
Demystifying Economic Security: a Framework for the EU

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Demystifying Economic Security: a Framework for the EU



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The United States, China, Japan, South Korea, and the European Union have all adopted the language of economic security. The notion, however, is not clearly defined and each government seems to approach it differently, causing confusion among economic actors and policy analysts. When governments use the term “economic security,” they are often misunderstood by members of the business community, who tend to immediately equate it with a form of protectionism or imagine that it prefigures severe state interventions that will hinder their freedom of action. The question, then, is: what are the boundaries of the concept of economic security? The issue of definition is far from trivial, as **conceptual clarity is a prerequisite for building effective partnerships between the public and private spheres, pursuing international cooperation on related issues, and seeking democratic endorsement of policy choices**. As the subject is central to US-China competition, economic security is also a strategic positioning issue for France and Europe in the context of an international order that China is actively seeking to revise to increase its own influence at the expense of the US’s.

In most discussions about economic security, the line between what belongs to the field of economic policy and what requires a national security approach is almost always blurred. **However, extending the domain of economic security in an excessive or all-encompassing manner is unlikely to be conducive to addressing either economic threats or national security threats**. In general, public action aimed at regulating economic life does not need to be justified in the name of “economic security” – conventional monetary policies and routine budget allocation decisions are not normally based on security considerations and do not need to be “securitized,” except during wartime. On the one hand, history teaches us that it is pointless – and even dangerously counterproductive – to attempt to securitize economic life as a whole. On the other hand, there is still a lively political debate in democracies regarding the optimal balance between free market forces and state

intervention. While the practice of economic security can be seen as a form of state intervention to correct the “invisible hand” of the market or state-induced distortions to the market, the stakes involved go beyond either economic or security concerns by themselves. Economic security can be understood as being situated at the intersection of issues of sovereignty, defense of national interests, competitiveness, and management of interdependencies.

The aim of this paper is to dispel the fog shrouding the notion of economic security at a moment when this idea is gradually making its way onto the European agenda. The European Commission’s proposals of June 2023 for structuring a common approach to economic security will set the pace for the political calendar of 2024 and 2025 and probably beyond.¹ The proposals put four items on the agendas of the 27 EU Member States: i) risks to supply chain resilience, ii) more efficient management of technology transfer controls, iii) more effective control of security risks related to critical infrastructure, including in the digital domain, and iv) better anticipation of – and capacity to respond to – practices of economic coercion by states that weaponize economic dependencies. Since 2023, European law has defined economic coercion as “a situation whereby a third country seeks to pressure the European Union or an EU Member State into making a particular choice by applying, or threatening to apply, measures affecting trade or investment.”² As far as supply chain resilience is concerned, all industrialized economies and most companies are now seeking effective solutions to reduce their exposure to future international crises, even if the sense of urgency differs from country to country. Although economic security cannot be reduced to supply chain resilience alone, of the four issues mentioned in the proposals, this is by

¹ European Commission, “Joint Communication on a European Economic Security Strategy,” June 20, 2023, https://ec.europa.eu/commission/presscorner/detail/en/IP_23_3358.

² Definition taken from Regulation 2023/2675 of the European Parliament and of the Council of November 22, 2023 on the protection of the Union and its Member States against economic coercion by third countries: “Protecting Against Coercion,” December 27, 2023, https://policy.trade.ec.europa.eu/enforcement-and-protection/protecting-against-coercion_en.

far the most difficult for governments to tackle because private companies are the real driving force of de-risking practices. Moreover, the risk of coercion and infrastructure security are directly linked to supply chain resilience.

So far, consideration of economic security issues in Europe has tended to be confined to technocratic discussions about the effectiveness of recently adopted or modernized public instruments. These discussions are of vital importance, as the approach toward economic security matters in Europe remains fragmented and weakened by various loopholes – for example, EU export control regimes do not prevent the Russian arms industry from accessing dual-use technologies made in Member States, and Europe’s dependence on China for 99% of its rare earth imports is a strategic vulnerability that a future geopolitical crisis may reveal at Europe’s expense.

Technical expertise is fundamental to strengthening Europe’s toolbox. However, **economic security is more than a technocratic issue, as it concerns national and European weaknesses that could be exploited to constrain or prevent sovereign choices on the part of the EU or its Member States.** The future of Europe as a technological, industrial, and military power depends on its economic security in the long term.

Against this background, this paper first examines the nature of the threats to which economic security policies seek to respond. Are they threats to national security that exploit the economic interdependencies created by globalization, or are they threats to national economic competitiveness? Why is this distinction useful? Following a brief examination of the scope of the economic security policies already adopted in East Asia, Europe, and the United States, the key questions related to the effectiveness of public action are outlined. Finally, the paper looks at how the appropriation of the notion of economic security by various states reflects the contours of political and strategic issues that are still undefined but are certain to become more concrete and urgent as the

geopolitical environment continues to deteriorate. The European elections in June 2024 are an opportune moment to bring this major theme to the forefront of public debate, as it directly concerns the future of EU citizens.

1 What Are Economic Security Threats?

In a general sense, “security policy” represents a response to threats of various kinds. If “economic security policy” is understood as a response to threats to a country’s economy that go beyond purely national security considerations, what, then, does such a policy aim to protect? To clarify this issue, it is important to determine the ultimate referent of economic security policy – whether the individual, the company, the level of national economic development, or the territorial integrity or sovereignty of the nation-state.

The guiding principle of the realist tradition of security studies is that the common denominator of all national security policy is the survival of the nation and the state. One reaches the realm of national security when one enters the field of existential threats. By definition, only threats of a military or political nature can threaten the state with disappearance or lead to the annexation of a nation through imperial conquest. Since the relative power of a state in the international system is what determines its ability to survive, the economy plays an essential role as an attribute of power that conditions the state’s military capabilities.

Transposing this realist, survival-oriented framework of analysis into the realm of economic activity underscores the **exceptional nature of state intervention in the economy in the name of national security**. Generally speaking, growth and recession are not considered national security issues, as they are not matters related to the survival of either the nation or the state. Sovereign debt crises may involve the risk of national bankruptcy, but if this threatens to lead to the collapse of state structures or to regime change, then surely the issue has already entered the domain of political security? Similarly, the destruction of a national economy by war brings us back to the realist, politico-military approach to national security.

In certain cases, international economic exchange can weaken a state and ultimately jeopardize its national sovereignty and territorial integrity. **The manipulation of interdependencies for political ends is a major feature of power competition in the 21st century** – as seen in the cases of Russia, which has sought to neutralize Germany and divide Europe by creating strategic dependencies on imports of its natural gas; China, which systematically denies access to its market during periods of political tension (Japan, Lithuania, Norway, the Philippines, and Vietnam have all fallen victim to such practices over the last ten years); and the United States, which weaponizes technology transfer controls in its competition with China. These actions either seek to force a state to accept concessions on a particular issue, weaken it militarily, or even create widespread domestic destabilization.

