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SOVEREIGN EUROPE, DANGEROUS WORLD: FIVE AGENDAS TO PROTECT EUROPE'S CAPACITY TO ACT

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SUMMARY

- In the last year, Europe has begun to recognise the need to defend its sovereignty in a threatening world.

- Covid-19 has revealed and exacerbated many of Europe's existing vulnerabilities; the European Union and its member states remain unable to act autonomously in key areas of national life.

- Based on ECFR research, we propose five sovereignty agendas in health, economic, digital, climate change, and traditional security, all designed to promote a more sovereign Europe on that issues that matter most to Europeans.

- Europe must not relinquish its rules-based approach or lapse into protectionism. But, to protect the open, multilateral order they so cherish, Europeans need to promote new rules permitting them to take action against countries that undermine the international system.

- The EU's €750 billion pandemic recovery fund offers the chance to underwrite this ambition – but, ultimately, Europeans need to master the art of acting as a geopolitical force in the world.

INTRODUCTION

At the end of April, the Netherlands Trade and Investment Office in Taipei changed its name to "Netherlands Office Taipei," echoing moves made by Australia, Japan, Britain, and Poland over the last few years. But the Chinese response was different this time. As well as making diplomatic representations, Chinese government newspapers carried pieces attacking the Dutch government, called for boycotts of Dutch products, and halted the shipment of medical supplies to the Netherlands. This came at a time when the Netherlands had almost 40,000 confirmed cases of covid-19 and a higher death toll than the official numbers in China.

EU member states are increasingly facing challenges that cut across borders – pandemics, financial crises, cyber attacks, climate change, refugee crises – and that can only be solved with collective action. But, today, rather than coming together around common solutions, many great powers instrumentalise their connections to compete with one another. China's increasing strength and assertiveness, combined with its authoritarian ethos, represents the biggest challenge. But China's "wolf warrior" diplomacy is part of a wider pattern of states – from Russia and Turkey to Saudi Arabia and Iran, to the United Arab Emirates and even the EU's closest ally, the United States – instrumentalising interdependence to achieve geopolitical goals. As a result, the foundation on which the European Union was built – a rules-based multilateral system and an ever more globalised economic system – has grown increasingly wobbly.

To manage in this new world, the EU and its members need to embark on a broad-based effort to ensure their strategic sovereignty. Such an EU strategic sovereignty effort would seek to recalibrate the EU's role in a geopolitical world in order to strengthen its bargaining power and capacity to act in line with its interests and values. The goal is not to walk away from a rules-based order but to deter other players from undermining it. It aims to equip Europeans with the tools they need to bargain effectively within an interdependent system, to take countermeasures against spoilers of the international system, and to make their own decisions in a more competitive geopolitical environment. Ensuring strategic sovereignty does not imply transferring power or national sovereignty to Brussels but rather reclaiming it from outside players – be it states such as Turkey and Russia or companies such as Huawei and Amazon. Polling conducted by the European Council on Foreign Relations consistently shows that large numbers of EU citizens want an EU that has this power and that can control its external borders, promote more resilient supply chains, and act decisively on climate change.

Frustratingly for many Europeans, the new geopolitical competition resembles more a chess game between cynical statesmen in the mould of Metternich and Talleyrand than the world the EU founders had hoped to make. The EU was explicitly designed to consign this type of behaviour to an earlier era. The EU's very nature means that openness and cooperation are how it operates in the world. Under any circumstances, Europeans must continue upholding and promoting a rules-based multilateral order by aiming to find global solutions to global problems, from preserving free trade to fighting climate change, from preserving international peace and security to promoting sustainable

development. Simply put, any retreat into protectionism would be self-defeating.

But it has become very hard to insulate the concerns of European citizens about their health, their prosperity, and their security from geopolitics. China, Russia, and even at times the US are happy to violate the spirit and sometimes the letter of international norms, and to instrumentalise their economic relationships to achieve political or security goals – and vice versa. This has already undermined the international order to a degree that threatens the ability of member states to function as autonomous entities and to express their collective will through the EU.

To protect the international liberal order, and its own spirit of openness and cooperation, the EU needs to develop the tools to deter this type of destructive behaviour. To establish this deterrence, the EU should seek to act multilaterally when it can but be prepared to act in coalitions of the willing or even autonomously if it must.

To understand the challenges, ECFR undertook a study in 2019 that looked at six thematic areas in which Europeans need to increase their strategic sovereignty – defence, multilateral affairs, artificial intelligence (AI), secondary sanctions, hybrid threats, and international economic policy. That study produced 56 recommendations for improving the European capacity to act in those areas and recommended institutional changes at both EU and member state level to implement them. The central conclusion of that effort was that the global and interlinked nature of today's sovereignty challenges requires greater integration of EU policymaking. This integration is needed both among member states and across policy siloes in Brussels and other capitals, to embed the geopolitical dimension in the design of European policies.

In the last year, member states and the EU have made good progress on those and other efforts, but the task has become more urgent as the covid-19 crisis has accelerated the trend toward increased geopolitical competition and weaponised interdependence. To build on last year's work and reflect on those developments, ECFR commissioned three groups of researchers to map the EU's vulnerabilities in the three regions that are the most important for Europe's security and prosperity: the eastern neighbourhood, the southern neighbourhood, and east Asia. Each region contains its own challenges but China, the US, and particularly the struggle between them crosses all these regions. Those two geopolitical rivals are already fighting a new sort of war, weaponising the infrastructure of globalisation to compete with each other. One of the unintended consequences of their competition has been to create space for mid-sized powers – from Russia and Turkey to Iran and Saudi Arabia – to become assertive and weaponise interdependence in their own ways, thereby further undermining the global order, as well as the ability of EU member states to pursue their interests in different regions.

The US presents the most subtle challenge. A long history of deep EU-US cooperation and shared democratic values underpin what is arguably the most important partnership in the world. Quite simply, the EU cannot build the world it wants to see, nor thrive in this imperfect one, without a strong and effective relationship with America. Most EU member states deeply value their bilateral relationship with the US and rightly object to putting that key relationship at risk. But they have become dependent on the US to a degree that is politically unsustainable in American politics. Worse,

the US sometimes abuses its central place in the international order and profits from Europe's asymmetric dependence on its military and financial systems to gain geopolitical and geo-economic advantages. These actions can threaten not just the US relationship with Europe but also the multilateral order that America was so instrumental in building.

This paradox means that the strategic sovereignty agenda cannot seek to reduce cooperation with the US even as it aims to achieve greater European capacity to act. To the contrary, a key goal of the strategic sovereignty agenda is to make the EU a more effective partner for the US, one that can relieve it of some international burdens, work with it to reform multilateral institutions and solve global problems, and help it see value in a rules-based international order. But the EU cannot accomplish these goals if it remains incapable of bargaining with the US on a more equal footing.

The debate about Europe's autonomy is a security problem that transcends the military sphere and no longer follows the geographical lines of a traditional map. Today's geopolitical struggles reach into every area of modern life – through Europe's data streams, its borders, its supply chains, its climate, and even its respiratory tracts. Accordingly, Europe requires a multifaceted response that looks beyond defence policy and focuses on the effect these issues create in Europe, not on their geographic origins. Europe needs to increase its autonomy to act on the issues that will matter to European citizens and drive its regional strategies through that effort.

