a condition under which a state can exploit its position in an embedded network to gain a bargaining advantage over others in a contained system. In other words, some states became able to leverage critical chokepoints in the world economy, which were initially concentrated for reasons of market efficiency, to coerce others. An example for this has been how the US in May 2019 used its critical role in global finance to enforce its sanction regime on Iran to foreign and domestic firms alike. This has transformed the liberal order away from multilateral organisations and has crucial consequences for where state power is located and how it is exercised – e.g. in the realm of technology and economic policy.[2]

Compared to the traditional interpretation of economic security, which aimed at protection from a relatively narrow array of economic manipulation by third countries, in this modern iteration, economic security policies aim to anticipate and manage interdependencies and economic weaponisation, considering a wide scope of external factors and global dynamics that can impact a nation's economic stability and security. This requires an adequate set of tools, strategies, and expertise.

Taking all this into account, the definition for Economic Security that will be applied in this paper will be the following:

> *A strategic policy framework developed by a government to protect and promote the economic well-being and stability of a nation's economic fabric. This framework can encompass a wide range of measures, strategies, and actions aimed at ensuring and optimizing a country's economic resilience, long-term prosperity, and autonomy*[i] *while mitigating risks posed by external economic threats.*

1.1. De-risking

An important milestone in the Economic Security debate has been its iteration floated during the 2023 G7 Summit in Hiroshima. In view of the rising tensions between the US and China, the G7 has found itself performing a balancing act. Its aim has become to protect critical and strategic technologies and to prevent overreliance on imports, while at the same time de-escalating economic tensions. These overarching objectives and sentiments engendered the notion of "de-risking" as a viable alternative to an economically detrimental "de-coupling" scenario, whereby the West and China would be drifting apart from each other. The eventual communiqué advocates resilience in supply chains and critical infrastructure, resolute policy reactions towards non-market practices, economic coercion and threats within the digital sphere, as well as increased cooperation with like-minded partners in standards and preventing leakage of critical and emerging technologies.[3]

This narrative comes across in EU strategy as well. In its Joint Communication on a European Economic Security Strategy, the European Commission identifies four risks to be addressed, namely risks to supply chains, critical infrastructure, technology security, and economic coercion. Furthermore, the Strategy also sets out a three-pronged approach of promoting, protecting, and partnering to mitigate these identified risks.

There lies a paradox at the root of this "de-risking" as a strategic guiding framework, that needs to be confronted with. On the one hand de-risking proposes business continuity in an increasingly fragmented world, on the other it contributes to this fragmentation through the exclusion of major industrial players from the global supply chain. Hence, it is imperative that de-risking becomes more clearly defined at as high intergovernmental level as possible, clearly delineating which sectors deserve what specific kind of geoeconomic risk-management.

1.2. Strategic, critical, or sensitive?

To address their respective risks, it is important to clearly define what areas are indeed to be deemed critical, strategic, or sensitive, as each of these ask for different policy reinforcements. In first instance, a sector can be considered "critical" to a country if its functioning is of paramount importance to the functioning of society and any malfunctioning would cause serious societal disruption, with the potential to become a direct or indirect threat to national security. The primary

i Autonomy here means the freedom of taking your own decisions, which is not the same as self-sufficiency. Rather, it is an acknowledgement that economic security is the basis for self-determination.

danger for domestic critical infrastructures and sectors is that they come into the hands of foreign owners, or a country becomes dependent on foreign supply in a way that could potentially impair national autonomy and security.

This definition of what is "critical", however useful, does not entirely cover what is "strategic". "Strategic" is an adjective used to describe something as supportive to achieve a plan – this can be a military goal – e.g., military technology and armaments that are quintessential to win a war -, but just as well a civilian objective like the European Green Deal. Once we come into the realm of what can be considered "strategic", we need to take our critical sectors into account but also look beyond our basic necessities as human beings. Rather, a strategic sector could be defined as a sector which functioning plays a vital role in furthering our strategic interests and achieving set goals. For example, according to the 2015 strategic industrial policy Made in China 2025, railway equipment has been identified as a key strategic industry by the Chinese authorities, whereas this sector has been largely absent in recent American strategic sector listings. Here the fact that China is a global leader in the railway industry plays a role in its "strategic" denomination, however, economic dominance in an industry should not by definition reflect in "critical" or "strategic" nature. Belgium is the third biggest beer exporter in the world, however, beer is – arguably – not an industry of particular strategic nor critical interest to the country. For all strategic sectors, the central objective should be to create a strong European-wide industrial basis that is competitive on the global scene.

"Sensitive" is a label that covers a different load. It is used mainly for technologies and sectors that are critical to a country's military, intelligence, surveillance, or cyber-warfare capabilities. These technologies or intellectual properties can thus not be freely shared without considering national security considerations, due to the risk of civil-military fusion. What sectors or technologies are "sensitive" are especially relevant to export and investment controls, as these are the primary instrument to prevent sensitive technologies from falling in the wrong hands.

Although branding certain sectors as critical, strategic, or sensitive can be useful, the veil of economic security policy should not be seen as a blank check for governments to blindly support national industrial and economic interests, bypassing WTO, and EU regulation. Rather, there should be a considerate and thoughtful analysis to monitor and select sectors which require increased scrutiny, support or protection stemming out of wide-ranging considerations.