Similarly, the survival of companies is rarely a matter of national security. Although for an individual company, the risk of bankruptcy or the legal measures that could lead to its demise are indeed existential in nature, in a market economy, **the insecurity inherent in competition is a systemic driver of success**. As a result, “with a few exceptions, companies are expected to appear and disappear.”³ State intervention to prevent a company from disappearing or falling under the control of a foreign player can be justified only when certain issues of sovereignty – such as keeping sensitive technologies under national control – or certain social issues – such as the employment rate in a given geographical area – are involved. By way of illustration, let us look at an example of how non-intervention in the telecommunications sector led to the disappearance of a company. When Alcatel-Lucent sold off all of its lines of business, first to China Huaxin (which was later placed under the control of the state-owned conglomerate Poly Group, one of China’s leading defense companies) in 2014 and then to Nokia in 2015, the French government did not oppose the sales. Today, economic security initiatives in Europe focus on strengthening foreign investment screening mechanisms, particularly

³ Barry Buzan, Ole Waever, and Jaap de Wilde, *Security: A New Framework for Analysis* (Boulder, CO: Lynne Rienner, 1998), 22.

to avoid the transfer of dual-use technologies (i.e., items that can be used for both civilian and military purposes). Furthermore, an emphasis is placed on measures to reduce the vulnerability of critical European infrastructure to foreign intervention. As a result, if the issue of the future of Alcatel-Lucent had arisen today instead of in 2014/2015, it is likely that it would be looked at quite differently. **Europe started to treat the risks of technological pillage with a new seriousness in 2016, following an awakening to the strategic intentions of Xi Jinping’s China.**⁴ Now, almost ten years later, the new geopolitical situation is forcing us to take a fresh look at corporate externalities. State intervention is necessarily selective, and the question is what criteria should trigger it. **In a market economy, economic security takes the form of exceptional measures that remove economic activity from market forces.**

The threshold logic is therefore crucial in qualifying the need for a state action in response to a threat to economic security. Many actions weaken national sovereignty without immediately endangering the survival of the nation or the state. This is the case with **access denial measures, which aim to hinder a state’s arms industry and particularly its capacity for innovation**. This is the thrust of most American measures aimed at China’s nanoelectronics industry and military applications of artificial intelligence. Mirroring this logic, China justified its August 2023 rules on gallium and germanium export controls using a military argument, as these rules introduced a proof-of-end-use requirement to grant export licenses for these materials.⁵

Other practices aim to **create political vulnerabilities** through the **creation of market dependencies or investment in a state’s critical infrastructure**. Xi Jinping’s China has mastered this modus operandi, encouraging

⁴ François Godement and Abigaël Vasselier, “China at the Gates: A New Power Audit of EU-China Relations,” *European Council on Foreign Relations*, December 1, 2017, https://ecfr.eu/publication/china_eu_power_audit7242/.

⁵ Ministry of Commerce of the People’s Republic of China, “MOFCOM Regular Press Conference,” July 6, 2023, <http://english.mofcom.gov.cn/article/newsrelease/press/202307/20230703421747.shtml>.

acquisitions in port infrastructure, the energy sector, and telecommunications networks. Thanks to the scale of the Chinese market, China's large and often state-owned companies have reached a critical mass that makes it easier for them to win international public contracts. However, market logic does not explain everything. China's strategic intention is to cultivate dependencies. As Xi Jinping put it in 2020, "We must make industrial value chains more closely dependent on China in order to have strong countermeasures and a deterrent capability against foreign powers likely to interrupt our supplies."⁶ It is important to set this statement in the context of Xi's 2016 warning that "our [i.e., China's] dependence on key technologies is the worst hidden problem for us."⁷ When it comes to national security, defensive considerations and offensive actions are always intertwined.

When dependence is created, access to a technology is denied, or knowledge is stolen, survival does not immediately appear to be at stake. Nevertheless, from a **realistic perspective on international relations, where excessive weakness is understood as an invitation to aggression**, such background issues are deserving of attention. In this respect, the case of Ukraine is indicative of a worst-case scenario: Russia's long practice of hybrid attacks against Ukraine prior to the February 2022 invasion underlines the fact that this type of action can be a prelude to war and, indeed, may even be intended as preparation for war, as in the case of the regular tactical use of the gas issue to force Ukraine to accept political concessions, including forcing the Ukrainian navy to surrender part of its Black Sea fleet in exchange for the cancellation of a gas debt in 1993 and Gazprom's interruption of all gas flows to and via Ukraine in 2009.⁸

⁶ Xi Jinping, "国家中长期经济社会发展战略若干重大问题 [Some Important Issues Relating to Our Country's Medium- and Long-Term Economic Development Strategy]," *Qiushi*, no. 21, October 2020, http://www.qstheory.cn/dukan/qs/2020-10/31/c_1126680390.htm.

⁷ "Core Technology Depends on One's Own Efforts: President Xi", *People's Daily*, April 19, 2018, <http://en.people.cn/n3/2018/0419/c90000-9451186.html>.

⁸ Illia Ilin and Olena Nihmatova, "Exploring Russia's Postponed War against Ukraine: A Corpus-Based Analysis of Strategic Studies Institutes' Publications from 1991 to 2014," *Central European Journal of International and Security Studies*, 17 no. 4 (2023), <https://www.cejiss.org/exploring-russia-s-postponed-war-against-ukraine-a-corpus-based-analysis-of-strategic-studies-institutes-publications-from-1991-to-2014>.

This theoretical detour is intended to serve as a reminder of the centrality of military power and of the power hierarchy between states, which remains the primary frame of reference for economic security policy. The military ramifications of economic exchanges are not always the most obvious aspect of an industrial project. Even though military buyers account for less than 1% of semiconductor sales volumes, nanoelectronics is central to defense innovation and, therefore, to the military balance between great powers. An F-35 fighter jet incorporates almost 417 kg of rare earths and critical materials, access to which is not controlled by its users but instead dominated by China.⁹ **The logics of technology bottlenecks, access denial, opportunities for sabotage and surgical exploitation of vulnerabilities are indeed at the heart of economic security considerations.** As no state is completely self-sufficient, the solution can only lie in striking a balance between a mutual dependence that is consented to and strategically managed, and the development of one's own capabilities.

This being the case, it is necessary to consider the connection between economic security and power competition between states. **Is an approach to managing economic affairs that is focused on military power and attacks on sovereignty not too narrow? On the other hand, if power is at stake, should everything that contributes to it not potentially fall within the scope of economic security?** This question is all the more delicate given the increasing prevalence of dual-use technologies – nanoelectronics, quantum computing, and artificial intelligence all have potential military purposes, even when most of the commercial value of an innovation comes from sales to civilian customers. Nvidia's A-100 GPU chip, which is subject to restrictions on export to China by the US Department of Commerce, plays a major role in Tesla's program to develop autonomous driving capabilities. At the same time, it is used in supercomputers that are essential to the operation of nuclear

⁹ Doug Irving, "The Time to Prevent Shortfalls in Critical Materials Is Now," *The RAND Blog*, March 20, 2023, <https://www.rand.org/pubs/articles/2023/the-time-to-prevent-shortfalls-in-critical-materials.html>.

deterrence and the design of complex weapons systems, in addition to having weather prediction and financial markets management capabilities. Should economic security not be seen as part of the quest for technological superiority in the service of a state's position in the world?

This overview would be incomplete without emphasizing the fact that there is a current of thought that sees "economic security" as an aspect of the welfare state, with a focus on individual well-being rather than a "national" referent. This current of thought expects the state to protect its citizens from a whole range of risks inherent to the market economy, such as unemployment, falling purchasing power, accidents at work, illness, old age, and so on. It thus questions the major dependencies arising from economic globalization. There is a definite convergence with supply chain issues, through which the individual experience of consumption or well-being is directly linked to the national framework and the global situation. Certain shortages are indeed economic threats to national security, as in the case of food or energy shortages orchestrated by adversaries for coercive purposes. However, below this threshold of hostile foreign action, it seems more rigorous to think of these matters as issues of good governance rather than national security.

