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While Europe's Geoeconomic Strategy Solidifies, Blind Spots Remain

Over the past few years, the European Union has responded to increasing threats to its economic security. It has moved beyond the previous consensus that the EU is an economic power to become a player that is less naïve and has the tools to deal with economic coercion, foreign investments in critical infrastructure and resource dependencies.

European Commission President von der Leyen highlighted in 2019 the need for a “geopolitical Commission” to respond to the challenges of a more unstable international environment. European Council President Michel also made the case for European strategic autonomy in 2020. The 2021 EU Trade Policy Strategy coined the term “open strategic autonomy” to emphasise the need to make trade openness compatible with strategic autonomy. Since then, major strides were made, including an anti-coercion instrument and a foreign direct investment screening mechanism, and anti-dumping and subsidy investigation instruments have been sharpened.

In January 2024, the European Commission unveiled five initiatives on European Economic Security. In particular, the initiatives aim to (1) strengthen the protection of EU security and public order by improving screening of foreign investment, (2) stimulate discussions for more European coordination in export controls, (3) consult on outbound investment screening to limit risks in certain technologies (4) support research and development in dual-use technologies, and (5) develop recommendations on research security.

Yet, despite this substantial shift in approach as well as the welcome concrete initiatives, the EU remains vulnerable to economic security risks and still has more limited capacities to act than large countries outside Europe. Three areas deserve further attention as Europeans go to the polls to elect their new parliament and shape the new European leadership. First, the overarching topic remains institutional reform to improve capabilities to align economic and security interests better in the EU. Second, the EU is unprepared for a second Trump presidency, and when it comes to economic risks it is particularly unprepared in the digital space. Third, European production of military equipment needs to progress more rapidly, and European synergies should increase.

The EU's institutional framework to deal with economic security risks does not allow the EU to be the effective player it should be given its economic size. While economic policies in terms of trade, single market and competition are clear EU competencies with decisions mostly taken by a qualified majority, questions on economic security are still mostly handled by member states. The approach so far has been to address this weakness by better coordinating action, as, for example, in the January 2024 package on export control, while also agreeing on some watering down of state aid control to reduce critical dependencies. Yet, this approach is not enough in a world in which security tensions may rise. To be an effective economic power that is proactive rather than just reactive, institutional reform that aligns decision-making across security and economic domains is needed.

Take investment screening as an example. Responsibility for screening investments into the EU market still largely falls to individual countries. In 2016, the Netherlands allowed major Chinese investments into the ports of Rotterdam. In 2023, China's Cosco took a share in Hamburg's port, leading to substantial debates on the security implications. But neither the Dutch nor the Ger-

man decisions were made at the EU level that would have accounted for cross-country security spillovers. If such investments raise security concerns, the EU must come to a shared security assessment as the single market is too integrated and goods flow unrestricted across borders.

Another area concerns export restrictions and sanction policy. Take the example of sanction policy: while the EU has successfully been able to pass 12 sanctions packages against Russia, unanimity requirements have sometimes slowed decision-making. Moreover, enforcement of sanctions has been imperfect, and there are limited mechanisms to hold countries accountable. Meanwhile, weaker EU-level state aid controls without common EU resources for subsidies risk undermining the even playing field that is so central to a booming internal market.

Addressing these institutional weaknesses ultimately requires treaty reform to move beyond unanimity voting requirements on security matters. Intermediate institutional steps could include the formation of an economic security committee, where top national security officials work with European economic executives to come to a shared assessment and more effective decision-making.

Vulnerabilities in the digital economy stem from the EU's dependency on American and Chinese products. European countries manufacture relatively little of their own cloud-computing systems, key software, including AI, and telecommunications infrastructure. One area is the telecom infrastructure, where some European countries have a substantial share of Chinese products built into their systems. In a deepened political confrontation between China and the US, a Trump presidency could threaten major telecom operators with sanctions, with potentially major consequences for the EU telecommunications market. It is high time that EU countries reduce their dependence on Chinese telecom products to prepare for a tougher line from the White House.

A bigger vulnerability comes from cloud computing, where Europe relies heavily on US capacities. The US CLOUD Act of 2018 requires cloud computing companies to hand over data to law enforcement even if data is stored in Europe with little or no regard for EU data protection laws. EU and US policymakers have made some progress in dealing with the data protection challenge. But a second Trump presidency could make cooperative solutions on data protection impossible. To prepare, it would be advisable to discuss whether cloud computing services should be provided exclusively by firms headquartered in the EU. Yet, there are risks to that strategy: new cloud service providers will be smaller and probably more expensive, and they might find it more difficult to guarantee the same level of cybersecurity. Like geolocation services and satellite communication, cloud storage services also have a military dimension – after all, modern weapons often rely on data that must be stored. This is a further dimension where the EU will need to invest in its security.

To prevent a major fallout in digital transatlantic relations, the EU should develop a strategy to uphold cooperation with the US. The EU-US Trade and Technology Council might be the right forum for closer cooperation, but clearly risks remain in extreme political scenarios.

A final topic that has not yet received sufficient attention and deserves deeper discussions is cooperation across the EU on defence production and procurement. While some instruments exist, the EU needs a bold European defence industrial strategy. It has started the process with a consultation, and Commissioner Breton has called for a fund. In the short term, it will be crucial to enlist all EU countries to provide more military support to Ukraine to prevent a major geostrategic failure – a further weakening of Ukraine. Now is also the time to develop a strategy on how the EU can sustainably and cost-effectively boost its military production capacities.

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It is time to move to a more proactive geoeconomic strategy. The EU should build on its strengths by deepening the single market and concluding trade agreements to boost the growth potential of Europe, the basis of its economic and military power. But it needs to go beyond a pure economic strategy by addressing institutional weaknesses, developing a more forceful digital strategy and, last but not least, boosting European military production capacity.