	Critical Sectors	Strategic Sectors	Sensitive Sectors
Defining characteristics	A sector which functioning is of paramount importance to the functioning of society and any malfunctioning would cause serious societal disruption, with the potential to become a direct or indirect threat to national security.	A sector which functioning plays a vital role in furthering strategic interests and achieving set goals.	A sector that is critical to a country's military, intelligence, surveillance, or cyber-warfare capabilities.
Sectors	Energy Transport infrastructure Finance Health Drinking water Digital Infrastructure Public Administration Critical raw materials Food supply	Advanced semiconductors Quantum Computing Biotechnology Net-zero industries Strategic raw materials	Advanced semiconductors Quantum Computing Artificial Intelligence Dual Use Armaments industry
Approach	Protect domestic critical sectors from foreign influence, weaponisation or supply interruptions.	Strengthen competitiveness of strategic sectors by making supply chains resilient and diversified, while bolstering innovation and industrial capacity.	Prevent unmonitored leakage or technology transfers of sensible sectors to strategic rivals.

2. CHALLENGES

In an era marked by unprecedented global interconnectivity, the economic security of states has become an intricate web of interwoven challenges and opportunities. Belgium, nestled politically and economically in the heart of Europe, is no exception to this dynamic landscape. In this chapter, we delve into six critical challenges that pose both immediate and long-term threats to Belgium's national economic security. From the ever-present spectre of China's economic prowess to the resurgence of industrial policy in the USA, and from the enduring repercussions of Russia's invasion in Ukraine to the relentless pursuit of essential minerals for the green and digital transition, Belgium faces a multifaceted tapestry of concerns. Moreover, as supply chain shocks continue to reverberate across the globe and emerging technologies, rapidly gain prominence, the situation calls for a detailed analysis and an apt policy response.

2.1. China

Although not always explicitly mentioned, China is on the top of everyone's mind when developing resilient economic security policy measures. It should be noted that this is not exclusively driven by ideological or value driven concerns. Rather, the significant economic presence, rapid growth, and interconnectedness in global supply chains for critical, strategic and sensitive technologies' supply chains would have brought the country to the forefront of any political-economic related debate regardless of the country's guiding ideology. The complex and competitive nature of economic relations with China – branded a partner, competitor, and rival by the EU –, coupled with its assertive or even offensive stance on issues like trade, intellectual property, and technology transfers, necessitates states to develop comprehensive and adaptive economic security measures to safeguard their own economic interests and protect against potential risks posed by China's rise as a global economic powerhouse. In furthering its economic and security interests, we see China increasingly taking positions that infringe the economic security of Belgium.

First there are China's aggressive trade practices, such as dumping products below-market prices or subsidising domestic industries, leading to unfair competition, and adversely impacting Belgian business, industrial interests.[4] This has been the case in various industries, ranging from iron and steel[5] products, over solar panels[6] to optical fibre cables.[7]

Secondly, there is the outsized reliance on Chinese supply chains, especially in the field of active pharmaceutical ingredients (APIs) and minerals. In 2019, more than 40 % of the global supply of APIs were sourced from China.[8] Moreover, China is responsible for providing nearly 90 % of the global share of refining for rare earth elements, which are vital for the production of wind turbines and EV motors.[9] For Belgium, being the third biggest pharmaceutical products exporter in the world[10] and an aspiring green industrial player, this creates an outsized dependency on a concentrated supply of basic ingredients and components. The ongoing security challenges stemming from the US-China tensions with regards to trade, investments, technology, the South China Sea, and Taiwan undoubtedly affect the economic security of Belgium. Next to a disastrous humanitarian loss, a potential conflict on Taiwan would be detrimental to the supply of semiconductors, as over 60 per cent of the world's semiconductors and 90 per cent of the most advanced semiconductors are produced on the island.[11] In the field of strategic minerals, we have seen increased weaponisation already taking place with China imposed exports controls of Gallium and Germanium, in reaction to Western export restrictions on advanced semiconductor manufacturing equipment.[12] In short, dependence on Chinese supplies may leave Belgium vulnerable to future disruptions.

Thirdly, China's geostrategic investment strategies have reached Belgium as well. Through investments and mergers, concerns have raised about critical infrastructure, technology transfers and access to sensitive information. For example, in 2017 Chinese state shipping company COSCO (through its subsidiary CSP) acquired a controlling stake in the only container terminal in the Port of Zeebrugge, through a long-term managing concession of said terminal. Already since 2004, COSCO holds a 20 % share of a consortium operating the Antwerp Gateway Terminal[ii].[13][14] Beyond ownership over logistical and geostrategic hubs this investment strategy further raises risks for the protection of intellectual property and potential security risks for Belgium's innovation-driven sectors.

Fourthly, under the leadership of President Xi Jinping, China has been expanding its efforts to civil-military collaboration projects (Military-Civil Fusion – MCF) that blur the line between civilian and military technologies.[15] This development is complicating the scene for developing business, academic, and scientific collaborations in the field of sensitive sectors. Although complex, MCF compels countries to develop policies in the field of export controls and OFDI screening to restrict potential dual-use technology leakage to Chinese entities.