2 East Asia, America, Europe: The Scope for Economic Security Public Action

Not all states that use the term economic security define it, although some do. For example, in the national security strategy presented by the President of South Korea, economic security is defined as "a state in which national security is maintained and economic activities are unhindered by ensuring the smooth inflow of essential items for the nation's economic activities and preventing inappropriate outflow, regardless of

domestic and international variables."¹⁰ Most states, however, confine themselves to listing policy areas – defining economic security in terms of its concrete content in terms of public action and justifying the need for it in terms of the rise of geopolitical risk and technological competition in the world. For example, the joint communiqué of the G7 heads of state summit in May 2023 outlines a field of action in seven areas:

- building resilient supply chains;
- building resilient critical infrastructure;
- responding to non-market policies and practices;
- addressing economic coercion;
- countering harmful practices in the digital sphere;
- cooperating on international standards setting;
- preventing leakage of critical and emerging technologies.¹¹

This apparent convergence of industrialized democracies around targeted areas of intervention in fact masks a number of divergences.

2.1 TECHNOLOGICAL SUPERIORITY AND COMPETITIVENESS VERSUS STRICT FOCUS ON TRADITIONAL NATIONAL SECURITY

There is a gulf **between two sensibilities when it comes to economic security**. On the one hand, there are advocates of a **strict approach narrowly focusing on the economic determinants of military power, political stability, and national sovereignty** – this is the approach that dominates in Europe. On the other hand, there are defenders of a

¹⁰ National Security Bureau, Office of the President, Republic of Korea, "The Yoon Suk Yeol Administration's National Security Strategy: Global Pivotal State for Freedom, Peace and Prosperity," June 2023, <https://www.president.go.kr/download/648bbeff9b00b>.

¹¹ G7 2023 Hiroshima Summit, "G7 Leaders' Statement on Economic Resilience and Economic Security," May 20, 2023, https://web.archive.org/web/20240205091623/https://www.g7hiroshima.go.jp/documents/pdf/session5_01_en.pdf.

wide-angle geopolitical approach focusing on the relative power position of the state in the international system and perceiving competitiveness, technology superiority and economic dynamism as essential attributes of power – the approach that dominates in the US, China, and Japan.

In the US, National Security Advisor Jack Sullivan expresses this unambiguously when he explains that “given the foundational nature of certain technologies, such as advanced logic and memory chips, we must maintain as large of a lead as possible.”¹²

In Japan, METI proposes three categories of action, depending on the dynamics of technological diffusion. For technologies representing breakthrough innovation, Japan’s strategic objective is to acquire a specific new competitive advantage. For technologies where Japan already has an advantage, priority is given to controlling the transfer of sensitive goods or knowledge. For technologies that are already widespread and have become commodities, the priority is to limit excessive external dependence and, if possible, to ensure that the country remains indispensable in certain segments of the value chain to avoid any risk of black-mail.¹³

In the American and Japanese approaches to economic security, therefore, the threat lies in the loss of technological superiority – as Jake Sullivan put it, “we must usher in a ‘third wave’ of the digital revolution – to ensure that emerging technologies work for, not against, our democracies and security.”¹⁴

¹² The White House, “Remarks by National Security Advisor Jake Sullivan at the Special Competitive Studies Project Global Emerging Technologies Summit,” September 16, 2022, <https://www.whitehouse.gov/briefing-room/speeches-remarks/2022/09/16/remarks-by-national-security-advisor-jake-sullivan-at-the-special-competitive-studies-project-global-emerging-technologies-summit/>.

¹³ Interview by the author with METI, Paris, February 2024.

¹⁴ The White House, “Remarks by National Security Advisor Jake Sullivan.”

In Europe, economic security goals are formulated in **much more cautious terms**. According to the European Commission, the aim is to create “a framework for a robust assessment and management of risks to economic security at EU, national and business level while preserving and increasing our economic dynamism.”¹⁵ In this context, “working together with our allies, partners, and the business sector to articulate and execute a vision of economic security will serve as a force multiplier.”¹⁶ Compared with the US and Japan, the European approach is more risk-oriented rather than based on a vision of European technological superiority.

2.2 HOW TO DE-RISK

How can supply chains be made more resilient in the face of geopolitical risk? This subject gives rise to different approaches. As revealed to the general public by the mask shortages at the start of the COVID-19 pandemic, then by the severe semiconductor supply tensions during 2021 and rising energy costs in 2022, **this subject is increasingly linked, from the point of view of Western governments, to the risk of war in Asia**. It has given rise to the neologism “de-risking,” proposed by the President of the European Commission, Ursula von der Leyen and subsequently adopted by many governments – including that of the United States.¹⁷ In the event of a US-China conflict over Taiwan or in the South China Sea, how can the cost of interruptions in the supply of critical materials be minimized? And without going as far as war, in the event of a political conflict with China, how can we guard against targeted Chinese actions aimed at specific companies, sectors or countries?

¹⁵ European Commission, “Proposal for a Council Recommendation on Enhancing Research Security,” January 24, 2024, https://research-and-innovation.ec.europa.eu/document/download/e82a2fd9-ac12-488a-a948-87639eef10d4_en.

¹⁶ European Commission, “Joint Communication on a European Economic Security Strategy,” June 20, 2023, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX%3A52023JC0020>.

¹⁷ “EU Softens China Strategy by Adopting ‘De-risking’ Approach,” *The Guardian*, June 30, 2023, <https://www.theguardian.com/world/2023/jun/30/eu-china-strategy-de-risking-ursula-von-der-leyen-brussels>.

In a report, the Federal Bank of Germany argues that “in view of rising geopolitical tensions and the associated risks, companies and policymakers need to rethink the structure of their supply chains and the further expansion of their direct investment activities in China.”¹⁸ However, European companies are actually very divided on this subject. A survey by the European Union Chamber of Commerce in China shows that 18% of European companies there have already transferred their investments out of China or are in the process of preparing to do so and that 22% are considering other countries for future investments that were originally planned with China in mind (27% are thinking of ASEAN countries, 21% of Europe, and 15% of India). At the same time, however, 20% of companies surveyed are planning to further sinicize the supply chain of their activities within China, and 4% have already done so.¹⁹ This is the choice made by the German automotive sector and by Airbus, which announced the construction of a new assembly line in China in 2023. Deeper anchorage in the supplier ecosystem in China is seen as insurance against geopolitical risk, as much as a diversification strategy.

Japan has worked the hardest internationally to promote the notion of economic security. In its latest action plan, METI presents a “core concept” of economic security that calls on Japan to, on the one hand, strengthen its supply chains and technological base in response to a set of growing geopolitical risks (Sino-American rivalry, Russia’s invasion of Ukraine, conflict in the Middle East) and, on the other hand, to confront structural realities such as dependence on natural and energy resources, vulnerabilities of maritime access routes, and long-term human resource issues.²⁰ METI is proposing a de-risking plan focusing on three priority sectors: IT, broadly defined (nanoelectronics, quantum computing, and artificial

¹⁸ “German Industry Defies Rising Pressure to Limit China Exposure,” *Wall Street Journal*, September 20, 2023, <https://www.wsj.com/business/autos/german-companies-defy-rising-pressure-to-limit-exposure-to-china-4a877b27>.

¹⁹ *European Union Chamber of Commerce in China*, “Business Confidence Survey 2023,” June 21, 2023, <https://www.europeanchamber.com.cn/en/publications-archive/1124>.