Such autonomy should not be confused with a retreat into isolationism or protectionism. Europe's openness and the resulting interdependence are the very essence of the European integration project. The well-regulated movements of goods, money, people, and ideas sit at the heart of the European construction. The point of strategic sovereignty, as the European Commission's idea of "Open Strategic Autonomy" also expresses, is to sustain that openness by increasing Europeans' ability to act independently and shape the world around them.

Five areas stand out, in both the public debate and European policymaking, as the principal cross-national threats to European strategic sovereignty. Various powers are instrumentalising asymmetric interdependencies in healthcare, economic relations, digital technology, security, and climate issues in a way that reduces Europe's capacity to act autonomously and to protect the interests and values of its citizens. As such, this paper explores the varieties of sovereignty challenges – the health, economic, digital, and climate challenges, as well as the traditional security threats that Europe faces in the parts of the world that are most vital to European interests.

Obviously, not every challenge is a sovereignty challenge. But, in each of the five areas, other powers are seeking to restrict Europe's ability to promote and protect its own values, even within Europe. In a globalised world, the EU and its member states cannot, for example, protect the health of their own citizens if they cannot secure supply chains of key material against disruptions and ensure that their citizens have access to vaccines. This paper proposes five agendas for how Europe can recover its capacity to act in each of these five areas.

After a long period of denial, most European policymakers in both Brussels and member states now

broadly recognise that preserving what they have built in Europe requires a forceful response to the new geopolitical age. As a result, a proliferation of terminology and efforts like this one has emerged from think-tanks and government bodies. All reflect a broad sense that Europeans need to participate in this global competition or they will lose. Terms such as "European sovereignty", "strategic autonomy", and "open strategic autonomy" all seek to address this broad problem even as they emphasise different dangers or aspects of it. This intellectual flowering and the resulting terminological debate is important. But it often distracts from the core issues and hides the substantive debates about how to operationalise an increased European capacity to act in a competitive world.

More to the point, these terminological debates reflect the fact that the internal struggle – between member states and between different institutions within Brussels – remains the principal impediment to implementing these agendas (whatever you call them). This is no small difficulty, but the five sovereignty agendas come at a moment when Europe has the opportunity to use the €750 billion recovery package to fund high-profile projects that make Europe visibly more secure and economically viable – from vaccines and stockpiles of medicine to massive solar investments and digital innovations – in the tsunami of uncertainty that covid-19 has unleashed. The strategic sovereignty agenda is designed less to introduce a new term into the debate than to help policymakers read the new map of power and to build Europe back better.

I. HEALTH SOVEREIGNTY

The coronavirus pandemic has demonstrated that the ability to nurture and protect an effective health system is a question of security, and that the EU and its member states are not yet able to maintain European autonomy in this realm. The results are already clear: the pandemic will likely reduce Europe's disposable income by 5.9 per cent in 2020 (roughly €600 billion), with much more severe hits in specific regions. The country that develops and deploys a covid-19 vaccine first will reap enormous geopolitical and economic advantages. Seeking to capture these benefits, China and Russia have deployed their cyber hackers against targets in the US and Europe, while the Trump administration has sought simply to acquire European vaccine assets.

The EU depends on effective international cooperation to tackle its health problems, but it also competes for scarce resources and key technologies with key rivals. Multilateral institutions such as the World Health Organization and the World Trade Organization (WTO) are not able to ensure effective international cooperation in their current setup. Early on in the pandemic, EU member states came to realise that, despite their economic power, they were not able to provide sufficient medical protection equipment in times of crisis. Furthermore, healthcare systems across Europe vary dramatically, which makes cooperation and convergence difficult – and Europeans even more vulnerable.

In response, the EU and its member states have made enormous strides in a relatively short time to

increase their capacity to protect their health sovereignty. The EU has already begun to use its regulatory power to improve its readiness to deal with health crises and diversify supply chains for critical medical products and protective gear. One working group of the European Medicines Agency's covid-19 taskforce focuses on the coordination of efforts to manage the risk of supply shortages of centrally authorised medicines. It also liaises with industry trade associations to improve the resilience of supply chains. The EU is exploring the idea of shifting manufacturing to additional countries and stockpiling strategic reserves of some medicines or protective gear.

This all makes for a good start amid a crisis. But a broader, more institutionalised, form of health sovereignty needs six essential pillars:

- **Protecting the single market**: The single market is arguably the EU's greatest achievement, but the pandemic dramatically affected its capacity to function. Member states closed their borders, cut off tourism and travel within the single market, and commerce slowed down. To avoid this in the future, the EU needs a complete picture of healthcare infrastructure and dependencies across the union, common strategic stocks of health materiel, a strengthened and expanded civil protection mechanism that can coordinate aid to member states, and increased efforts in scenario planning and forecasting for the next such crisis.

- **Promoting healthcare standards**: Healthcare inequality across the EU meant that EU states experienced very different crises. Naturally, this affected solidarity. The solution within the current EU competences is to promote health standards across the union, systematise patient and personnel mobility, and promote European health standards globally.

- **Strengthen investment protection**: The EU and its member states need to extend the implementation of national and EU investment screening programmes to the health sector and increase their effectiveness. The EU took a big step in this direction in activating a new EU investment screening mechanism in October 2020. But it remains a little unclear how broadly it will be used and how it will link up to member state mechanisms. The core effort should be to demonstrate the consequences of geopolitically motivated takeovers to potential global investors.

- **Protect healthcare supply chains:** The EU needs to review its healthcare supply chains to determine what protection strategies it should consider adopting, including reshoring, near-shoring, diversification, and addressing chokepoint vulnerabilities. This is part of a general strategy to reduce asymmetric dependency in supply chains (see below) but will have special characteristics in the health sector. For example, the EU could aim to increase health sector resilience through private action by using regulation and incentivisation.

- **Promoting and funding medical research and development:** The EU and its member states need to devote more money to medical research and development. But, perhaps more importantly, they need to consider a mechanism that could quickly mobilise investment funds for health research and development in emergencies, ones similar to existing Chinese and American mechanisms.

- **Coordinate a global health agenda across multilateral institutions**: The covid-19 pandemic drove home the fact that global health is only as strong as the weakest links in our systems. As a leader in global development, the EU has an opportunity to use its resources to promote an ambitious multilateral agenda aimed at helping the most vulnerable countries. In that sense, healthcare might provide an interesting model for re-energising the multilateral system at a time when it is under great pressure. The EU and its member states need to leverage their presence in various multilateral institutions to both reform their capacity to respond to emergencies and bring them closer to European standards. Europeans can help accomplish this by forming European health caucuses within international organisations, convening global initiatives on European platforms, and seeking to unblock multilateral institutions.