2.2. The return of Industrial Policy

Up until now, the debate on economic security and industrial strategy within the EU has been largely focused on mitigating European dependency on China. On the other side of the Atlantic, President Biden has revamped the debate as well with a series of sweeping industrial policy measures: the Infrastructure and Jobs Act (November 2021), the CHIPS and Science Act (August 2022), and the Inflation Reduction Act (August 2022). All three of these bills are channelling several hundreds of billions of public money to infrastructure, semiconductors, green industry and renewable energy. The implementation of these acts will therefore need to be closely monitored, as they can potentially jeopardise the EU – and Belgium – in its quest for industrial de-risking in strategic sectors.

Made in America requirements plus commitments on phasing out China, Iran, Russia, North Korea from supply chains will have a coercive effect on manufacturers worldwide in localising their supply chains. Whether European leaders decide to move along these rules to tap into the American subsidy mechanisms or not, will also impact the economic security landscape in Europe.

According to reports from Credit Suisse, the IRA could position the US as a leader in low-carbon economy the following decade.[16] While American efforts to tackle climate change are to be applauded, certain discriminatory elements benefiting US-based manufacturing, it was initially feared that they would have a negative effect on the competitiveness of European companies active within strategic sectors. Coupled with fluctuating energy prices at the time, industrial players and government representatives alike voiced fears that Belgium would be severely affected by missing out on key investments in the domestic net-zero industry.[17]

2.3. Energy Crisis

When Russia invaded Ukraine, on the morning of 24 February 2022, the West reacted with a series of sanctions and measures to isolate Russia economically and politically. These sanctions, unprecedented in scale, depth, and reach, are having a crosscutting effect on our entire economic system. Of all sectors, the most direct impact fell on the energy sector.

Belgium is very much dependent on the import of fossil fuels to meet its domestic energy needs. In 2020 Belgian energy dependence amounted to 78.1 per cent of the country's gross domestic consumption, making Belgium the 5th most dependent country of the EU, and – perhaps more importantly – 11th most energy dependent on Russia out of all EU

ii Since April 2022, the Port of Bruges and the Port of Antwerp merged into the Port of Antwerp-Bruges, making it the second-largest port of Europe, co-owned by the respective cities.

member states.[18] Belgium imports all its fossil fuels, notably – and increasingly since the Russia-Ukraine War – Liquified Natural Gas (LNG). The Port of Zeebrugge plays a particularly important role in the changing energy market as it hosts the only LNG terminal in Belgium with an annual throughput capacity of 9 billion cubic meters of natural gas.[19] Furthermore, Belgium produces about 40 per cent of its electricity consumption from six nuclear reactors.[20] The energy import - dependence runs concurrent to the fact that one of the most interconnected gas- and electricity transmission networks from Europe runs through Belgium.[21]

2.4. Scramble for minerals

The green energy transition will be a main driver of demand for several minerals. In a 1.5° C warming scenario, renewables will constitute 91 % of the energy mix by 2050, meaning that a shift would increase renewables-based installed capacity ten-fold from 2022 figures.[22] Also, the production of minerals would need to increase by 500 per cent by 2050 to meet the growing demand for clean energy technologies.[23] The anticipated growth of mineral-intensive electrical vehicles will be one of the main drivers for demand. Moreover, green energy has a strong geoeconomic dimension for the EU: offering a way to tackle the overreliance on autocratic fossil fuel-rich states. Nonetheless, there remains the risk of merely exchanging these fossil fuel-rich entities by handful of mineral-rich states, given the high geographic concentration of critical minerals.

In response to these risks, the European Commission proposed its Critical Raw Materials Act. It aims to pave a path towards greater European resilience. The intention to increase domestic extraction, to recycle, and to enhance processing capacities, however, will run up against limits: Europe's soil simply lacks reserves of some of the most strategically important minerals. An international strategy is needed. The Act sets out the first step, by indicating a diversification criterium and instrumentalising Global Gateway projects to scale up raw materials extraction and processing capacities in friendly third countries. Although Belgium is not the most mineral-rich country in Europe, it does host major companies that have experience in producing, refining, and recycling critical raw materials, amongst which Solvay and Umicore.[24]

As part of the Critical Raw Materials Act, the EU vows not only to strengthen its ties with resource-rich countries, but also with like-minded countries on the demand side: notably with Japan and the USA, thereby establishing a so-called 'Critical Raw Materials Club'. This corresponds with calls made across the pond. US Treasury Secretary Janet Yellen already indicated that the EU and Japan should revamp trade agreement negotiations with the US to meet their respective mineral-sourcing criteria. [25]

2.5. Supply chain shocks

The effects and mitigations of the COVID-19 pandemic caused severe disruptions in supply chains and logistics. One such supply chain that was hampered, impacting a wide variety of industries, are semiconductor chip value chains. On top of that, the war in Ukraine affected the semiconductor industry as the country is a leading supplier of neon, which is critical for the lasers used to make chips.[26]

Also in the Belgian industrial sector, these shocks did not go unnoticed. In February 2021, a Belgian car factory from manufacturer Audi was forced to close down for one week due to this chip shortage, rendering the employees temporary unemployed.[27] Also in the Volvo factory in Ghent, production was interrupted due to the same issue.[28] The chip shortage not only affected car factories, but also negatively impacted a wide range of companies. Being omnipresent in virtually all industries – ranging from computers to medical devices, AI, and defence – these chips play an important role in the Belgian and European economies. With the semiconductor manufacturing industry mostly based in East Asia – namely Taiwan –, and caught in a conflict between the US and China, the risk of increased dependency risks looms even larger. Whereas Belgium does only play a marginal role in the global semiconductor foundries, it houses one of the world's most cutting-edge research centres – IMEC. As noted in the Chips Act, it is Europe's ambition to strengthen its research and technology leadership in order to play a leading role in the next generation of microchips. Belgium can thus play an important role in furthering this ambition by strengthening the domestic semiconductor R&D ecosystem, which is an undeniable strategic sector.