²⁰ Interviews by the author with METI, November 2023.

intelligence), cleantech, and biotech. METI plans to focus on “support measures,” including capital-intensive support for production and not just R&D. Interestingly, **Japan is the only country so far to successfully implement a plan to reduce its dependence on China for critical materials.** After suffering rare earth supply disruptions in response to an incident in the East China Sea in 2010, Japan has managed in just a few years to reduce China’s weighting in its supplies from 90% to 60% by relying on a range of measures from the acquisition of mining interests in Australia to stockpiling and technological investment to increase its recycling capacities and develop alternatives to the use of these materials.²¹

In France, interest in the subject of supply chains has emerged fairly recently. The Observatoire français des ressources minérales pour les filières industrielles (OFREMI) was set up in 2022 to identify the country’s supply vulnerabilities and offer various support measures to strategic industries depending on their needs, e.g., to help them gain access to a raw material, preserve a value chain, advise on foreign policy issues, and conduct market studies and forecasts concerning supply risks.²² The first step was to set up a special investment fund for critical materials in 2023 in collaboration with Infravia, a private-sector player, endowed with EUR 500 million via the France 2030 investment plan and with a planned capacity of EUR 2 billion.²³

At a time when considerable investments are being made to transform Dunkirk, a coastal city in northern France, into a manufacturing center for electric batteries, **the importance of foreign investment and European support mechanisms deserves attention.** For example, the main private investor in Verkor’s battery mega-plant is the Australian fund Macquarie.²⁴

²¹ Tatsuya Terazawa, “How Japan Solved Its Rare Earth Minerals Dependency Issue,” *World Economic Forum*, October 13, 2023, <https://www.weforum.org/agenda/2023/10/japan-rare-earth-minerals/>.

²² OFREMI website: <https://www.ofremi.fr/fr>.

²³ Infravia Capital website: <https://infraviacapital.com/fr/infravia-lance-un-fonds-dedie-aux-metaux-critiques>.

Orano, a company majority owned by the French state, has teamed up with China's XTC New Energy to build two plants for the manufacture of cathode-active materials, which are critical for the production of electric batteries.²⁵ The Taiwanese company ProLogium is also building its first industrial site for solid batteries, an innovative technology for which its prototype is now to be produced in volume – the aim is to reach 48 GWh by 2030.²⁶ Each of these projects benefits from French state aid authorized by the European Commission as part of the Important Project of Common European Interest (IPCEI) on electric batteries: EUR 650 million for Verkor and EUR 1.5 billion for ProLogium. Not far away in the North of France (Hauts-de-France region), Renault's electric vehicle projects rely in part on a partnership with the Chinese group Envision, which acquired the lithium-ion battery activities of the Japanese Renault-Nissan subsidiary AESC in 2018. A new plant at Renault's historic Douai site is aiming for a capacity of 9 GWh by 2025, with a planned increase to 30 GWh by 2030.²⁷ **The example of France's building up of its electric battery industry highlights a fundamental contradiction in relations between industrialized democracies and China at a time of transition to a low-carbon economy.** On the one hand, China has leveraged its domestic market for electric vehicles to increase its global market share of battery production, which rose from 37.4% in 2020 to 60.9% in 2022, while that of Japan fell from 21.1% to 8.9%.²⁸ At the same time,

²⁴ "Macquarie Asset Management Becomes Lead Investor in Verkor Series C Fundraise," *Macquarie Group*, September 14, 2023, <https://www.macquarie.com/au/en/about/news/2023/macquarie-asset-management-becomes-lead-investor-in-verkor-series-c-fundraise.html>.

²⁵ "Orano and XTC New Energy Join Forces to Manufacture Electric Vehicle Battery Components in France," *Orano*, May 16, 2023, <https://www.orano.group/fr/actus/actualites-du-groupe/2023/mai/orano-et-xtc-new-energy-s-associent-pour-fabriquer-des-composants-de-batteries-de-vehicules-electriques-en-france>.

²⁶ "ProLogium Welcomes the Green Light Given by the European Commission for Public Grant for Its Gigafactory Project in Dunkirk," *ProLogium Technology*, August 3, 2023, <https://prologium.com/prologium-welcomes-the-green-light-given-by-the-european-commission-for-public-grant-for-its-gigafactory-project-in-dunkirk>.

²⁷ Marc Fressoz, "Envision, le groupe chinois qui veut produire des batteries en France," *Le Journal du Dimanche*, September 15, 2020, <https://www.lejdd.fr/Economie/envision-le-groupe-chinois-qui-veut-produire-des-batteries-en-france-3991606>.

²⁸ Interviews by the author, February 2024.

the vertical integration practices of China's battery manufacturers, as well as its policies aimed at dominating critical materials, have given China a position of strategic superiority in this sector. This makes it a key player in Europe's energy transition. This means that even if France's investment in its battery industry reflects a desire to diversify its partnerships and a commitment to industrial localization and employment, for the time being, it is tantamount to **increasing France's dependence on China for critical materials essential to the energy transition.**

In Europe, supply chain resilience is the newest topic on the agenda of the Commission and Member States. Unfortunately, the EU's capacity for action with respect to this area is currently quite limited. A 2022 report by the European Commission shows levels of dependence on China in excess of 90% for rare earths used in permanent magnets and magnesium and 60% for tungsten and scandium.²⁹ China has invested heavily in dominating this sector, while Europe's industrialized democracies have preferred to rely on interdependent markets to import materials whose extraction and processing are highly polluting. This situation of dependence has been progressively aggravated by a combination of factors such as environmental regulations, public opposition to mining, and economic rationality linked to the lower costs made possible by China's scale of production.

The European Union is currently in the process of adopting legislation on critical raw materials, as proposed by the Commission.³⁰ A list has been drawn up of 34 critical raw materials, of which 17 are labeled "strategic."³¹ Setting an ambitious course, Ursula von der Leyen commented, "It is in our mutual interest to ramp up production in a sustainable manner and at the same time ensure the highest level of diversification of supply chains

²⁹ European Commission, "Critical Raw Materials for Strategic Technologies and Sectors in the EU: A Foresight Study," September 2, 2020, <https://ec.europa.eu/docsroom/documents/42882>.

³⁰ European Commission, "European Critical Raw Materials Act," March 16, 2023, https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/green-deal-industrial-plan/european-critical-raw-materials-act_en.

for our European businesses.³² The figures in the text of the legislation reflect this ambition. By 2030, the EU's extraction, processing, and recycling capacities must cover at least 10%, 40%, and 15%, respectively, of its annual consumption of strategic raw materials. The text further stipulates that for each critical material, "efforts should be undertaken" to ensure that no third country supplies more than 65% of European consumption.

The forthcoming European legislation is built around the **new legal concept of a "Strategic Project,"** which is defined around five criteria: the project's contribution to the security of European Union supplies; its technical feasibility and timescales; its compliance with environmental and labor law criteria; the need for a project in an EU Member State to benefit other Member States; and, for projects in non-EU countries, the need for the project to be mutually advantageous and to contribute to the economic development of the country in question.³³ The legislation provides for these strategic projects to benefit from favorable conditions in various respects: one stop shop and priority review to reduce administrative delays in authorization; assistance in obtaining financing; and assistance in facilitating the purchase of the project's output. However, the legislation does not provide specific funding for these projects. It merely offers financial support for national raw materials exploration programs. Moreover, as reactions to the lithium mining project in the

³¹ *The regulation makes the following distinction. Strategic raw materials "include, among all the raw materials evaluated, those which are at the top of the list in terms of strategic importance, expected rate of growth in demand, and difficulty of increasing production." Critical raw materials include "the strategic raw materials listed in Annex I, Section 1, as well as any other raw material meeting or exceeding the thresholds for economic importance and risk to security of supply referred to in paragraph 3." Source: "Proposal for a Regulation of the European Parliament and of the Council Establishing a Framework for the Secure and Sustainable Supply of Critical Raw Materials and Amending Regulations (EU) No 168/2013, (EU) 2018/858, (EU) 2018/1724, and (EU) 2019/1020," https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/green-deal-industrial-plan/european-critical-raw-materials-act_en.*

³² *European Commission, "Press Release: Critical Raw Materials: Ensuring Secure and Sustainable Supply Chains for EU's Green and Digital Future," March 16, 2023, https://ec.europa.eu/commission/presscorner/api/files/document/print/en/ip_23_1661/IP_23_1661_EN.pdf.*

³³ *Article 5 of European Critical Raw Materials Act.*

Allier region of France have shown, fostering the production of critical raw materials in Europe will require **winning many local political battles**, as opposition to the projects is likely to be strong.³⁴ Finally, without a public procurement instrument to guarantee orders, the question of the commercial viability of small-scale projects remains unanswered.

