



The Economic Security Dilemma

By Edward Hunter Christie and Mikael Wigell

This article explores how foundational concepts of international relations that apply to the analysis of security policy can be translated into equivalent concepts in the realm of geoeconomics. The following are considered: economic security dilemmas; economic security action-reaction spirals and arms races; economic deterrence; economic appeasement; economic security alliances; and burden sharing within economic security alliances. We make the case that economic equivalents of security policy concepts should not be viewed as separate from matters of war and peace, but on the contrary as being on a continuum with them. Recent examples of Western economic security policies towards Russia and China are discussed, highlighting a failed policy of economic appeasement towards Russia prior to February 2022 and the lack of an actual economic security alliance among Western allies.

Edward Hunter Christie is a former NATO official and Senior Research Fellow at the Finnish Institute of International Affairs (FIIA). Mikael Wigell is Research Director at FIIA and leads the institute's geoeconomics research program.

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We live in an age of geoeconomics. From discussions about decoupling versus de-risking towards China to packages of economic sanctions against Russia, the use of economic means to achieve foreign policy objectives is not new, but the intensity and reach of recent measures is leading to a recasting of external economic policy, away from a market-centric view and towards a more security-oriented view.

When analysing traditional security policy, scholars use certain foundational concepts. The security dilemma, and the related notions of action-reaction spirals and of arms races, are one category. Deterrence theory is another major category of scholarship, as is the study of alliances. These and other concepts can help to calibrate a state's choices regarding the intensity and nature of the security policy and defence policy measures it takes. Our purpose with this essay is to open up a conversation regarding the potential usefulness of these concepts for matters of geoeconomics and for the purpose of calibrating external economic policies.

The new Washington Consensus, formulated by U.S. National Security Advisor Jake Sullivan in April 2023, has reframed external economic policy.¹ The original Washington Consensus, identified in 1989 by British-born economist John Williamson, was the set of economic policy recommendations that Washington-based economic institutions – the IMF, the World Bank, and the U.S. Treasury – tended to apply to developing countries.² It was an exercise in pure economics, with no consideration of possibly

conflicting public policy goals, such as national security. That the new Washington Consensus was formulated by a national security official and not by an economic institution is a clear sign of a new era. It is nothing less than the redefinition of the role and place of economics within public policy.

However, as profound as this change is, it is not a binary switch from only market-led equilibria to only state-led security needs, but a matter of degree and distribution. Even for those Western allies that went the farthest in opening and liberalising markets, the point of departure is still an inherited legal basis and institutions that already allow for restrictions on economic activity for reasons of national security. As for the destination of the geoeconomics journey, it is not wholesale nationalisation and autarky, but most likely a graduated landscape, with some areas of economic activity facing much higher securitisation than others. While it is intuitive that fossil fuels and food supplies are traditionally critical to national security, and while semiconductors are a much-discussed addition to the supply chains that governments are concerned about, questions arise as to how states should calibrate the measures they take in the realm of geoeconomics. Our purpose here is not to list the industries or commodities that states should pay attention to, but rather what strategic reflections may help states to define guardrails for how they interact with rival states in the economic security space.

Foundational Concepts of Security Policy

International relations scholars consider the security dilemma to be one of a small set of foundational concepts in their field.³ A

¹ Jake Sullivan, 'Remarks by National Security Advisor Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution', Speech, 27 April 2023, <https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/04/27/remarks-by-national-security-advisor-jake-sullivan-on-renewing-american-economic-leadership-at-the-brookings-institution/>.

² John Williamson, 'The Washington Consensus as Policy Prescription for Development', Lecture delivered at the World Bank, 13 January 2004,

<https://www.piie.com/commentary/speeches-papers/washington-consensus-policy-prescription-development>.

³ The first formulation of the security dilemma using that term was made by John H. Herz in 1950 who described it as occurring in any anarchic setting in which different groups of humans all fear being attacked by others, such that: "striving to attain security from such attack, they are driven to acquire more and more power in order to escape the impact of the power of others. This, in turn, renders the others more insecure and compels

compact formulation is that it is a process whereby “the actions that one state takes to make itself more secure (...) tend to make other states less secure and lead them to respond in kind. The result is a tightening spiral of hostility that leaves neither side better off than before”.⁴ A large body of literature on the security dilemma emerged in the Cold War era, notably through the works of Robert Jervis who explored the phenomenon of action-reaction spirals

addressed questions regarding the effects of alliances on deterrence and strategic stability. The economics of alliances, specifically the question of burden sharing among allies, also constituted a topic of interest for both scholars and policy makers.