2.6. Emerging technology proliferation

The rise in geopolitical and geoeconomic tensions throughout the world coincides with the amplifying proliferation of new technologies, ranging from Artificial Intelligence over Electric Vehicles and overall increased digitalisation. Despite its importance to future economic growth and security, Europe is lagging behind China and the US in respectively the EV and AI race. Europe only accounts for 7 % of AI patenting, 22 % of global AI software market – half of the US' share.[29] On the EV front, more than half of the EVs worldwide are in China, compared to a quarter in the EU, and in 2022 35 % of exported electric cars came from China.[30]

Furthermore, emerging technology proliferation presents a dual-faced dynamic for Belgium's economic security environment, particularly concerning the blurring line between advanced technology and dual-use applications. As the world embraces cutting-edge technologies, the distinction between civilian and military utility fades, raising both opportunities and challenges. While harnessing these technologies can lead to economic growth, innovation, and international competitiveness, the convergence of advanced and dual use capabilities demands heightened vigilance.

3. THE ECONOMIC SECURITY TOOLKIT

Over the past year, the Belgian government and European Commission alike, have been active in creating tools to deal with the abovementioned challenges. The myriad of policy instruments has been colloquially called "the economic security toolkit". Whereas legislation of these tools is largely coordinated and iterated at European level, the implementation and execution of these instruments, remain largely in the hands of the member states. Even within Belgium, not a single entity has access to all tools within the toolbox, as competencies are divided between the respective federal and regional governments.

In the following paragraphs, the economic security tools that are currently in place and put forward will be illustrated. The European Commission's proposal for a European Economic Security Strategy is drafted through three priorities of enhancing its economic security, also known as "the three P's": Promote, Protect, and Partner. Below, the tools from the toolkit will be listed along these lines as well.[iii]

iii This chapter is limited to selected tools that are used in the pursuit of economic security and does not delve deeper into specific all EU legislation and strategies with a relevant economic security component (e.g., Net Zero Industry Act, Chips Act, European Industrial Strategy, or Critical Raw Materials Act).

3.1. Promote

3.1.1. IPCEI

Although present in EU treaties since the 1957, a specific carveout under state aid rules allowing the EU and Member States to subsidise companies in a way compatible with the Internal Market to address "market failures" or other important systemic failures, Important Projects for Common European Interest (IPCEI) have been little used until 2017. These schemes support major cross-border innovation and infrastructure projects. In 2018, this carve-out went through a rebirth. Ever since, the Commission has approved six IPCEIs - almost one IPCEI every year. In their later iteration, IPCEIs concern predominantly R&D and first industrial deployments. Thus far, IPCEIs have been launched in the following strategic sectors: microelectronics, batteries, hydrogen technology & industry. Belgium is a participating country for four of the six approved IPCEIs. Future IPCEIs have been proposed in the fields of health, hydrogen, cloud computing, and semiconductors.[31]

In practice, promotion of IPCEIs as a tool has been largely centred around industrial initiatives originating from big countries, hosting big companies that are eager to participate in these projects. Around half of the EU member states did not yet participate in any approved IPCEIs. Furthermore, criticism has been uttered concerning the lack of an overarching governance structure, potentially undermining competition through a Commission-enabled intra-European subsidy race.[32] Whereas IPCEIs do provide much-needed support to strategic industries, a reform of the governance structure of these would be much in the interests of smaller countries – like Belgium.

3.1.2. Single Market Emergency Instrument

As a way to address the supply chain crises and the aftermath of the pandemic, the European Commission proposed the Single Market Emergency Instrument (SMEI). This framework aimed to ensure the availability and free circulation of critical products in the case of future emergencies. Expectations from the Commission were high, as the suggested SMEI would allow monitoring strategic products and services, including disruptions of supply chains and shortages.[33]

However, most of the strongest measures were removed by the EU Council, particularly those relating to strategic reserves and forcing companies to prioritise orders.[34] Now that the EU Parliament adopted its negotiating mandate in, negotiations with the Council on the eventual shape of the regulation are expected to in the Autumn 2023.

3.1.3. Strategic Technologies for Europe Platform (STEP)

Along with the proposal to a European Economic Security Strategy in the summer of 2023, the Commission also proposed a the Strategic Technologies for Europe Platform ('STEP'). This Platform will support the development, manufacturing or strengthening of the respective value chains in the Union of deep and digital technologies, clean technologies, and biotechnologies to meet the objectives of the green and digital transitions. Furthermore, this would enable the Union to reduce or prevent strategic dependencies. The financing for STEP would come via rewiring of existing funding programmes, which are then expected to be reinforced and leveraged by private investments. This way, STEP will provide up to EUR 10 billion in funding through InvestEU, Innovation Fund, Horizon Europe, EU4Health, Digital Europe, European Defence Fund, Recovery and Resilience Facility, and various cohesion funds. Moreover, member states would be encouraged to increase co-financing. In some way, STEP is a complement to IPCEI, as it would support the further development and increased manufacturing in strategic technologies relevant to the digital and green transition, as well as support the biopharmaceutical sector. When implemented, STEP would also help safeguard and strengthen value chains, steer investments in related critical raw materials, and address shortages of labour and skills in the abovementioned sectors. Along with the STEP-proposal, the Commission iterated the 'Sovereignty Seal', an EU quality label awarded to projects contributing to the STEP objectives.