2.3 WHAT ROLE FOR INDUSTRIAL POLICY?

There is a divide in industrialized democracies regarding the place of industrial policy. In the United States and Japan, industrial policy is undergoing a veritable revival, driven by the semiconductor sector and the vision of technological superiority described above. In the European Union, despite some recent advances, the Commission and many Member States are reluctant to lift the brakes on industrial policy. The construction of the common market required the development of strict competition laws, which prohibit state aid. Without the EU's competition law, industrial concentration in the richer states would be inevitable, as they would be able to subsidize entire sectors – an approach that would be out of reach for Member States with less budgetary capacity.

In theory, the EU could lay the foundations for a proactive European industrial policy, but there are many obstacles to this in addition to competition law: the absence of sufficient budgetary capacity at the EU level, the lack of its own fiscal tools, and the reluctance to mutualize debt. The alternative is to authorize Member States to deploy state aid through sectoral exemptions to competition law, although this would entail the risk of disintegrating the common market. This is, nevertheless, the path the EU has chosen to date, albeit timidly. It authorizes state aid on a case-by-case basis and by way of exception, and then only in strategic sectors and

³⁴ *Nathan Canas, "Dans l'Allier, une future mine de lithium suscite l'intérêt des pouvoirs publics et les critiques des associations locales," Euractiv, November 10, 2023, <https://www.euractiv.fr/section/energie-climat/news/dans-lallier-une-future-mine-de-lithium-suscite-linteret-des-pouvoirs-publics-et-les-critiques-des-associations-locales>.*

with numerous restrictive conditions. These very limited exceptions have already led to a concentration effect. Between February and December 2022, Germany accounted for 51% of state aid approved by the European Commission, while France accounted for 24%.³⁵ How far should European restrictions on competition law be relaxed to enable an ambitious industrial policy? Should we continue to proceed on a sector-by-sector basis at a time when there is talk in Brussels of new exceptions for wind power? **Can Europe afford to continue to hold back on industrial policy when the United States and China are using it to compete for power?** Conversely, should the failures of industrial policies in recent history not encourage Europe to stick to defending market mechanisms?

In Asia, the industrial question has a name: “China + 1.” Diversification outside China by major economic players has been at the top of the agenda since the trade war initiated by the Trump administration against China. This has considerably accelerated a preexisting trend caused by rising production costs in China and awareness of the new risks that the absolute priority given to national security by Xi Jinping poses for companies. The aspiration to better manage Chinese risks is sustaining strong investment momentum in some ASEAN countries – particularly Vietnam, which has attracted between US\$28 and US\$38 billion in foreign direct investment a year since 2016, including from Chinese investors.³⁶ In 2022, Taiwan’s investments in South and Southeast Asia exceeded its investments in China for the first time.³⁷ China’s loss of attractiveness has further led to a net rise in Mexico’s attractiveness to Asian companies

³⁵ Jorge Liboreiro, “Germany & France Account for Most EU Subsidies. Here’s Why It’s a Concern,” *Euronews Business*, January 21, 2023, <https://www.euronews.com/business/2023/01/17/germany-france-account-for-most-eu-state-aid-heres-why-its-a-concern>

³⁶ Ministry of Planning and Investment, Vietnam, “Report on Foreign Direct Investment in 2022,” <https://www.mpi.gov.vn/en/Pages/2022/Report-on-foreign-direct-investment-in-2022-403479.aspx>, “Vietnam Has Potential to Lure US\$38 billion in FDI in 2023,” *Thoi Bao Tai Chinh*, January 26, 2023, <https://thoibaotaichinhvietnam.vn/vietnam-has-potential-to-lure-us-38-billion-in-fdi-in-2023-120769.html>.

³⁷ Thompson Chau, Cheng Ting-Fang, and Lauly Li, “Taiwan to Continue Shifting Investment Away from China, Minister Says,” *Nikkei Asia*, November 29, 2023, <https://asia.nikkei.com/Editor-s-Picks/Interview/Taiwan-to-continue-shifting-investment-away-from-China-minister-says>.

targeting the US market – foreign direct investment statistics for Mexico in recent years are comparable to those for Vietnam at US\$35.3 billion in 2022.³⁸ In 2023, foreign direct investment in China reached US\$33 billion, its lowest level since 1993.³⁹

The United States and Japan are seeking to accelerate this trend through foreign policy initiatives such as the Indo-Pacific Economic Framework for Prosperity (IPEF), an alternative American proposal to structure a new form of international economic cooperation that does not involve free trade, with thirteen partners: Australia, Brunei, Fiji, India, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and Vietnam. The IPEF agreement on supply chain resilience was signed by the members of IPEF in November 2023 in San Francisco.⁴⁰ This agreement mainly aims to promote information sharing and to create a policy environment conducive to companies diversifying in their quest for production locations and markets (by implication, outside China).

In China, economic security is clearly conceived of as being at the service of regime stability.⁴¹ The term itself is less emphasized than in industrialized democracies. Instead, public policy is focused on the notion of “political security,” presented in Xi Jinping’s speeches as the “foundation” of China’s national security strategy. This absolute priority for a vision of national security dedicated to the preservation of the socialist party-state system is perceived by many international economic players as a risk for their activities in China – it translates specifically into data localization

³⁸ “Foreign Direct Investment in 2022 Was Mexico’s Best since 2015,” *Mexico News Daily*, February 9, 2023, <https://mexiconewsdaily.com/news/foreign-investment-in-2022-mexicos-best-since-2015>.

³⁹ “Foreign Direct Investment to China Slumps to 30-Year Low,” *Bloomberg*, February 18, 2024, <https://www.bloomberg.com/news/articles/2024-02-18/foreign-direct-investment-into-china-slumps-to-worst-in-30-years>.

⁴⁰ Ministry of Foreign Affairs, Japan, “Indo-Pacific Economic Framework for Prosperity Agreement Relating to Supply Chain Resilience,” November 14, 2023, <https://www.mofa.go.jp/mofaj/files/100581548.pdf>.

⁴¹ Institut Montaigne, “China Trends no. 17: Sailing the Seas of Economic Security,” October 2023, <https://www.institutmontaigne.org/en/expressions/china-trends-17-sailing-seas-economic-security>.

requirements; confusion between necessary, legitimate business intelligence practices and espionage; and the risk, for foreign companies, of being used as a bargaining chip in political conflicts between China and other countries, as was the case, for example, for the Korean company Lotte.⁴²

The other characteristic of the Chinese approach is the quest for “self-sufficiency in science and technology,” an expression that appears six times in the report presented by Xi Jinping to the 20th Communist Party Congress in October 2022.⁴³ **This ambitious objective, which may seem to be a throwback to the Maoist period, will probably not be achieved in all sectors.** In semiconductors, for example, while the *Made in China 2025* plan set a target of producing 70% of the country’s semiconductor consumption in China, the figure was only 17% in 2022, but is expected to have hit 30% by 2023.⁴⁴ Restrictions on access to the technologies required to manufacture advanced logic chips have frustrated Chinese plans to a great extent. However, the country’s considerable investments in mature nodes (beyond 28 nanometers), with 22 plants capable of producing chips to these specifications currently under construction (in addition to the 44 already in operation), should result in China holding 39% of the world’s production capacity for mature node semiconductors in 2027.⁴⁵ This means that the importance of China’s microelectronics

⁴² “South Korea’s Lotte Seeks to Exit China after Investing \$9.6 billion, as Thaad Fallout Ensues,” *The Straits Times*, March 13, 2019, <https://www.straitstimes.com/asia/east-asia/south-koreas-lotte-seeks-to-exit-china-after-investing-96-billion>.