In sum, we will explore the following putative phenomena: economic security dilemmas; economic security action-reaction spirals and arms races; economic deterrence; economic appeasement; economic security



Deterrence. Painting by Vasily Rubachenko, Wikimedia Commons, 1989.

between rival states.⁵ Related major strands of literature in international relations have addressed the concepts of deterrence and of arms races. Also, while the security dilemma can be used in discourse to suggest that a state may be overshooting in its security policy, the opposite state behaviour also exists, namely appeasement.

Another major policy component of the Cold War was the maintenance of defensive military alliances in peacetime. With NATO as the main example, as well as America’s bilateral mutual defence treaties with nations of the Pacific Rim, scholars

alliances; and burden sharing within economic security alliances.

Practical Nuances of the Traditional Security Dilemma

The core idea of the security dilemma is that measures taken to increase the security of a state may be deemed to be potentially threatening by a rival state, which then leads to a spiral of measures. This is only plausible and will only lead to an action-reaction spiral or arms race, if states are unable to tell the difference, or pretend not to know the difference, between defensive and offensive

them to prepare for the worst. Since none can ever feel entirely secure in such a world of competing units, power competition ensues, and the vicious circle of security and power accumulation is on”. See John H. Herz, ‘Idealist Internationalism and the Security Dilemma’, *World Politics*, January 1950, Vol. 2, No. 2, pp. 157-180.

⁴ See Stephen Walt, ‘Does Anyone Still Understand the ‘Security Dilemma’?’, *Foreign Policy*, 26 July 2022.

⁵ See notably the “spiral model” developed in: Robert Jervis, *Perception and misperception in international politics: New edition*, Princeton University Press, 2017.

measures. While this distinction is not always easy to make, such that there is a certain scope for arms racing based purely on the security dilemma, there are certain military capabilities, and certain steps in terms of military preparedness, that are clearly more oriented towards offensive rather than defensive goals. Another challenge to the simple statement of the security dilemma is that it doesn't imply thresholds for the size and nature of increases in security measures that would trigger a response.

Practical reality is different. A state that intends to commit aggression, or to acquire the ability to do so, will, if starting from a low level, necessarily have to make large changes to its capabilities which will look clearly different, in the eyes of the intelligence services of rival states, from more modest defence investments that would be consistent with lower ambitions.

Are there comparable practical nuances for the economic security dilemma? Are there discernible differences between defensive and offensive measures? Are there thresholds, quantitative or qualitative, below which steps taken to increase economic security should rationally not worry other states (or worry them considerably less)? We believe this is so. To see this, we posit that there are two types of economic security dilemmas, the first oriented towards national survival, the second towards technological superiority.

Two Types of Economic Security Dilemmas

In the first type of economic security dilemma, the focus is on essential resources: imports of food and energy for those states that are not self-sufficient in these areas, and a roughly commensurate level of exports – traditionally

manufactured goods. In that context, a state responds to the rise of a challenger that it fears by seeking to derail its economic potential. The measures taken are, or are perceived to be, threats against the challenger's access to essential resources. The challenger may then respond by developing domestic alternative resources and alternative trading partnerships. If those options are not possible, if the challenger faces the prospect of economic strangulation or subjugation, it will be incentivized to guarantee its economic security through wars of conquest or other uses of force that ensure its access to essential resources. Historically, this type of economic security dilemma has been at its most dangerous in cases of rising economic needs on the part of revisionist great powers, as the cases of Germany and Japan in the early 20th century illustrate. Dale Copeland's trade expectations theory remains, in our view, the best available rendering of that view.⁶

In the second type of economic security dilemma, the focus shifts towards high technology. A technologically more advanced state responds to a rising challenger in a more targeted way, by seeking to block or slow down the technological progress of the challenger, lest the challenger develops a dangerous military advantage. The challenger may then respond by developing domestic alternative resources or alternative trading partnerships. Still, if these options are not possible, the challenger does not face the prospect of economic strangulation and its survival is not in question (in a short- to mid-term perspective). It would be extraordinary for a state in that position to opt for war in order to access high technologies that are not necessary for national survival. On the