European Commission president Ursula von der Leyen took up some of these proposals in her September 2020 state of the union address. She specifically proposed to strengthen the European Medicines Agency, to begin EU-level strategic stockpiling of medicines and other health equipment, and to create a European version of BARDA, the US research agency, to drive European health research and development. As the president acknowledged, much is left to be done and it is time to discuss whether the EU needs more competencies in healthcare to achieve some of the goals above.

II. ECONOMIC SOVEREIGNTY

The complex economic interdependence that has emerged in the era of globalisation created multiple asymmetric dependencies that have limited European freedom of action. There are many such dependencies. Firstly, the EU remains highly dependent on functioning supply chains around the world, particularly in key sectors in China such as the automotive and electronics industries. But, as the covid-19 crisis illustrated, those supply chains are vulnerable to disruption caused both by acts of God and acts of people. The EU relies on scarce natural resources for energy and for lithium, cobalt, and rare-earth metals to make high-tech industrial goods. This dependency will only increase if the EU is to meet its climate goals. Russia, China, the US, and others have all tried to use their control over these resources to exact geopolitical concessions, though with limited success.

Secondly, the EU depends on the maintenance of a level playing field for its companies to remain competitive on the international market. But key EU trading partners, particularly China, heavily subsidise their own national champions, favour their access to credit, and otherwise distort that competition.

And, thirdly, the EU uses the international financial system to invest its savings, channel its investments, and fund its government deficits. But key EU partners, particularly the US and perhaps soon China, use their asymmetric control and their capacity to apply sanctions to promote their geopolitical interests.

The previous European strategy for managing these types of asymmetric dependencies was to try to replicate as much as possible the European economic governance system on the global level. Organisations such as the International Monetary Fund (IMF), the World Bank, and the WTO are supposed to regulate the exploitation of asymmetric advantage. But, currently, that system is in disarray. The US-China dispute has put the WTO at risk of disintegration – its dispute resolution framework is already effectively inoperable. Meanwhile, the Chinese and the Russians are busily constructing alternative financial safety nets and institutions, such as the New Development Bank, the Asian Infrastructure Investment Bank, and those tied to the Belt and Road Initiative. These mechanisms play similar roles but without all of the troublesome conditionality and regulations that characterises the existing system. That feature makes financial deals with China and Russia much more attractive to many regimes around the world.

A more complete unravelling of the post-second world war financial order remains possible: growing tensions between China and the US could lead the US to assert dominance over the Bretton Woods system (where it holds a blocking minority) and cause China, Russia, and perhaps others to fully secede from it and build a separate system of bilateral, regional, and multilateral financing arrangements.

The EU and its member states are making various efforts to reinforce the global governance system. They are, for example, seeking to reform the WTO, promote a global initiative to combat climate change through the United Nations Framework Convention on Climate Change (UNFCCC), and support IMF programmes designed to help countries that are struggling financially. They are particularly seeking a loose alliance with like-minded countries such as Japan, Australia, South Korea, and even India that might form a democratic caucus. These efforts may have some effect. But with China, Russia, Turkey and even at times the US increasingly defecting from that system, it seems foolish to rely on global governance to continue to protect European economic sovereignty.

This implies that the fundamental effort in an economic sovereignty agenda must be to reduce asymmetric dependencies on external powers without resorting to protectionism or even greatly reducing international trade and investment activity. The European Commission has already recognised this need to balance greater autonomy with openness in its effort to promote "open strategic autonomy". But there are many such dependencies, and this is a never-ending task. The following key steps could reduce prominent European vulnerabilities at a very manageable cost.

Diversify and, if necessary, relocate supply chains

The European Commission has long sought to reduce Europe's dependence on other countries for critical materials and technologies, as recently exemplified by the New Industrial Strategy for Europe it launched in March. Businesses retain the primary responsibility and capacity for ensuring the stability of supply chains, but as recent events during the pandemic demonstrated, government has a role, particularly in moments of crisis or for preventing long-term geopolitical vulnerabilities. And there have been notable successes: the EU's progress in the energy market shows how to reduce asymmetric dependencies without reducing trade volumes. The key is both diversification and more effectively embedding trade in key goods in a multilateral regulatory framework that reduces the ability of foreign powers to manipulate supply.

In the most difficult case of China, this means creating incentives to encourage alternative suppliers where possible and to build up European strategic reserves of essential products. But, more creatively, it means taking advantage of the growing discomfort around the world with China's outsized influence to coordinate industrial policies and technology regulation with other technology powerhouses, such as Japan, South Korea, Taiwan, and the US. Europe could supplement this with deeper trade and investment agreements across Asia, especially those with India and members of the Association of Southeast Asian Nations (ASEAN). The EU-Japan free-trade agreement would be a good model to follow.

The EU and its member states have a real opportunity in this regard to make connectivity a geopolitical tool by investing in digital infrastructure, norms, and standards that might link together like-minded states across the region. The 2019 EU-Asia connectivity strategy was an initial step in the right direction, but it requires better-coordinated funding to address the global dimension of the China challenge. The EU should take the EU-Asia connectivity strategy global and engage in the financial reshuffling needed to bring together the different strands of economic cooperation, trade, and development. It should turn this relatively limited and highly defensive economic agenda into one that can create a counterweight to China's new global role.

Of course, this remains a highly technical area that depends on a thorough analysis of vulnerabilities of the supply chains. But cross-regional comparison implies that there are opportunities to reduce asymmetric dependencies by relocating some economic activities to the European neighbourhood. While some degree of 'on-shoring' might be needed in certain strategically important sectors, this will in most cases be prohibitively expensive and unnecessary. Both diversity and security of supply can often be achieved through 'near-shoring' – that is, providing incentives to locate key economic activities in the European neighbourhood, including in the Balkans and Africa. As the EU's high representative for foreign and security policy, Josep Borrell, recently proposed, it might be "sensible to have more activities in North Africa or elsewhere in Africa rather than Asia from now on". Accomplishing this will require intra-regional connectivity through initiatives in eastern Europe and Africa, to create incentives for companies to move complex supply chains outside of China's immediate sphere of influence.

Enforce a level playing field in both domestic and international competition

The misuse of state aid and other instruments means that the EU needs to internationalise its competition policy. The EU should vigilantly monitor distortions of international trade and investment resulting from the support provided to industry by foreign governments. Direct and indirect subsidies should, if possible, be tackled in the context of the WTO. If this is not possible, the EU should review its competition policy instruments and seek ways to apply them to state aid granted by foreign governments.

Deter and respond to secondary sanctions

Sanctions are an important tool for ensuring European strategic sovereignty. If used effectively, they help preserve the EU's capacity to act. The EU has implemented 42 sanctions regimes targeting 34 countries, making the bloc the second most prolific user of economic sanctions in the world.

At the same time, many European officials have now recognised that secondary sanctions, mostly those emanating from the US, have seriously limited the EU's capacity to act on issues such as the Iranian nuclear file. But they have not as yet found a method to avoid them – the widely touted Instrument in Support of Trade Exchanges (INSTEX) payment channel has, in practice, amounted to little. The EU not only needs a beefed-up and more widely supported INSTEX, but also a broader and more institutionalised payment channel that is insulated from the US financial system and thus beyond the reach of US secondary sanctions. The EU should also consider trade defence instruments that will allow it to stand ready to respond to unilateral sanctions it disagrees with through appropriate and proportionate economic retaliation measures. In this way, it could hope to deter such sanctions in the first place.