⁴³ Xi Jinping, “Hold High the Great Banner of Socialism with Chinese Characteristics and Strive in Unity to Build a Modern Socialist Country in All Respects,” October 16, 2022, <https://asia.nikkei.com/Politics/China-s-party-congress/Transcript-President-Xi-jinping-s-report-to-China-s-2022-party-congress>.

⁴⁴ “China’s Jan Semiconductor Sales Growth Outpaces Global Level, as Self-Sufficiency Improves amid US Clampdown,” *Global Times*, March 5, 2024, <https://www.globaltimes.cn/page/202403/1308245.shtml>.

⁴⁵ Che Pan, “Tech War: China Chip Imports Fall in 2023 but Semiconductors Remain Country’s Largest Item ahead of Crude Oil,” *South China Morning Post*, January 12, 2024, <https://www.scmp.com/tech/policy/article/3248269/tech-war-china-chip-imports-fall-2023-semiconductors-remain-countrys-largest-item-ahead-crude-oil>.

industry for the automotive sector, which is particularly dependent on these generations of chips, will continue to grow in the coming years. The risk of China flooding the market with certain categories of semiconductors in the next five years is already prompting discussion of defensive measures that might need to be adopted by the US, Japan, or Europe.⁴⁶

2.4 PROTECTING TECHNOLOGICAL HERITAGE

Technology transfer management is at the heart of economic security agendas in Europe, the United States, Japan, South Korea, and Taiwan. Over the past five years,⁴⁷ four new dynamics in this area have been noticeable:

- **The first dynamic concerns the evolution of lists of goods subject to export license requirements.** The challenge here is immense, driven by the acceleration of innovation on the one hand and changes in international governance on the other. Russia’s blocking attitude is preventing updates to the “Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies,” a multilateral convention established in 1996 dealing with export control regimes to which most Western states refer when building their own lists of goods subject to export licensing requirements. As a result, Europe is now considering a “consensus minus one” approach to update control lists – in order to move ahead when all states except Russia agree.
- **The second dynamic is a trend toward broader, more comprehensive controls** beyond export control. It is now taken for granted that technology transfer control is not exclusively an export control

⁴⁶ Chris Miller, “Western Nations Need a Plan for When China Floods the Chip Market,” *Financial Times*, January 29, 2024, <https://www.ft.com/content/2bd1c1a3-931a-4e95-9ea2-e1e8c635ff50>.

⁴⁷ Institut Montaigne, “Sailing the Seas of Economic Security.”

issue. Hostile states are acquiring the means to acquire necessary goods outside conventional import systems through direct investment, cooperation in research and education, and computer vulnerabilities (digital espionage).

- **Third, it remains extremely difficult to identify the end-users of sensitive and sovereign technologies precisely and to predict their potential misuse.** There is a considerable intelligence challenge in accurately determining whether the end-user of an acquired technology is not a military entity within a state that could threaten its neighbors. It is normally the responsibility of exporting companies to ensure compliance and contractual follow-up. This issue of diversion from commercial buyers to military end-users has always been one of the most challenging for export control enforcement, but it is becoming even more crucial in the area of A.I.
- **The last dynamic specific to Europe is the much needed Europeanization of export control policy** given the scale of the issues at stake. However, export control is intimately linked to each Member State's national sovereignty. Today, there is no consensus among the 27 Member States on the powers that the European Commission should assume in this area, a problem that slows down the construction of a coherent EU economic security strategy.⁴⁸

In France, a country with a tradition of state-run economic security, the term has historically been associated with the protection of strategic assets against foreign acquisition. The existence of an arms industry explains the development of control procedures in the context of the Cold War under the aegis of the *Secrétariat général de la Défense nationale* (since 2010, the SGDSN), under the authority of the Prime minister and the

⁴⁸ For an overview of this issue, see Mathieu Duchâtel, "Technology Transfers: The Case for an EU-Japan-US Cooperation Framework," Institut Montaigne, March 2022, <https://www.institutmontaigne.org/en/publications/europe-new-geopolitics-technology>.

direction générale de l'armement of the Ministry of the Armed Forces. The widening scope of the issue of access to sensitive technologies, as well as the growing importance for the defense sector of dual-use technologies derived from civilian innovation, encouraged the creation in 2016 of the Strategic Information and Economic Security Department (Sisse) within the French Ministry of Economy's Directorate General for Enterprises. Complementing the export licensing system for military technologies, under the aegis of the SGDSN, Sisse's approach is built around the notion of "strategic enterprise," the qualification criteria for which are not publicly available.

When a threat to a strategic company is identified – whether the capture of knowledge or intellectual property or even a hostile takeover – the state can mobilize various instruments, including dialogue with the French private sector, to find alternative financing. **This targeted approach not only concerns companies – it also targets certain listed technologies and research laboratories.** It includes an effort to raise risk awareness, particularly in academic circles. Like any such agency however, Sisse is not infallible. The case of Ommic, a French semiconductor company that came under Chinese control in 2018 and was accused of having devised numerous schemes to circumvent control procedures to deliver dual-use goods to China and Russia, is a recent example.⁴⁹

⁴⁹ "Des secrets industriels de la France livrés à la Chine et à la Russie? Ce que l'on sait," Ouest France, July 27, 2023, <https://www.ouest-france.fr/societe/faits-divers/ce-que-lon-sait-des-soupcons-de-livraison-de-secrets-industriels-a-la-chine-et-a-la-russie-17aa9938-2c6e-11ee-b1e5-f00806cc528c>.

3 Five Major Strategic Challenges: From a Technocratic Approach to a Political Approach

Although achieving economic security must ultimately involve adopting effective defensive and offensive instruments, it is not well served by an exclusively technocratic approach. Indeed, economic security touches on a number of strategic issues for a state: the desirable and acceptable limits of public intervention in economic life; the identification of threats that erode democratic systems, particularly by creating dependencies that may ultimately jeopardize sovereignty; the relationships between technology, security, and power; and, at the highest strategic level, the place of France and Europe in the international hierarchy of powers, the invisible superstructure that defines the field of possibilities not only for governments but also for individuals.

The effectiveness of public policy is the most pressing issue for European governments and institutions, as argued in a recently published Institut Montaigne policy report.⁵⁰ **This train is already moving in Europe. Together with the Member States, the Commission is building a public policy toolbox in the name of economic security.** While this project will set the pace for the EU and its Member States over the next two years and undoubtedly beyond, it is necessary to position economic security instruments in a broader strategic context, highlighting the political implications of the tools currently being developed.

⁵⁰ François Godement, “Making European Economic Security a Reality,” Institut Montaigne, March 2024, <https://www.institutmontaigne.org/en/publications/making-european-economic-security-reality>.

3.1 BLIND SPOTS IN THE EUROPEAN ECONOMIC SECURITY STRATEGY

The Commission’s proposal to EU Member States is ambitious and raises a number of practical issues for effective implementation. However, it also ignores three issues that could be considered to fall under the heading of economic security.

