

WORKING SESSION II - Strategic Autonomy, Economic Security and EU Public Goods

Saturday, 16 September. 12:00 – 13:30

Plenary hall. Museo Centro Gaias. Cidade da Cultura

The rules-based international order prevailing since the end of WWII is currently being reshaped, as the combined result of new emerging players in the economic, trade and finance arenas, tectonic shifts in the geopolitical balance and a series of momentous shocks and technological innovations. Since the Schuman Declaration in 1950, the European project has been a beacon for global peace, solidarity, and prosperity, consolidating economic and financial integration, free trade, social market economy and political cooperation as powerful drivers of success, proven by the deepening and the enlargement of the integration process. Openness generally entails significant efficiency gains and economic resilience. Nevertheless, recent episodes such as the Covid-19 pandemic, the Russian war of illegal aggression against Ukraine and ensuing trade tensions showcase the risks of excessive and one-sided dependencies, including global value-chain disruptions and the weaponization of energy and other economic ties. Structural trends such as digitalisation of our economies and our monetary and financial systems create new opportunities for stronger and sustainable growth while posing new threats to economic security, which must be answered through the development of digital technologies, infrastructure and skills and an integrated approach for identifying and managing risks at EU level.

In this context, the EU has joined other key international players in the pursuit of a more strategic approach to globalization, going beyond strict economic grounds. Initiatives such as the EU's Foreign Direct Investment Regulation, the Chips Act, the Critical Raw Materials Act or the Net Zero Industry Act have started to operationalize the newborn concept of 'Open Strategic Autonomy', coined by the European Council in 2020. The joint Communication on Economic Security by the Commission and the High Representative published in June 2023 seeks to make further progress in creating a common framework to de-risk and protect the Union's economic security and resilience.

Economic security considerations affect relevant areas under the direct remit of the ECOFIN filière or closely related to it:

1. European Public Goods and Competitiveness

In an increasingly challenging world, there is a need to identify European Public Goods, responding to existing market failures, such as negative environmental externalities or uninsurable risks, and promote a coherent and future-proof industrial policy, protecting the EU from hostile or distortive policies from third countries and bolstering internal production capacities in key sectors. Narrowing the scope of policy intervention to areas where economic security risks are more acute and where the EU holds a comparative and competitive advantage can lead to efficiency gains.

An appropriate mix of public and private investment and regulatory measures is needed. Action at national level is constrained by limited and heterogeneous fiscal space, which can lead to a suboptimal provision of European public goods, especially in areas requiring large-scale long-term strategic investments to compete on an equal footing with international leading powers. Hence, a joint European response is imperative to harness the full potential of economies of scale and first-mover advantages in technology and industrial developments, while preserving the level playing field in a reinforced and deepened Single Market. Similarly, deepening the Capital Markets Union will support economic security by ensuring adequate access to diversified funding sources, particularly for high-potential innovative SMEs.

Regulatory measures, for instance those ensuring a fair and orderly green transition, the reform of the EU electricity market or promoting a circular economy, can also reinforce EU's competitiveness and resilience to climate change, reducing excessive reliance of critical raw materials and leading to a more sustainable economy and a healthier environment.

2. Financial stability

The Great Financial Crisis showed that close international coordination of regulatory and supervisory efforts is needed to effectively manage risks, limit contagion and reduce impacts. More recently, excessive reliance on third-country financial market infrastructures, such as payment systems or clearing services, has come to the forefront as a global risk to the EU economy. Risks are exacerbated in the current context of geopolitical tensions, financial digitalisation, cybersecurity incidents, fragmentation of global monetary and financial systems and an incomplete Economic and Monetary Union.

Completing the Banking Union and deepening the Capital Markets Union are of the essence, as well as making progress with the digital euro project to reinforce the international role of our common currency in the new global digital economy.

3. Multilateral institutions and international fora

Strong multilateral cooperation is more important than ever to ensure win-win solutions and a stable international order ensuring global prosperity, a rules-based economic framework, peaceful conflict resolution mechanisms and joint responses to common global challenges such as the path to climate change mitigation.

The pursuit of economic security should not be to the detriment of openness and international collaboration, which has been the flagship of the EU since its creation. Multilateral fora, such as the G7, G20, the IMF or WTO should continue to serve as central platforms for international cooperation, dialogue and common response to global challenges. Reforms to the multilateral institutional set-up should however be urgently explored, paying particular attention to the role and concerns of the "Global South". The EU should take a leading role in ensuring the benefits from economic integration accrue to all citizens and territories without distinction. Trade and investment agreements between the EU and our international partners would also send a strong signal and help forge more credibly alliances that would be mutually beneficial for economic security and strategic autonomy.

The many interlinkages between all these topics advice for closer coordination with other Council formations and other relevant stakeholders. Agile, coherent, integrated and effective responses to newly emerging threats and rapidly changing circumstances lay at the core of European economic security.

Questions for discussion:

1. *How do Ministers think that economic security considerations should shape the ECOFIN agenda going forward?*
2. *How should the EU approach the on-going reform of multilateral fora and reinforce its role as a necessary key player in the new geopolitical order?*