A further step in this regard would be to enhance the international role of the euro. This is a broad-ranging effort that would have other positive and negative consequences beyond simply insulating Europe from US secondary sanctions. But, overall, it would greatly enhance the ability of the EU to act independently in the economic realm. The decision in the context of the European recovery plan to allow the EU to borrow on the capital markets is a potentially important step in the creation of euro-denominated safe assets, which are a necessary precondition for an expanded international role for the euro. The EU should build on this to create the deep and integrated capital banking markets that would both enhance the role of the euro and the autonomy of European policy.

Protect assets critical to national security from foreign interference

Despite the recent progress it has made, the EU needs a comprehensive European Investment Screening System. Because foreign investment provides access to the entire internal market, the EU cannot regard investment control as a purely national affair. Currently, only 14 EU countries have investment screening mechanisms, and these differ greatly in their scope and application.

These investments threaten to create undue political pressure and European disunity. For example, in March 2018, EU members of the UN Human Rights Council abstained on a Chinese resolution that redefined the defence of human rights in terms of state-to-state cooperation according to "mutual interests". China had put pressure on vulnerable EU states, and abstaining was the only way of preventing internal EU division.

The European Parliament agreed in 2019 that the EU should develop a common approach to, and common procedures for, the screening of foreign investments, including empowering the European Commission with the right to recommend the prohibition of a foreign investment on security grounds. The EU activated its investment screening mechanism in October 2020. The trick now will be to ensure that it operates effectively and coordinates well with the member states. This mechanism is an important step in the right direction, but more needs to be done to ensure member state cooperation and address the common dimension of decisions relating to foreign investment. The Council of Ministers, for example, should be given the right to decide by a qualified majority vote on whether to block a foreign investment based on a European Commission recommendation. The EU should also develop instruments, such as a dedicated investment fund, to offer member states alternatives when foreign investments are blocked.

Hedge against the blockage of multilateral financial institutions

The EU should preserve and leverage its influence over multilateral financial institutions. But this effort is not about preserving the outdated quotas and voting shares that give European countries strict technical control over their operations. Unless these shares are rebalanced to more accurately reflect current power realities, countries such as China and India will simply find alternative mechanisms, leaving European countries enjoying outsized power in diminished institutions.

Rebalancing should also be accompanied by a consolidation of European chairs – although, in some cases, that might not increase European influence directly.

The EU should hedge against the possibility that such efforts will not always be successful. Specifically, the EU should prepare for a politically or geopolitically motivated stalemate over the provision of IMF assistance to a neighbouring country. It should consider how an external role could be given to the European Stability Mechanism or how to strengthen EU budget-funded balance-of-payments instruments available to third countries.

III. SECURITY SOVEREIGNTY

The most sacred aspect of sovereignty is the ability to defend the nation against external threats. Since the end of the cold war, most EU member states have not felt substantially threatened in this regard. They were collectively among the most powerful military states in the world, and they sheltered behind the protection of the US. But an assertive China, a resurgent Russia, an America more focused on the Indo-Pacific than Europe, and a host of asymmetric threats from other powers and non-state actors means that most EU member states now face new security vulnerabilities that they lack the capacity to defend against on their own.

Under any circumstances, security will remain a member state competence and the member states will continue to possess the vast majority of security capabilities. Similarly, Europeans will continue to want the cooperation and assistance of the US in this area as long as it is on offer. But it has become clear that there is an increasing role for European-level cooperation and coordination to enhance member states' capabilities and to reduce dependence on the US.

There is an ever-greater need for such capabilities. Beyond the traditional vulnerabilities, Russia has pioneered innovative ways to turn asymmetric interdependence into security vulnerabilities. So-called 'hybrid' efforts range from cyber attacks on critical information systems to the disruption of critical services such as energy supplies or financial services, to the erosion of public trust in government institutions and the deepening of social divisions. These are obviously not new techniques, but the EU's digitalised economy and increasingly open and interconnected society have provided many more attack points than in previous times. Hybrid threats often target wider areas than a single member state and can undermine the unity of the EU, as well as destabilise Europe's neighbourhoods with disinformation, election interference, and the use of proxies to divide societies.

Despite these problems, security is the most conceptually developed aspect of the sovereignty agenda. The long debate on European defence and strategic autonomy has now led up to the Strategic Compass process, which aims to specify how the overarching priorities defined in the EU Global Strategy can be implemented and which capabilities the EU should provide. The exercise begins with a common threat analysis – the first such attempt at the European level. The Strategic Compass process could indeed help develop a much-needed common European security culture and help close the gap between the reality of the security challenges and the development of European capabilities.

In this process, the EU should have the ambition of achieving strategic sovereignty in security and defence. The EU is highly vulnerable to threats from China, Russia, Turkey, and other state and non-state actors – and it is dangerously dependent on the US for its security. The efforts thus far – such as PESCO (Permanent Structured Cooperation), the European Defence Fund, and the European Peace Facility – are moves in the right direction. But, even though they are impressive from an EU institutional perspective, they are inadequate relative to Europe's security vulnerabilities. That situation will not fundamentally change under Joe Biden. Worse, they are underfunded relative even to their original, fairly modest, ambitions.

But funding is not the main point. Many member states' insecurity about security is making it much harder for Europeans to develop common approaches to geopolitical issues – and opening the way for others to divide and rule European countries. The European Recovery Fund offers some opportunity to increase or, at least, restore funding to defence initiatives, even if this remains difficult politically. That is important but, in the end, the issue is less the amount of money than that money already available is spent in a way that furthers European solidarity and provides capabilities to counter emerging security threats to Europe. According to the European Parliament, over 80 per cent of defence procurement remains national.

For that purpose, the EU and its member states need more far-reaching efforts, including:

- **Enhancing a European pillar in NATO**. Improving the capabilities of European nations within NATO, under that organisation's auspices, to conduct at least one major joint operation and three smaller joint operations for crisis management with very limited US support.

- **Establishing European forward-basing to reassure eastern Europeans and reinforce solidarity**. Establishing a Fort Charlemagne in Poland rather than the previously mooted Fort Trump or another vehicle for a US-led presence in eastern Europe.

- **Developing a pan-European capacity to investigate the sources of cyber attacks**. Transforming the patchwork of European cyber security organisations into a cyber security institution with centralised functions that can set standards, share information, and coordinate responses across similar national organisations in member states.

- **Establishing a European Security Council to enable more rapid and effective decision-making in foreign policy**

. Creating a body based on an inclusive subset of EU members and, possibly, the United Kingdom on a rotational basis that could, in close coordination with the high representative, respond to European foreign policy crises.

- **Stepping up solidarity operations**. Expanding existing operations that bring broad European capabilities to bear on problems that are critical for specific member states, such as Estonian troop deployments in the Central African Republic, French air policing in the Baltic states, and various member states' contributions to migration patrols in the eastern Mediterranean and the Aegean.