First, as several European governments – including the government of France – immediately pointed out, **the Commission does not see industrial policy as an instrument capable of responding to threats to economic security.** Yet it is clear that there can be no economic security without more ambitious industrial policy action targeted at strategic sectors. In practice, the EU has already made exceptions to its competition law to allow state aid for semiconductors, electric batteries, hydrogen, and cloud infrastructure.⁵¹ However, it is legitimate to ask whether the Important Projects of Common European Interest and the Chips Act, the two tools developed by the EU for industrial policy purposes, are up to the challenge – both in terms of resilience, given Europe’s dependence on at least three of these sectors (semiconductors, batteries, cloud infrastructure) and in terms of competitiveness, given the scale of investment in these sectors by its competitors.

Second, as a policy paper from Institut Montaigne points out, **the issue of extraterritoriality is not currently covered by an economic security approach.**⁵² Yet when companies are questioned about economic security challenges, this is the first issue they raise. There is a notable gap between public action and private sector expectations, which itself

⁵¹ European Commission, “Approved integrated Important Projects of Common European Interest (IPCEI),” https://competition-policy.ec.europa.eu/state-aid/ipcei/approved-ipceis_en.

⁵² Georgina Wright, Louise Chetcuti, and Cécilia Vidotto Labastie, “Extraterritoriality: A Blind Spot in the EU’s Economic Security Strategy,” Institut Montaigne, January 2024, <http://institutmontaigne.org/en/publications/extraterritoriality-blind-spot-eus-economic-security-strategy>.

generates European vulnerabilities since it creates contradictions that can be exploited by ill-intentioned states. At this stage, the European public instruments designed to respond to these practices appear to be largely ineffective. However, extraterritoriality is only a question of offensive and defensive instruments for Europe up to a point. It is, in fact, a genuine foreign policy issue: there have been cases of European companies that have been subject to extraterritorial action by the United States, and it is well known that China is adopting legislation of this nature and plans to exert influence in this manner in the future.

Finally, **no link has yet been made between economic security and the European approach to the Indo-Pacific.**⁵³ This lack of convergence between these two fronts is all the more worrying given that cooperation on several major economic security issues is being structured in the Indo-Pacific in formats that unfortunately do not include either EU Member States or the EU. This is the case not only with the IPEF, as mentioned above, but also with the Quad (Japan, the US, Australia, and India), whose members agreed on a supply chain resilience initiative in March 2022.⁵⁴ **Why is there such reluctance on the part of Europe to get involved in these initiatives?** The wariness stems from a sense that these initiatives are too dominated by the American agenda vis-à-vis China. For European countries seeking de-risking from China, the search for lasting solutions to threats to economic security must necessarily go beyond the EU. India, ASEAN, and East Asian countries are natural priorities for the creation of diversification partnerships.

⁵³ Mathieu Duchâtel, "La crédibilité de la France dans l'Indopacifique: premières pistes," Institut Montaigne, May 2023, <https://www.institutmontaigne.org/publications/la-credibilite-de-la-france-dans-lindopacifique-premieres-pistes>.

⁵⁴ Australian Government, Department of Foreign Affairs and Trade, "Joint Communiqué on Supply Chain Resilience Initiative by Australian, Indian and Japanese Trade Ministers," March 15, 2022, <https://www.dfat.gov.au/news/media-release/joint-statement-supply-chain-resilience-initiative-australian-indian-and-japanese-trade-ministers-0>.

3.2 POSITIONING EUROPE IN AN INTERNATIONAL ORDER MARKED BY THE RETURN OF BIPOLARITY

Several European states – including those who signed the G7 declaration, the language of which goes further than the Commission's communication – have decried what they perceive as the European Commission's blind alignment with the US's China strategy. During the presentation of the economic security strategy by the Commission President's Head of Cabinet, Björn Seibert, one of the representatives of the EU Member States, was quoted as saying: "We are Europe, not the United States."⁵⁵

On the whole, however, there is **strong transatlantic alignment on China-related economic security issues.** Since 2021, cooperation between Europe and the United States has been institutionalized within the Trade and Technology Council (TTC), which harmonizes the positions of both parties on the control of sensitive technologies and resilience of supply chains, while the issue of economic coercion is the subject of regular joint positions within the G7. Despite this deep-seated convergence, strong European misgivings emerged in 2023, some of which were even revealed in the European Commission's proposal. This reluctance comes from Western Europe rather than Eastern Europe, where the issue of China's support for Russia's invasion of Ukraine looms large in terms of where states position themselves with respect to the US/Europe/China triangle.

How far should we go in adopting a more security-focused approach to our economic exchanges with China? Clearly, economic security measures are necessary to respond to Chinese-style state capitalism, China's predatory practices in terms of technology capture, and its tendency to resort to economic coercion as a means of changing the balance of power in its advantage during episodes of political confrontation. **Obstructing**

⁵⁵ Finbarr Bermingham, "EU's 'De-risking' Plan for China Meets Resistance from Some Members," South China Morning Post, June 10, 2023, <https://www.scmp.com/news/china/diplomacy/article/3223619/eus-de-risking-plan-china-meets-resistance-some-members>.

China's acquisition of European technologies that facilitate its rise in terms of military power can legitimately be seen as an ally's duty toward the United States. However, in the presence of Chinese leaders, European national leaders regularly succumb to the temptation to create a facade of transatlantic or intra-European divisions, following a transactional logic on an individual national basis aimed above all at finalizing contracts. It is, therefore, necessary **to achieve coherence between Europe's foreign policy stance, which is currently fueled by ambiguity, and its economic security agenda**, which requires being able to rely on strong cooperation with the United States and Japan and on new diversification partnerships in the Indo-Pacific.

Such a stance is not incompatible with economic security measures targeting our allies. This is already the case. Europe filters far more direct investment from the US (32% of cases notified in 2022) and the UK (7.6%) than it does from China (5.4%).⁵⁶ It is worth remembering that the subject of anti-coercion emerged in Europe not in connection with China but in reaction to the Trump administration's sanctions against companies involved in the construction of the Nord Stream 2 gas pipeline project. For European companies, the issue of extraterritoriality still remains a question of transatlantic alliance management, even if a Chinese risk in this respect is clearly on the horizon. There is, therefore, an economic security dimension to the transatlantic alliance – and it was to better address this dimension that the TTC was set up at the suggestion of the European Union. This dimension could become more salient in the future, depending on the outcome of the American elections in November 2024.

It follows from all this that it is not in Europe's interest to conceive of its economic security agenda as a general foreign policy statement, **but rather as a set of selective security actions targeting specific aspects**

⁵⁶ DG TRADE, European Commission, "Report from the Commission to the European Parliament and the Council: Third Annual Report on the Screening of Foreign Direct Investments into the Union," October 19, 2023, [https://ec.europa.eu/transparency/documents-register/detail?ref=COM\(2023\)590&lang=en](https://ec.europa.eu/transparency/documents-register/detail?ref=COM(2023)590&lang=en).

of its external economic relations and reflecting its alliances and international order preferences.

3.3 BUILDING EUROPEAN COHESION

Cohesion can never be taken for granted in the European Union – it always needs to be built up, dossier by dossier. The economic security agenda has revealed the importance **of sharing powers and responsibilities between the European Commission and the Member States.** It has also highlighted the power of initiative of the Von der Leyen presidency – having announced a "geopolitical Commission" with the support of France when she took office in 2019, she has since been the main force in proposing new instruments to Member States. Her activism in the field of economic security and propensity to set the tempo on this agenda have led some players in Brussels to see her actions as those of a "geo-economic Commission."