Seemingly ambitious in rhetoric, lacking additional own financing, the Platform is nothing like the much-touted European Sovereignty Fund, which was anticipated since President von der Leyen's State of the European Union speech in September 2022 as a European response to the American Inflation Reduction Act. However, the choice to streamline existing instruments towards strategic goals over creating a new vehicle will result in a much quicker implementation lead-time.

3.2. Protect

3.2.1. Export controls

Multilateral efforts to coordinate export controls are increasingly falling short. One example for this is the post-Cold War Wassenaar Arrangement (WA), which established a voluntary export control regime in 1996 that still holds onto this day. In this arrangement, its members, amongst which Belgium, agreed to maintain controls on a regularly updated list of weapons and dual-use items. Furthermore, WA signatories committed to exchange information on transfers of conventional weapons and dual-use goods and technology.

Ever since Russia's invasion of Ukraine, talks between WA countries have reached an impasse, as Russia – itself a founding signatory of the Wassenaar Arrangement – is blocking progress on discussions of widening the scope of Dual Use lists. Hence, countries are unilaterally expanding their national export measures aside from the WA-provided lists.

The United States has endorsed the use of export controls to keep adversarial states "as far back as possible" in a quest to maintain American "technological leadership".[35] Following these statements, the USA, along with Japan and the Netherlands have imposed export controls on high-technology products used to produce advanced node semiconductors. All the while, China has repeatedly formalised export controls on several critical minerals. However, increased usage of export restrictions is not confined to Sino-American tensions. During the COVID-19 Pandemic in 2021, India suddenly banned the export of COVID-19 vaccines.

All these unilateral measures have been breaching the international rules-based trading environment. Multilateral organisations and arrangements lack the tools to combat these breaches. While it remains important to defend the remnants of the current multilateral framework, we should not expect it to solve all our issues.

In 2021 the EU implemented a regulation that strengthened European coordination on export controls among member states – without taking competency away from member states – while expanding EU-wide export controls. Importantly, these EU-wide export controls are country-agnostic. Hence, export restrictions on advanced technologies against Russia in response to its invasion of Ukraine have been implemented through the EU's sanction regime. These setbacks and complexities have set the scene for a dysfunctional global export control regime which is in dire need for an update. It is of paramount importance that export controls do not become a means to choke off economic development or gain economic advantage of third countries. If commercial and security interests become indistinguishable in the face of great power competition, Belgium will end up in a situation whereby neither interest is served.

This argument notwithstanding: it would be naïve to cling onto outdated, too narrow dual use definitions. The previously mentioned Chinese Military-Civil Fusion-strategy complicates matters further, blurring the line between military and civilgrade technology in third countries. Aptly modernised export control measures should take these factors into account, ideally at a common European level. Only this way, through a joint-European effort towards a common export control regime, European states can mature from a rule taker into a rule maker in terms of export controls.

Given the split competences on export controls between Belgian federated entities, speaking with a common Belgian voice on export controls in the global and European arena is a complex matter. Notwithstanding, a trading nation and logistical hub, Belgium, through its regions, should play a role in the European debate to develop a new strategic technology doctrine and upgrade export control policies to the current reality of sensitive technologies, by working together with its European and international partners to develop a coherent approach while avoiding leakage and overreach alike.

3.2.2. Foreign Subsidies Regulation

In the beginning of 2023, the Foreign Subsidies Regulation entered into force with the aim of ensuring fair and undistorted market conditions in the EU Single Market. In essence, this tool enforced by the European Commission obligates companies to notify distortive foreign subsidies or financial transactions by non-EU governments giving their recipients unfair advantage to acquire companies or to obtain public procurement contracts in the EU above a certain threshold. Furthermore, the Commission is granted investigative powers to gather information on these transactions.[36]

3.2.3. Inbound Foreign Direct Investment Screening

The FDI screening regulation adopted in March 2019 set in place a framework in which the European Commission and the member states can coordinate their actions on foreign investments. Whereas no obligation, the regulation became operational as of October 2020 when most member states started introducing their national mechanisms. Certain member states already had a similar mechanism in place and could adopt the new framework to reform their existing one, whereas others could adopt this new mechanism, based on the standards of the regulation.

The regulation did not establish an EU-wide screening mechanism. Rather it set out a standard for member states to apply in their respective FDI screening mechanisms. The heavy lifting on monitoring, reporting, restricting certain investments, and even the discretion on deciding to implement such mechanism, remains firmly within the competence of the member states.