Beyond these steps at home, Europeans need to develop regional security strategies for key regions. One overarching consideration is the effect of the US-China rivalry that will reduce the European capacity to act in these key strategic regions. As the new cold war between the US and China heats up, they are increasingly asking (or coercing) third powers (including Europeans) to subordinate other concerns to the dictates of their emerging competition. This dynamic is familiar from the cold war and is clearly not conducive to maintaining strategic sovereignty.

The core of the issue is not, for example, whether Europeans should allow Huawei to provide 5G telecommunications equipment for their domestic networks. The issue is whether the US, through economic or strategic coercion, should make that decision for Europeans or whether Europeans should weigh up the risks according to their own interests. Regionally, this means that Europeans need to understand their own interests in any given situation rather than simply following the US lead or responding to a new Chinese presence.

But, of course, each region has its own particular and important security dynamics:

Middle East and North Africa: Balance Europe's current focus on migration and counterterrorism with steps towards lasting regional stability

In the Middle East, it is becoming increasingly clear that the EU and its member states need to start to decouple their security policy from that of the US, which has become toxic and unreliable in the region. This means staking out positions on issues such as Syria, the Kurds, and Iran and then pushing for them, using whatever allies are available on the given issue. This approach will lead to occasional disagreements with the US, but it will also increase European freedom of action and leverage with the country. In the end, European Middle East policy based on a clear understanding of European interests will likely hew closely to the US approach, with which Europeans continue to share many interests on issues such as nuclear non-proliferation and reducing instability.

The traditional reliance on the US has, so far, led the EU and its member states to tackle their primary interests in the Middle East mostly in defensive terms – that is, trying to prevent disorder spilling

over into Europe instead of playing a greater role in building long-term stability in the region. So, for example, when it came to migration, in recent years the EU invested heavily in border control – at its external border but also in cooperation with third parties in Africa. The €4.7 billion EU Emergency Trust Fund for Africa is supposed to help address the root causes of irregular migration, but it is insufficient to the task. In a similar way, the EU has stepped up its measures to decrease the threat posed by terrorism and limit its own vulnerability. It reinforced checks at external borders, enhanced firearms controls, adopted rules to prevent terrorist financing, created a dedicated body to curb terrorist propaganda online, and tried to improve information exchange with, for instance, the launch of a European Counter Terrorism Centre.

These efforts are worthwhile, but they are fingers in a dike behind which a sea of instability churns ever more violently. The EU has been rather unsuccessful in crisis management and resolution, which is business it needs to get into more in the Middle East and North Africa as the gradual US withdrawal opens up space for other actors. To this end, the EU and some key member states should:

- Use the EU's perceived neutrality in the region to advance mediation processes in places where the US or other actors have traditionally dominated such efforts.

- Use European military power as a source of leverage in ongoing conflicts.

- Continue to support existing reform efforts to build efficient and representative governance systems but link them to conflict resolution processes.

- Deploy economic influence and even arms sales as levers to reduce instability and improve governance.

Russia and the eastern neighbourhood: Engage in capacity-building to counter hybrid threats, corruption, and cross-border crimes

Russia's increasingly malign hybrid activities in the eastern neighbourhood require a European response. There has been one, to a degree. In 2015, reacting to Russia's hybrid activities in Ukraine, the EU agreed to step up its efforts in countering hybrid threats. The creation of an EU Hybrid Fusion Cell was supposed to improve the exchange of intelligence and information among member states. The European Centre of Excellence for Countering Hybrid Threats in Helsinki supports EU member states and NATO allies with research, training, and exercises. In a similar way, four EU pilot projects are currently setting up a European Cybersecurity Competence Network – which, together with a Competence Centre, aims to strengthen and sustain Europe's cyber security competence. Nevertheless, cooperation continues to prove difficult, and cyber and intelligence assets remain exclusively in the hands of individual EU member states. Corruption at home continues to enable Russia and other actors to obtain influence and undermine reform in eastern neighbourhood countries.

Corruption has been a focus of EU policy but, currently, the EU's neighbourhood policy lacks a cyber

security policy and any meaningful capacity-building element for cyber security or intelligence. At the same time, the EU has no intelligence assets on the ground to assess situations and, especially, personnel beyond open-source information.

This implies that the EU needs to:

- Launch an Eastern Partnership Security Compact – an initiative designed to combat hybrid tactics and increase cooperation between the EU, its member states, and select neighbours in matters of security, intelligence, and defence. This should include capacity-building programmes for information security.

- Support weak and underfunded or politicised state television channels, with conditionality from Brussels that requires changes in the regulatory framework, including rules on financial self-sufficiency and transparency on advertising and funding.

- Prioritise ensuring that security sector and judicial reform take place in eastern neighbourhood countries, perhaps by replicating the EU Advisory Mission to Ukraine in other contexts.

- Establish a coordinated approach to financial security issues in the eastern neighbourhood, in areas such as anti-money laundering policy, combating financial crime, and countering illicit party- and media-financing policies.

- Support Eastern Partnership states' efforts to safeguard their external borders with third countries, manage their asylum and migration issues, and effectively fight cross-border smuggling.

East Asia: Deploy European maritime operations and invest in targeted security capacity-building

The economic agenda dominates Europe's relationship with east Asia, reflecting both the geographical distance between the regions and the realities of European power. Neither the EU nor any of its member states are going to become major security providers in the region, but they have the capacity to contribute in this area. More to the point, given the importance of east Asia to Europe's future prosperity, European leaders can only protect European strategic sovereignty if they participate in the provision of security and stability in the region.

The most obvious way to participate is through demonstrating their continued commitment to freedom of navigation in the region, as France did in its naval transit through the Taiwan Strait in April 2019. By failing to provide a continued presence within the 12-mile zone around territories claimed by China in the South China Sea that are not in accordance with international legal provisions, the EU and the UK could create the impression that they are only marginally interested in the gradual increase of Chinese control there. European navies, especially those of France and the UK, can and should invest in maritime operations that emphasise respect for international law and the

safety of sea lines of communication. But these operations will only have a meaningful effect if they are substantial, continuous, and further Europeanised in their setup, carrying sailors from various EU member states on French or potentially even German vessels. These operations would have limited deterrence potential in relation to Chinese claims in disputed waters, but the EU and its member states jointly with the UK could use freedom of navigation operations to signal their resolve to regional partners – especially those within the Indo-Pacific framework. Beyond that effort, EU member states and the EU itself should use development funds for targeted capacity-building in areas such as coastguards and non-traditional security partnerships – especially those for cooperation on cyber security, which is of great concern to most Asian states.

Finally, the EU and its member states need to find a way to gain leverage from European arms exports. The Asia-Pacific region is now the world's <u>largest market</u> for arms. For EU member states and the UK, sales to Asia are essential from a commercial perspective. But, as observers have argued for years, EU member states in particular make little to <u>no strategic use of these partnerships</u>. Member states need to rework their arms export strategies and tie them closely to their diplomatic and security goals. They can build a denser web of European relationships through defence-industrial partnerships but also by defining a common arms export control policy, especially for dual-use equipment.

