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## Offensive strategy: The EU's economic security

Defensive economic strategies might slow Europe's decline, but they won't secure its future. Only bold reforms and an offensive trade agenda can restore its competitive edge



Carl Bildt ✕

Co-chair of ECFR's Council

Former Prime Minister and Former Foreign Minister of Sweden

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'Economic security' has become a Brussels buzzword in recent years, shaped by a blend of pressure from Washington and Brussels' own protectionist instincts. In sports, playing defence rarely wins championships. The economic security agenda is defensive; it might slow the decline, but it will not reverse it. What Europe needs is a bold, offensive strategy.

### A defensive strategy

From trade defence measures to restrictions and controls, initiatives abound. There is talk of millions, or even billions, being poured into so-called strategic projects in the corridors of the European Union.

Some of these measures are undoubtedly necessary. Yet Europe must tread carefully to avoid a global subsidy race or exacerbate the regulatory burdens that already hinder its competitiveness. In a world where the United States is the innovation superpower and China dominates production, the EU cannot afford to define itself solely as the regulation superpower.

Looking back, the much-vaunted 'Brussels Effect' has seen some success. But this effect could fade in a world where Europe is perceived as falling behind, transforming from an asset to a liability. In Washington, discussions in political circles centre on a "small yard with a high fence," meaning that the US will only impose anti-China industrial protective measures on a select few highly sensitive sectors (the small yard), which it will fiercely protect (high fence). Yet the yard is expanding and the fence is growing porous.

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The EU faces a different dilemma: not only is there less to fence in, but the primary threat to its technological edge comes from the United States, not China. EU studies reveal that Europe is trailing in nearly all advanced technologies—and it's American, not Chinese, firms leading the acquisition of promising European startups.

Brussels requires an audacious, bold approach to get back on top.

## Building economic strength

The first step is deep economic reform aimed at strengthening, broadening, and deepening every aspect of the single market. A touch of deregulation could amplify these efforts. Elon Musk's quest to turn the United States into a deregulation superpower may offer lessons worth heeding. Deregulation can unlock agility and competitiveness, qualities Europe sorely needs.


Capital markets are another cornerstone to strengthen the internal market. The exodus of promising European firms to US markets underscores a systemic issue. Spotify and Klarna, two successful Swedish startups, are planning their IPOs in New York, joining a growing list of European firms seeking better funding opportunities abroad. Europe's inability to finance its own future could become a crippling liability.

Incentivising research and development is critical to foster innovation. Europe's institutions must not only retain local talent but also attract the world's best minds. Talent often follows money, and talent attracts more talent. Without this virtuous cycle, other reforms will fall short.

Finally, Europe must embrace a more aggressive global trade strategy. While the European economy is often criticised for lacking competitiveness, the Eurozone's solid trade surplus stands in stark contrast to the United States' massive deficit. The EU is the top trading partner for over 80 countries, far outpacing the US in this regard, which is the top trading partner for around 20 countries—all of them in its near abroad, from Colombia to Canada.

However, the real challenge lies elsewhere. China is now the number one trading partner for 120 countries, including much of Asia, Africa, and Latin America. The shift in trade patterns towards China's favour has been swift and decisive. If Europe obsesses over economic security or engages in inter-West trade wars, it risks ceding even more ground in emerging markets to Beijing.

## Lessons from history

Historically, Europe's prosperity stemmed from open trade. The rise of Europe as a global economic force began when its ships started traversing the oceans, establishing trading relationships. Innovation, marked by the Industrial Revolution, certainly helped, but trade was the foundation. Conversely, when China turned inward, it stagnated. Japan learned the lesson,  opened up, and surged ahead.

An offensive strategy doesn't abandon security; it builds it through strength and confidence. Economic security is the result of economic strength—not the other way around

Europe must replicate this offensive mindset. Free trade agreements with every relevant region should be a priority. Opening European markets further might feel risky, but nothing fosters competitiveness like competition itself. This is how Europe thrived in the past and how it can thrive again.

## Strength through confidence

An offensive strategy doesn't abandon security; it builds it through strength and confidence. Economic security is the result of economic strength—not the other way around.

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