After lengthy negotiations, the Belgian FDI Screening mechanism[37] entered into force June 13th, 2023. From July 2023 onwards transactions in the scope of the Belgian screening mechanism will have to be notified. To cope with the split competencies on investment, trade and national security, a collaborative organ was created in the form of an Interfederal Screening Committee (ISC). This ISC is populated by up to twelve members from the federal state as well as eight federated entities (regions and communities)[iv]. The federal state can appoint up to three representatives, whereas the regions and communities (federated entities) can each appoint one representative. A member of the ISC can only be competent if there is a potential impact on its material powers and there is a clear territorial link with the federated entity. A representative of the Federal Public Service Economy, SMEs, Self-employed and Energy chairs the ISC, but is however not entitled to a vote. Importantly, the cooperation agreement only allows for the joint exercise of individual powers, the ISC itself does not have competency and there is no transfer of powers.

iv The eight federated entities are: the Flemish Regional Government, the Wallonian Regional Government, the Brussels Capital Regional Government, the Flemish Community, the French-speaking Community, the German-speaking Community, the French Communal Commission, and the Joint Committee of the Communities.

Under the national screening mechanism, inward investments by foreign investors towards Belgium, leading to degree of control (25 % voting share) of a company within Belgium, will be assessed whether they will pose any potential risks to national security and strategic interests.[38]

The FDI screening in Belgium is specifically focussed on investments which tilt the voting share of a non-EU entity within a Belgian company active in sectors with the following characteristics:

- Critical infrastructure relating to (amongst others) energy, transport, water, health, media, aerospace and defence;
- Technology and raw materials critical to (amongst others) security and technology of strategic importance (e.g., AI, robotics, semiconductors, nuclear technology);
- The provision of critical inputs including energy, raw materials or food security;
- Access to or control of sensitive information;
- The private security sector;
- Freedom and pluralism of the media;
- Technologies of strategic importance in the biotechnology sector (if the turnover of the undertaking exceeds EUR 25 million).

For undertakings whose activities touch upon sensitive sectors, a lower acquisition threshold of 10% or more voting rights apply in the following sectors:

- Defence;
- Dual-use products;
- Energy;
- Cybersecurity;
- Electronic communications;
- Digital infrastructure.

Although screening mechanisms can only take into account concerns related to safeguarding 'national security and public order', the EU FDI Regulation does not define the terms 'national security or public order'. Hence, EU member states can differ in their respective implementation. The sectoral scope of the Belgian screening mechanism is relatively wide, as it includes critical, strategic, as well as sensitive sectors. Strategic interests are only included in the standard review for the federated entities and do not refer to the strategic interests of the federal state. Thus, the terms 'national security or public order' have a different and more restrictive meaning in Belgian than in EU law.

As this ISC is still relatively new, its effectiveness is hard to assess. Nonetheless, representatives from all relevant government levels should adhere to the common goal of protecting the national economic security. Here, increased cooperation and knowledge sharing across agencies and government bodies should be promoted to increase the effectiveness of this newly established screening regime.

3.2.4. Outbound Foreign Direct Investment Screening

The consideration of an Outward Foreign Direct Investment (OFDI) Screening Mechanism has been mentioned by the European Commission in its 2023 Work Programme as well as by its proposal for an Economic Security Strategy, to complement the FDI Screening and export controls with additional tools in respect to outbound strategic investment controls.[39] Considering that OFDI screening will effectively need to be assessed extraterritorially, outside of the scope of domestic financial regulators, it is very complex to implement it in practise – hence the more time-consuming policy iteration.

Amid national security concerns over its investment relations with China, the Biden Administration took a leap forward by already iterating an Executive Order (EO) that will effectively implement an outbound foreign direct investment notification and restriction system. The American EO is relatively narrow in scope, focusing purely on three sectors: semiconductors and microelectronics; quantum information technologies; and artificial intelligence capabilities. Restrictions will be put in place on subfields of these industries, namely: advanced semiconductor technology; the nascent industry of quantum computing; and AI-systems with national security risks. Notifications will be required for investments in less-advanced semiconductors and AI-systems with the potential to be used in military applications. While seemingly forceful, these measures are very narrow and will impact only a marginal portion of investments.

To protect its advanced technology industry, Belgium and the EU would be well-served in following suit with the USA in implementing a similar outbound investment regime: limited in scope while forceful in reach. An important reason for the implementation of OFDI-controls is to form a backstop for export controls, to avoid that sensitive technologies for which export controls are in place are not being bypassed by investments that will build these same technologies off-shore, hurting the European industrial capabilities even more. European coordination efforts will be key, as fragmentation among member states risks these controls to become ineffective.

3.2.5. Anti-Coercion Instrument

Economic coercion refers to a situation where a third country is seeking to pressure the EU or a member state into making a particular choice by economic weaponisation – applying measures affecting trade or investments. To respond this phenomenon, the EU has developed the Anti-Coercion Instrument (ACI). The ACI is designed as a deterrent against potential economic coercion and provides a structure for third countries to stop coercive measures through dialogue and engagement, and at the last resort through trade measures. When this third country fails to detract from these coercive measures, after dialogue within the EU, a counterreaction from the EU will be triggered, ranging from the imposition of tariffs, restrictions on trade, to restrictions on access to FDI or public procurement. Furthermore, this ACI offers European countries a complement to the World Trade Organisation (WTO) arbitration process, which currently does not cover concerns related to coercion. In June 2023, a political agreement was reached between the European Parliament and the Council on an amended proposal from the European Commission. Now, the European Parliament and Council will have to complete procedures for approval of the Regulation. This ACI is expected to enter into force in the autumn of 2023.

In practice, if a qualified majority[v] of member states agree that a third country engaged in coercion of one of the EU's member states, the Commission, the European Parliament, and the member states themselves would then be tasked with agreeing on a package of countermeasures. The big question here remains which measures will be used against what kind of coercion, given the fact that implementation remains dependent on a political agreement and ad hoc implementing acts, rather than an a priori set blueprint to action.

v 55 % or more of the Member States, representing more than 65 % of the EU population.