IV. DIGITAL SOVEREIGNTY

In an increasingly digital world, the questions of who owns the technologies of the future, who produces them, and who sets the standards and regulates their use have become central to geopolitical competition. Nations around the world are trying to shape the developments in new technology and capture the benefits – both economic and geopolitical – that emerge from this era of rapid technological change. If Europeans want to reap these benefits, ensure their politics remain free of divisive disinformation, and decide who can know their most personal information, they will have to participate in this struggle.

Europeans face several challenges in doing so. Many EU member states possess world-class technology companies, well-educated workforces, and strong research and development capacity. But they have struggled to turn those assets into geopolitical influence. Europe, as the sociologist Anthony Giddens has <u>put it</u>, "finds itself caught in the middle, sandwiched between the US and China, with a digitally malicious Russia standing on the side-lines."

There is a great deal of activity in Brussels on digital issues, ranging from efforts to update the Digital Services Act to establishing a European data economy. Clearly, much of the answer lies in improving the environment within the European single market for innovation and entrepreneurship, by, for example, promoting capital markets that might better support start-ups. And beyond these already difficult internal issues, Europeans need a strategy to compete with the rest of the world. But it is not clear that there is a European position on digital sovereignty issues or even that most EU member states want one. The differing approach and positions on regulatory issues, such as content

regulation, not to mention intra-European competition for high-tech jobs, means that the EU starts at a disadvantage in the geopolitical competition with more coherent political actors such as China and the US.

Given the behaviour of other countries, it is clear that Europeans now need to consider how to adapt the single market to new digital realities and to exercise its regulatory power to shape the international environment. The GDPR (the General Data Protection Regulation) provides a template for this: it forced companies around the world to comply with European practices on privacy, and encouraged similar regulations in other jurisdictions, not least various parts of the US.

There are many such opportunities, including:

- Creating anonymised European databases for AI research and a European regulatory framework for ethical AI that could both inspire others to emulate it and encourage compliance with European ideas of how to control this industry of the future.

- Establishing effective European procedures for the regulation of digital content that could set a template for how to balance openness with the need to protect democracy from outside influence and extremism.

- Encouraging the formation of European digital champions in emerging technologies such as edge computing or supercomputing by leveraging the EU's competence in competition policy, its capacity to provide research funding, and its emerging investment protection regime to gain an advantage in some key technologies. The European Commission is already planning to invest €8 billion in supercomputing. Its European cloud initiative, Gaia-X, represents an emerging effort of this type, albeit one that is somewhat behind the curve of existing US technology.

- Coordinating more effectively policies on industry and tech regulation with the Asian technology powerhouses – especially Japan, South Korea, and Taiwan, which are also looking for greater diversification in the provision of digital goods.

- Seeking opportunities to mediate in US-China tech disputes. The stark differences between the anarchic US approach to digital regulation and the heavy-handed state control model advocated by China open up a vast middle ground for European actors.

- Developing a European digital tax that will apply to digital services based on where they are generated rather than by the physical presence of the company. Establishing this principle, regardless of the tax level, will allow the EU to better leverage access to its market. The EU is rightly trying to negotiate this globally first – but, as von der Leyen concluded in her 2020 state of the union address, "if by the end of 2020 there is still no global solution for a fair digital tax, the EU should act alone."

V. CLIMATE SOVEREIGNTY

The EU is extremely vulnerable to the impact of the climate crisis. Europeans will not only suffer direct consequences in the form of extreme weather events, water shortages, and loss in biodiversity, but also the indirect consequences of increased conflict and migration in their neighbourhoods. In 2017, extreme weather events cost nearly €14 billion. This could rise to €120 billion in annual losses with another 1°C rise in temperature. The EU-funded COACCH project estimates that the economic costs of sea-level rises alone in Europe will be €135 billion-€145 billion in the 2050s (due to the combined effects of climate and socioeconomic change). This will rise to €450 billion-€650 billion by the 2080s if there is no investment in adaptation.

But, despite these massive local costs, climate change is a global problem, and the EU depends on others to support its green agenda. As Europe produces less than 10 per cent of global greenhouse-gas emissions, the EU needs to reach beyond its borders with the European Green Deal that the European Commission proposed in December 2019. Currently, actors such as China and the US can take advantage of Europe's commitment to decarbonisation – by producing goods that are cheaper and more carbon-intensive than their European competitors – and still enter the European market.

In 2020, the huge decrease in economic activity caused by the coronavirus crisis has put many countries well ahead of their carbon emissions targets without any effort at all. But this is obviously a temporary effect and, indeed, the pressure placed by the pandemic on government budgets around the world means that many countries will not prioritise 'building back greener' as the EU intends to do. The Trump administration believed that climate change is not caused by humans and was uninterested in agreeing to any international target. The Chinese approach has been more subtle. Xi Jinping announced in September 2020 that China would aim to reach a CO2 emissions peak in 2030 and seek to become carbon-neutral by 2060. But China is already the world's largest emitter – responsible for almost 30 per cent of emissions – and continues to build coal-power plants at a staggering pace while opposing the setting of binding emissions targets. Worse, the lack of commitment from the US, China, and other powers to the climate change agenda has necessarily discouraged many in the broader international community from doing their part.

In short, in the absence of European pressure, it is not obvious that most other powers will follow the European lead and reduce emissions. Thus, the only way for Europe to achieve its decarbonisation goals is to move beyond its borders.

Recognising this necessity, the European Commission has proposed spending some 37 per cent of the European Recovery Fund, roughly €277 billion, on the European Green Deal. This movement towards clean energy brings both new risks and opportunities. The reliance on renewable energy creates new dependencies on, for example, China – which is already a leading manufacturer of solar panels and electric cars, and is poised to dominate the global production of battery cells. But it is also an opportunity to leverage European technology and the European single market to establish a

regulatory regime in clean technology that will enhance European influence, and to effectively enlist the world in accomplishing Europe's climate goals. The EU will, of course, continue to push for an ambitious global climate agenda within the UNFCC framework. But the EU is unlikely to be able to inspire large emitters such as the US, China, and India to sign on to the necessary emissions reduction commitments with that global negotiation unless it is prepared to exercise leverage and deploy other instruments of European power.

The need for a more leveraged approach has led the European Commission to float the idea of a carbon border adjustment mechanism, to encourage the import of less carbon-intensive goods and to sustain EU competitiveness during the implementation of the European Green Deal. This mechanism poses a fairly fundamental challenge to European trading partners (particularly China), which will often see it as protectionist. Especially at the lower end of the value chain, where profit margins are not particularly high, Chinese manufactured products could lose their comparative price advantage (and thus their appeal), making it more attractive for European industry to source from 'greener' partners. At the same time, European companies would have to be prepared to decouple their value chains' production processes and start producing only for the Chinese market in China, further deglobalising the economy.

But the challenge that the European Green Deal presents to European trading partners also represents an opportunity for the EU. Countries whose economies are heavily dependent on hydrocarbon exports, such as Algeria and Libya, will need substantial investment and assistance to restructure their economies. The EU can pair the European Green Deal with a sustainable development policy offer to developing countries within the deal's framework, with a focus on renewable energy sources. To this end, the EU and its member states have pledged to work with their international partners to mobilise $100 billion every year from 2020-2025 to combat climate change and mitigate its effects. But finding this money and spending it wisely remain daunting tasks.