While all Member States agree on the need for a geopolitical and geo-economic approach, many have, since last year, been **countering the Commission's initiatives with political or strategic arguments:** that it is going too far or too fast; that it is consulting too much with Washington and not enough with European governments; and that it is seeking to extend its powers at the expense of the Member States. They read the Commission's June 2023 proposal as an attempt to extend its powers at their expense in areas that are clearly a matter of national sovereignty, such as export controls. These fears are excessive given European law. While the Commission is empowered to propose legislation and implement certain instruments of public policy when authorized by the Member States to do so, its only truly exclusive competence is foreign trade. The scope of the Commission's powers is clearly limited by European law, and can only expand as a result of a decision by Member States. Within these limits, it seems desirable that the reorganization of the Commission after the European elections in June 2024 **should enable it to**

maintain and even strengthen its power of initiative, for which no Member State is currently in a position to become a credible alternative.

Nevertheless, there are good reasons to be optimistic about the possibility of greater European cohesion in the field of economic security: the vast majority of European capitals believe that the measures listed in the Commission's proposal are, on the whole, necessary to address the imbalances and asymmetries in EU-China relations, with the exception of the thorny issue of filtering outbound direct investment. And in the context of the upcoming presidential election in the United States, many in Europe consider that more effective defensive and offensive instruments would be indispensable to protect European interests from a trade war or actions of economic coercion coming not from China, but from our main ally.

Within European institutions, which are traditionally very attached to free trade, and within European governments, a second divisive issue concerns **the relationship between international trade architecture and the economic security agenda**. Would excessive state interventionism not gradually destroy the market openness that has made European prosperity possible? The perception that economic security measures generate such risk feeds intra-European opposition to an ambitious economic security agenda. This is reflected in Europe's defensive posture and efforts to reform the World Trade Organization. Although Japan shares Europe's aspiration to reform the WTO, so far Europe has struggled to convince a critical mass of partners to join it in these efforts, which are met with indifference on the part of the United States.

Thus, building European cohesion on these two issues – a clear division of powers between the Commission and Member States and the preservation of trade multilateralism – is a prerequisite for any far-reaching action. Conversely, the absence of cohesion will condemn Europe to limp consensus and to the eternal victory of the lowest common denominator approach.

3.4 MAKING PUBLIC-PRIVATE COOPERATION MORE FLUID

The need for public-private cooperation in the field of economic security is self-evident. Supply chain resilience initiatives everywhere are based on the idea that information sharing between companies and public authorities is a prerequisite. Which information-sharing formats between the public and private sectors, which communication channels, and which European and interstate mechanisms are best suited to effectively addressing our vulnerabilities? The Chips Act instituted an information-sharing mechanism dedicated to identifying supply risks, but it is not working. On the one hand, sharing information at the European level is laudable in theory, but in practice it raises fundamental problems concerning the protection of confidential information. On the other hand, companies tend to act faster than governments in their strategies to diversify their suppliers. **Thus, the consensus on the need for concerted action is belied by reality and by the difficulties of putting it into practice, especially on the scale of the European Union and its 27 Member States.**

Solutions need to be found, not only for practical reasons, but also because issues of alignment of national and private interests come into play, for example, in the German strategy of de-risking the Chinese market, which is contradicted by the choices currently being made by German carmakers.

3.5 DEMOCRATIZING THE PRACTICE OF ECONOMIC SECURITY

Theoretical writings on national security emphasize that “securitizing” an issue means taking it out of the realm of transparency and democratic debate and imposing extraordinary measures (which sometimes become permanent) in the name of the seriousness or urgency of the threat. This

approach is likely to create problems of democratic legitimacy and public consent to political choices made in the absence of debate.

In the run-up to the European elections, economic security appears to be a more tangible theme than sovereignty and one that is less vulnerable to political instrumentalization. Clearly, Europe's green transformation requires resilient supply chains. Export controls and investment screening are technical issues, but awareness of **the risk of war spreading geographically around the world should encourage perceiving technology transfers from a strategic perspective**. Similarly, Europe's vulnerability to various forms of coercion targeting democratic institutions and even the exercise of national sovereignty is an eminently political issue, as it affects the individual development potential of every citizen. Finally, certain fundamental choices related to the economic security agenda seem impossible without democratic legitimization: this is the case for the level of investment in an industrial policy to promote competitiveness; it is also the case for the level of intensity of cooperation with the United States within the framework of the transatlantic alliance.

Conclusion

Building an economic security strategy at the national and European levels involves facing a number of obstacles. First, the subject has barely emerged yet in public debate, despite the upcoming European elections in June 2024. This absence of debate is all the more regrettable given that economic security already structures the European Commission's action and the political dynamic between European institutions and Member States. The public debate prefers the notion of "sovereignty" to that of economic security, even though what it covers is far less tangible, far more likely to be manipulated to feed ideological postures, and undoubtedly far less realistic as a political program in view of the dependencies that will persist and that need to be reduced and managed – since their complete elimination is a fantasy.


Second, when debate does occur, the idea of economic security tends to be distorted by characterizing it too quickly as excessive state intervention. It is important to arrive at a clear vision of the sectors and areas of our economies that should not be subject to a national security approach. However, it is equally important to realize **that action in the name of economic security is not intended to destroy the "invisible hand" of the market, which will remain efficient in allocating resources, nor to hinder the European single market or the international rules of open trade that have made Europe prosper**. This paper underlines the extent to which economic security is a matter for targeted exceptional action. The risk of market distortion will always have to be assessed on a case-by-case basis when new measures are taken, but it seems necessary to move away from a caricature-like opposition between markets and public action when it comes to economic security policy.

This paper is based on numerous research interviews conducted by the author in 2023/2024 with public- and private-sector decision-makers and experts. The interviews took place in Paris, Brussels, Seoul, Taipei, and Tokyo.

It further draws on a number of Institut Montaigne activities in the field of economic security: an annual dialogue with the Japanese Ministry of Economy, Trade, and Industry in collaboration with the Japan External Trade Organization (JETRO); an economic security watch group set up in 2023 to bring representatives of the public sector, private sector, and civil society together in Paris; Institut Montaigne's participation since 2019 in a multilateral track 1.5 dialogue on economic security issues in partnership with the Center for Strategic and International Studies in Washington, MERICS, Clingendael – the Netherlands Institute of International Relations, and the Institute of Geoeconomics in Tokyo; and several formats for dialogue between Institut Montaigne and France's European partners, especially Germany and the Netherlands.

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*Institut Montaigne welcomes thoughts
and ideas on how to address these issues
collectively to put forward recommendations
which serve the public interest.*




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The United States, China, Japan, South Korea, and the European Union have all embraced the language of economic security. As economic security increasingly gains prominence on the European agenda, this paper aims to clarify a concept that lacks a universally accepted definition – and in most cases, even a national-level definition.

The lack of definition creates misunderstandings and exaggerations. In business circles in Europe, many perceive the economic security agenda as justifying excessive and counterproductive state intervention that distorts free markets and undermines long-term prosperity. At the other extreme, in policy circles, some tend to incorporate many normal issues of economic policy-making into the scope of economic security.

This paper argues that intervention in the name of economic security is intended to be exceptional and targeted. Through a comparative analysis of Asian, European, and American approaches, the paper provides an overview of the scope of economic security policies in different jurisdictions. It shows high convergence regarding supply chain resilience but also highlights a fundamental difference between the advocates of a narrow approach centered on the sources of military power and the proponents of a broader strategic approach focused on competitiveness and technology superiority.

In Europe, debates regarding economic security are confined within policy and expert circles. The European elections next June provide a unique opportunity to lift economic security out of this technocratic fate. Economic security will be high on the agenda of the next European Commission – public awareness and democratic endorsement would greatly facilitate efficient policy-making.

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