3.2.6. Toolkit on Tackling Foreign R&I Interference

Foreign Interference in research and innovation occurs when activities are carried out by a foreign state-level actor, which are coercive, cover, deceptive, or corrupting. Since the beginning of 2022, the Commission put forward a toolkit dedicated to mitigating foreign interference in research and innovation. This document is supposed to help with raising awareness and building resilience in the European R&I sector at national and sectoral levels to bolster research security. This toolkit outlines the best practices to support EU Higher Education Institutions and Research performing Organisations in safeguarding their fundamental values, as well as protect staff, students, data, and assets.[40] For technologies deemed to be critical for economic security, the European Commission will assess and propose measures to improve research security, ensuring systematic enforcement.

3.3. Partner

3.3.1. Global Gateway

Through an investment package of EUR 300 billion, compromising both public and private funds, Global Gateway adopts a multifaceted approach, transcending traditional development dynamics in order to encourage equal partnerships. Launched in 2021 as the main European instrument to narrowing the global investment gap worldwide, we see the Global Gateway initiative is being leveraged for economic security end as well. By investing in green and digital infrastructure across the Global South through Global Gateway, the EU hopes to secure trading links and to contribute to supply chain resilience and EU economic security.

A critical area for the economic security of Europe is to ensure access to a diversified, secure, and sustainable supply of critical raw materials. To this end, the EU is promoting the establishment of a Critical Raw Materials Club, to bring together resource-rich and resource-consuming countries. The key will be to adequately link investments from capital-rich towards resource-rich countries – overwhelmingly located in the Global South - with beneficial trade access of said countries to the European market. How this will be done exactly is yet to be decided upon. In the CRM Act and Net-Zero Industry Act, several references have been made to Strategic Partnerships, Sustainable Investment Facilitation Agreements (SIFAs), setting up Strategic Projects in third countries that will benefit from streamlined permitting and financing, and setting up an EU Export Credit Facility.

Through the Team Europe approach, Global Gateway is pooling its own EU-level partnerships together with EU member states' development cooperation projects. Hence, this will undoubtably affect Belgium's development agency, Enabel, agenda and programming decisions, rendering it a status as an economic security actor for Belgium in the Global South.

3.3.2. Trade and Technology Councils

Launched in 2021, the EU-US Trade and Technology Council (TTC) serves as a forum for the US and EU to coordinate approaches to key global trade, economic and technology issues.[41] Intense cooperation economic security is taking place within the EU-US Trade and Technology Council, notably with regards to export controls, FDI screening, and securing supply chains. Thus far, the TTC has convened four times in a ministerial-level meeting. A next meeting is anticipated by the end of 2023.

In 2023, another TTC has been set up between the EU and India.[42] Just as the EU-US counterpart, the EU-India TTC is focused on technology partnerships, resilience of value chains, and exchanging information on foreign direct investment screening. However, any explicit mention of economic security matters remains absent in the communiqués.

4. SUBSIDIARITY

Taking into account all the abovementioned instruments, the principle of subsidiarity should remain at the core of the economic security debate. Taking this fundamental principle of the EU's decision-making process into account, measures and implementations are taken at the most appropriate level.

However, since matters pertaining to national security, are under the exclusive jurisdiction of member states, it is important to note that (economic) security is not a competence jointly held by both the EU and its member states: it is the sole responsibility of each Member State to safeguard their respective national security. In the strictly legal interpretation of the word (*de iure*), thus the principle of subsidiarity does not apply here.

Notwithstanding, we have seen the EU becoming increasingly active within economic security matters, as the European Commission leverages its regulatory power, macroeconomic and geopolitical sway through the iteration of various legislative initiatives and instruments, making the Commission an economic security player (de facto). As the European Commission does not have the competency to execute most of the economic security measures it promotes, member states still remain the only actors with access to the full toolkit for ensuring essential State functions – most notably including intelligence agencies, armed forces and civil defence mechanisms. Member States therefore need to step up their efforts in coordinating economic security policies, ideally within a common European framework.

Being one of the most open economies of the EU, and assuming presidency in 2024, there is a window of opportunity for Belgium to take a leading role in these debates on Economic Security. To be able to handle this topic, however, it will be important for Belgium to set its own house in order. One major challenge for Belgium is the split competency between governments: national security being a federal competence and economic matters being split by regional and federal competences. While regions may not possess explicit competence in security matters, they do wield implicit authority to address or protect certain security interests within their substantive jurisdiction. These include ensuring the uninterrupted flow of critical social and economic processes, safeguarding knowledge security encompassing privacy and critical technologies, and upholding the autonomy of democratic decision-making[vi]. Moreover, regional authorities have complete discretion when it comes to implementing export controls, due to their competence in foreign trade. Despite lacking explicit jurisdiction over national security, the regions have thus positioned themselves as indispensable contributors to the ongoing economic security discourse, demanding recognition and attention.