The EU will have to compete in this effort with other sources and markets, particularly with China's expansive Belt and Road Initiative. Whether developing countries are receptive to the European offer will largely depend on the conditions attached to loans and investments. 'Green conditionality' could, in some cases, make European financing much less attractive, even as these countries recognise the challenge of climate change. But Belt and Road recipient countries are increasingly souring on the Chinese approach, which has often failed to deliver promised funds, failed to increase domestic technological capacity, and sometimes mired them in corruption and debt. The EU has an opportunity to step in with a better offer that addresses climate change, respects its partners' development trajectories, and provides them with responsible access to the massive EU market.

They are several aspects to this effort, including:

- Leveraging European technology and the massive European single market to establish a regulatory regime in clean technology.

- Working within various multilateral frameworks to advance the green agenda.

- Implementing the European Green Deal to reduce carbon emissions at home and abroad.

- Pairing the European Green Deal with a sustainable development policy offer to developing countries, with a focus on renewable energy sources and green technology.

- Using the Franco-German push on the Indo-Pacific to establish an EU Indo-Pacific strategy that emphasises cooperation on emissions reductions and biodiversity as a complement to the EU's global climate strategy.

BUILDING BACK SOVEREIGN

Each of these five sovereignty agendas represents an enormous challenge for the EU and its member states. Together, they imply a need to recover strategic sovereignty and rethink the entire model of globalisation that has underpinned European foreign policy in recent decades. That model took as given that open markets, increasing trade and investment, and technological diffusion would generally increase prosperity, stability, and even spread liberal democracy around the world.

Globalisation has helped lift hundreds of millions of people out of poverty. Increased economic growth has often underpinned stability and democratisation in, for example, east Asia. And European economies and citizens have benefited from open markets. But it has also led to asymmetric dependencies on, for example, China for key materiel, on the US for access to dollar financial markets, and on Russia for energy. At times, these countries have exploited these dependencies for geopolitical gain. This is not a counsel of protectionism or decoupling – it would be the height of folly to believe that a quest for strategic sovereignty justifies a retreat into isolationism. At the same time, mere resilience in the face of such geopolitical competition is not enough – Europeans need a proactive sovereignty agenda that can project European power and evaluate, reduce, and hedge against asymmetric dependencies.

Europeans clearly need to strengthen the power of international institutions to maintain open markets, while also hedging by preserving the capacity to defend themselves from economic coercion. Europe has many advantages in these efforts. Europeans remain well represented and influential in a wide variety of multilateral institutions. Their deep commitment to multilateral formats and rules gives them enormous credibility with other actors to reform and reorientate international institutions. The size of the EU's market and the effectiveness of its governing bodies mean that it has a substantial ability to use its regulatory power to shape trade and investment flows. On issues such as privacy and food standards, it has already proved this capacity. But it has yet to turn this power towards a conscious effort to shape a new model of globalisation and to reduce European asymmetric dependencies.

Despite these advantages, Europeans have collectively underperformed in geopolitics because they have too often failed to use their strengths, leverage their assets across policies areas, and, most clearly, present a united front. These shortcomings are daily influencing their ability to gain leverage in the world outside Europe. In east Asia, they have missed the opportunity to form alternative multilateral structures with key Asian partners at its heart. In the Middle East and North Africa, they have failed to use their collective weight to coordinate a more broadly based package of financial and technical assistance to weak states. And, in Europe's eastern neighbourhood, they have allowed Russia to hamstring various international and regional organisations that might monitor elections and human rights, and might reduce conflict tensions.

The essence of the problem is not funding or decision-making processes – though, clearly, the EU could improve in both areas. More money or removing the need for unanimous voting on foreign policy issues will make little difference if Europeans cannot leverage their strengths and if the EU cannot help its member states address their sovereignty problems. Overall, the EU needs to start seeing its regulatory capacity as a geopolitical tool that can help it hedge against the vulnerabilities created by globalisation and asymmetric dependencies.

Now is an auspicious time to do so. Covid-19 has helped create a European moment and made the idea of sovereignty concrete and urgent for the public, as well as for decision-makers. It has demonstrated with perfect clarity how, in an interdependent world, European strategic sovereignty is vulnerable to events in far-flung parts of the globe. Europeans now collectively understand that their ability to be free from pandemics is only as strong as the weakest link in the chain of global health. It is impossible to cut oneself off from diseases on other continents without paying a price in prosperity. And what is true of global health is true for all other sovereignty agendas.

In the coming years, there will be no shortage of institutional process that could be used to advance a strategic agenda that tries to transcend the functional areas in which Europe is exposed. Member states have committed in the European Council to advance "strategic autonomy", while the European Commission is pushing forward with "open strategic autonomy", the European External Action Service will launch a "Strategic Compass" process, and the Conference on the Future of Europe will seek to understand how the European construction needs to adapt to a new era.

It will be important to find ways of bringing all these disparate processes in Brussels and member states together, and integrating them into European foreign policy. For this purpose, the European Council should set up a taskforce on strategic sovereignty or open strategic autonomy and invite member states to appoint an ambassador-at-large. One point of this forum would be to inspire greater interaction and discussion between member states. The high representative could announce an effort akin to the Global Strategy to study other states' increasing use of non-traditional foreign policy tools – such as sanctions, economic statecraft, digital measures, and supply chains – and propose a European foreign policy response. This effort would explicitly seek to draw in key elements of the European Commission, especially the part that deals with international trade, while of course keeping in mind the different institutional basis for trade policy under the treaties. Its basis would be that any

European effort in this regard will seek to strengthen transatlantic relations rather than weaken them, and preserve openness rather than devolve into protectionism. The report could be submitted to the Council as an agenda for action that seeks to better integrate the EU's various capacities for influencing international affairs.

The EU took a huge step forward this year by agreeing on the recovery plan. The package provides an enormous opportunity to enhance European sovereignty. There are, of course, already many demands on this money, but part of building back is building a more sovereign Europe. The process of creating the recovery plan should allow the EU to invest in a more sovereign Europe that can matter on issues that citizens care about. Yet the process is not automatic. This paper has identified five areas in which European sovereignty is vulnerable and how it links up with Europe's neighbourhood and its important economic partners.

Rather than allowing so much of the money allocated by the plan to be spent invisibly through structural and cohesion funds, the EU should explicitly set itself the goal of investing in the infrastructure of a sovereign Europe. Such infrastructure could include common stockpiles of medical equipment to tackle future pandemics, well-regulated databases to train AI, investments in infrastructure to promote energy independence and carbon transition, and, of course, joint defence projects and investments. The EU's legitimacy will partly depend on being able to show at the end of the European Commission's mandate that the recovery plan actually helped build European strategic sovereignty. The EU and its member states have the resources, the knowledge, and the capacity to survive and even thrive in a more geopolitical world. The only question is: will they?