The combination of these developments has brought Belgium to a unique setting. The drive for enhanced economic security policy has led to a delegation of authority both upward (to the EU level) and downward (to regional levels), thereby limiting the role of the federal government of Belgium, although it retains explicit jurisdiction over national security matters. In lieu of focusing on a specific policy measure, a well-coordinated approach should be the primary objective in order to avoid a fragmented interpretation and application of economic security policy. Not only is a considered reflection on coordination of Belgium's economic security competences required for an efficient execution, but it is also essential for its credibility within the EU on discussions regarding legislation on this topic. The creation of the

vi According to Art. 9, § 1 of the Special Institutional Reform Act of 8 August 1980 (SIRA), federated entities (Communities and Regions) can establish decentralised services, institutions, and enterprises.

Interfederal Screening Committee for FDI screening could serve as a precedent for increased interfederal coordination on economic security measures, ranging from export controls to anti-coercion. When federated entities partially continue to approach economic security matters in isolation, however, this will create a disjointed setting, impairing efficiency and effectiveness of said measures.

5. CONCLUSION AND POLICY RECOMMENDATIONS

In today's global environment of increasing great power competition, instability in markets and hybrid threats, one could be tempted to call all sectors "strategic". Especially in view of weaponisation of all sorts of economic means, the septum between commercial and political interests becomes murkier. An apprehension of the threats to our strategic industries and sectors, however, should not paralyse economic security measures, nor should it inspire us to follow a path of alienation of our strategic strengths stemming from our liberal democratic model. Hence the importance to distinguish between what is critical, what is strategic, and what can simply be considered as commercially opportune, should remain at the core of all debates concerning economic security. Thus, a common national and European conceptualisation of these terms would be desirable.

Historically, economic security is not a new concern for governments. What is relatively new – though not unprecedented –, is the constellation of globalisation and deep economic integration on the one hand, and great power competition on the other. This constellation has set the scene for incremental weaponisation of interdependence for which governments need to develop a specific economic security toolkit. Over the past years, the EU together with its member states went ahead in developing such a toolkit focused on promoting, protecting, and partnering. For Belgium specifically, this established a genuinely unprecedented setting whereby it has to deal with the above challenges while at the same time competences have been delegated upward to the EU and downward to the level of the regions that are not hierarchically subordinate.

Given the complexity of the Belgian federal structure, executing these economic security policies has proven a complicated matter. This fragmentation of economic security policy creates a certain degree of ambivalence which potentially sets the scene for intranational discord on specific measures, impairing the vigour of said measures. Increased interfederal coordination would be advantageous to the effectiveness and efficiency of economic security policy, as well as Belgium's credibility within the EU.

To conclude, a series of policy recommendations could be formulated, building further upon the National Security Strategy as well as measures already in place. These could be labelled respectively focused on Belgium's role within the EU, Belgian Governments, and Belgian Intelligence Services.

a. Belgium within the EU

- Taking the presidency of the Council in 2024, Belgium can play a leading role in discussions with the Commission and fellow member states regarding the EU Economic Security Strategy.
- An important role for Belgium is to partner with other small(er) countries to find a balance at EU level and to avoid EU legislation being dominated by the larger states' interests, especially with regards to reforming the governance structure of IPCEIs.
- Belgium should work within Global Gateway and the TTC by putting effort in building alliances with third countries to secure and diversify robust supply chains & EU production capabilities on strategic innovative industries whereby

Europe has been lagging behind or lacks domestic resources – e.g., cloud computing, semiconductors, li-ion batteries, and critical raw materials.

- The FDI screening mechanism is currently in its implementation phase. Hence, Belgium should be monitoring the reaction to this new law and impact on the private sector, as well as share best practices with fellow member states, while adjusting where it is needed. Furthermore, any loopholes that occur should be identified and resolved.
- To support the Commission in exploring further export controls on dual-use technologies, beyond these set out in the current Export Control Regulation and the Wassenaar Agreement, within the realm of sensitive technologies and hybrid warfare.

b. Belgium National and Regional Governments

- An overarching policy aim should be to create a more security and strategy focused culture and awareness environment through setting up various engagement platforms between public and private sector, across all branches of government. Economic security is a cross-cutting issue that requires a whole-of-government approach and cannot be addressed in silos.
- To set up an Interfederal Committee on Economic Security, where the key policy stakeholders across the federal and regional governments can update each other on relevant issues and developments, and find common ground for a coherent National Economic Security Strategy.
- An absolute priority for Belgium should be to correctly implement and finetune FDI screening mechanisms, as prescribed by the European Commission Regulation, keeping into account the vital interests of the country, as prescribed by the National Security Strategy.
- To embed the continuous supply of raw materials, energy resources, minerals, and semiconductors within our defence strategy, planning contingencies, foreign policy, and development cooperation strategy.
- To instigate dialogue with the private sector through economic security engagement platforms to educate stakeholders about the collective threat to national economic security and minimise the economic impacts of economic security measures.

c. Belgian Intelligence Service

- As the National Security Strategy suggests, there is an overall need for a new legislative framework to strengthen collaboration between the business and intelligence communities.
- Intelligence services should increase dialogue and trialogue platforms between public and private sector stakeholders to detect, analyse, exchange, and provide more data on economic security threats to a wide variety of partners within strategic sectors. This way strategic sectors and the corporate world in general can be better equipped to anticipate trends and mitigate risks.
- Also, towards outwards investments, strategic guidance should be developed on how to do business in countries where they might run the risk of intellectual property theft or other economic security breaches.
- To increase transparency and lower the barriers for companies, a single point of contact should be set up for all Economic Security related questions in concordance with an early warning system.

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