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ANNEX: KEY RECOMMENDATIONS FOR THE FIVE SOVEREIGNTY AGENDAS

	EU	East Asia	Eastern neighbourhood	Middle East and North Africa
Health	Protect the single market Strengthen investment protection Promote and fund medical research and development	Work together on diversification opportunities	Work together on near-shoring opportunities	Work together on near-shoring opportunities Support distribution of vaccines Support humanitarian finance channels to work around US secondary sanctions
	Protect healthcare supply chains (reshoring, near-shoring, diversification, and chokepoint vulnerabilities)			
	Promote healthcare standards across the EU and globally			
	Coordinate across multilateral institutions			
Economic	Deter and respond to secondary sanctions Protect assets critical to national security from foreign interference	Make connectivity a geopolitical tool (coupled with the 'diversification' agenda) Deeper trade and investment agreements – especially with India and ASEAN (EU-CPTPP agreement); seek initial WTO-compliant sectoral agreements instead of focusing on comprehensive agreements	Use economic leverage in the region more strategically	Use economic leverage in the region more strategically, with a focus on advancing European stabilisation interests and preventing or mitigating against state collapse
	Relocate and diversify supply chains			
	Enforce a level playing field in both domestic and international competition and in global rulemaking			
	Hedge against the blockage of multilateral institutions			
Security	Create a European pillar in NATO Establish European forward-basing to reassure eastern Europeans Develop a pan-European capacity to investigate sources of cyber attacks	Build a denser web of European relationships through defence-industrial partnerships, as well as by defining a common arms export control policy Use FONOPS to signal resolve to regional partners Use development funds for targeted capacity-building in areas such as coastguards and non-traditional security partnerships Make China's role in Asian cyberspace a key element of a strategic dialogue with Indo-Pacific partners	Prioritise the demand for security sector and judicial reform Create a Security Compact for Eastern Partnership states, with a focus on information security Establish a coordinated approach to financial security issues, such as anti-money laundering policy, combating financial crime, and countering illicit party- and media-financing policies Provide support for safeguarding external borders with third countries, manage asylum and migration issues, and effectively fight cross-border smuggling	Chart a path that is independent of the US where interests diverge, with more independent deployment of Europe's assets, such as diplomatic gravity, economic weight, and military power Demonstrate strength towards Russia, but also engage in a pragmatic dialogue designed to protect shared interests Better define European interests and relationships with Turkey and Arab Gulf states Balance short-term goals – such as reducing migration and terrorism – with the long-term interest of promoting lasting stability and societal resilience Mobilise core groups of interested EU member states on specific issues

	EU	East Asia	Eastern neighbourhood	Middle East and North Africa
Digital	Create anonymised European databases for AI research and a European regulatory framework for ethical AI Establish effective European procedures for the regulation of digital content Encourage the formation of European digital champions in emerging technologies	Coordinate more effective policies on industrial policy and tech regulation with the Asian tech powerhouses, especially Japan, South Korea, and Taiwan	Encourage cooperation on digital issues and promote Europeans standards on, for example, privacy	Encourage cooperation on digital issues and promote Europeans standards on, for example, privacy
	Impose a digital tax (if not globally, then on the European level)			
Climate	Leverage European technology and the massive European single market to establish a regulatory regime in clean technology			
	Work in all multilateral frameworks on advancing the green agenda			
	Implement the European Green Deal to reduce carbon emissions		Pair the European Green Deal with a sustainable development policy offer to developing countries within the deal's framework, with a focus on renewable energy sources	
		Utilise the Franco-German push on the Indo-Pacific for an EU Indo-Pacific strategy that emphasises cooperation on emissions reductions and biodiversity Work with climate-vulnerable countries in the region (especially small island states) to provide them with sustainable finance and infrastructure offers, and to counter unsustainable Chinese Belt and Road investments	Promote the green agenda as a mechanism to increase European diversity in energy supply	Find other partners in the region to work on the green agenda Promote and invest in solar technology in the region

ANNEX: EXAMPLES OF THE COSTS OF NON-SOVEREIGNTY

Health	Economic	Security	Digital	Climate
Not being able to provide basic medical equipment in the middle of a pandemic (China produced half the world's masks before covid-19, and it has expanded production nearly twelve-fold since then) Covid-19 will likely reduce Europe's disposable income by 5.9 per cent in 2020 (roughly €600 billion), with much more severe hits in specific regions The impact of China deciding to weaponise its pharmaceuticals industry: It is estimated that China provides between 80 per cent and 90 per cent of the global supply of active ingredients for antibiotics Dangers posed by weak oversight in China´s pharmaceuticals industry to global pharmaceuticals supply chains	Companies can expect to lose more than 40 per cent of a year's profits every decade because of supply chain disruptions High dependency on the supply of critical raw materials, including lithium, cobalt, and rare-earth metals used in high-tech industrial goods. If Europe wants to meet its climate goals, this dependency will become even more salient Chinese influence over individual EU member states gained through strategic investments is already an obstacle to effective EU foreign policymaking What would happen if the US restricted EU trade and investment in Russia or China in the same way that it has done with Iran? This would disrupt trade worth around €190 billion per year for Russia and around €1 billion per day for China Key EU trading partners, particularly China, heavily subsidise their national champions, providing these firms with favoured access to credit and otherwise distorting competition	What could the EU do if Russia decided to treat Poland or Latvia in the way it has treated Ukraine, using a combination of cyber attacks, disinformation, and direct action to destabilise an EU state and perhaps overthrow its government? Powers such as the US, Russia, and China could block the EU from using its resources to stabilise an African country through the United Nations, sending an OSCE monitoring mission to eastern Europe, or bailing out a third country through the IMF The feeling of insecurity of many member states opens the way for others to divide and rule European countries The gradual US withdrawal from the Middle East and North Africa is opening up space for other actors, such as Russia and Turkey. So far, the EU has been largely unable to protect its key interests in the region In Asia, China´s growing military engagement and weakening US influence threatens the relatively stable security architecture, which is detrimental to European economic interests	The cost of European cyber vulnerability was estimated at €400 billion in 2018. This will only grow with the coming of 5G and the 'Internet of Things'. AI is estimated to contribute more than €13 trillion to the global economy by 2030. How much of this market can Europe capture? The global market for 5G technology is projected to reach $668 billion by 2026. The US and China are fighting over geopolitical control of 5G standards. Economic control will surely follow AI is quickly emerging as the next frontier in the digital sovereignty wars, with China and the US setting the rules for its future use	Annual expected damage costs in Europe from the rise in sea levels are estimated at €135 billion-€145 billion in the 2050s, increasing to €450 billion-€650 billion by the 2080s if there is no investment in adaptation In 2017, extreme weather events cost nearly €14 billion. This could rise to €120 billion in annual losses with another 10C rise in temperature. Indirect consequences of increased conflict and migration in Europe's neighbourhood Other actors can take advantage of Europe´s commitment to decarbonisation – by producing goods that are cheaper and more carbon-intensive than their European competitors – and still enter the European market Reliance on renewable energy creates new dependencies – such as those on China, which is already a leader in manufacturing solar panels and electric cars, and is poised to dominate the global production of battery cells

ABOUT ECFR

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