⁶ In Dale C. Copeland view, regarding Germany: "with the other great powers moving after 1896 toward policies of economic containment, German officials had good reason to believe that Germany's long-term decline relative to huge economic empires such as Russia, Britain, and the United States could not be reversed merely by greater economic penetration of the world economy. In such an environment, war to secure the resources and markets needed to secure Germany's

economic growth became seen as a necessity." And regarding Japan: "From 1880 onward, Japanese leaders of all the major parties and ideological inclinations were obsessed with one problem: how to ensure that Japan maintained access to the resources and markets critical to its long-term security as an emerging great power." See: Dale C. Copeland, *Economic Interdependence and War*, Princeton University Press.

contrary, throughout modern history, most states have been less technologically advanced than the few most advanced states over extended periods without developing any aggressive intent based on that disparity. Major powers, on the other hand, have long competed for technological superiority, including through antagonistic policies such as industrial espionage and export controls, but not to the extent of considering war as a means of achieving technological superiority.

Under the first type of economic security dilemma, attempting to eliminate the potential threat of a rival state through economic strangulation has been shown to lead to more aggressive actions by the rival state. A supporting consideration is that states have long agreed that a blockade is an act of war under international law. Furthermore, one may view the rules governing global trade that emerged after the Second World War, notably the General Agreement on Tariffs and Trade (GATT), as a pivotal effort to transcend the dangerous logic of the first type of economic security dilemma.

Under the second type of economic security dilemma, the risk of war is pushed further into the future. Effectively, major powers engage in an antagonistic race for technological superiority, which may be viewed as sitting upstream from a traditional arms race, which may or may not occur. Where there is a dilemma is in the broadcasting of mutual suspicions regarding the ultimate military effect of technological superiority. In that context, measures to deny access to certain technologies to a rival state may be viewed by that rival state as a deliberate strategy to achieve or sustain technological superiority and ultimately military superiority, and that goal may in turn be viewed as consistent with wanting to be able to fight and win a future war.

Because both types of economic security dilemma coexist, a major power that initiates a pathway into the second type could be suspected of ultimately desiring the first type of confrontation as well. After all, if a state is concerned about the future military capabilities of its rival, what is to guarantee that it won't directly opt to sabotage its rival's

prosperity writ large? Also, one may envisage a wide range of hostile acts that would lie in between the two economic security dilemmas, for example through using expansive definitions of high technology, or through the negotiation of exclusionary trade agreements with third countries. In sum, a state subjected to restrictive measures only in the realm of high technology may rationally fear that more is to come, unless credible signals are given to assuage those fears. We suggest that this line of reasoning provides a conceptual justification for the United States having chosen to signal to China that it wished to define a "floor" for relations between the two states. While that floor also addresses other issues, from the economic perspective Beijing was being told that it should expect calibrated measures such as export controls to reduce technology leakage, but that it should rest assured that there is no intent to wage a broader-based campaign against China's economic development.

One may view the important difference between decoupling and de-risking in a similar light. The rational justification for that distinction is thus not merely the protection of existing Western economic and commercial interests, though those are influential at any given time, but also a more forward-looking attempt to steer the dynamics of great power economic competition onto a trajectory that would not so easily lead to a downward spiral of expectations and of mutual actions and reactions.

Action-Reaction Spirals and Threshold Effects

Do action-reaction spirals occur in the realm of economic security? The short answer is yes – there are many historical cases of trade disputes involving series of retaliatory measures between states. On the other hand, asymmetries between states are of a broader nature and have deeper implications in the economic realm than in the military realm. Arms races are relatively symmetrical: to keep up with a state that is building a new fleet of next-generation combat aircraft, a rival state (of a comparable size) will likewise also build a new fleet of next-generation aircraft.

Economic action-reaction spirals are more heavily conditioned by structural differences, for example differences in natural resource endowments and in pre-existing (or potential) patterns of industrial specialisation. As a result, offensive and retaliatory measures between states are inherently more asymmetrical in an economic security spiral. In the case of trade wars, typically the initiating move is for one state to impose import tariffs on goods for which it is a net importer and aimed at a rival state that is a net exporter of those goods. The retaliatory move, therefore, will not concern the same traded goods, but other traded goods where the direction of dependence is the opposite.

Also of significant importance are the dynamic properties and likely end states of such disputes. For example, do trade disputes – or other measures of economic statecraft – tend towards runaway trajectories, leading to ever greater and costlier measures? For example, could there be an economic equivalent to the development of tens of thousands of nuclear weapons? Or do economic security spirals tend to stabilise at moderate levels, much below the maximalist scenario of cutting off all trade? Another relevant question concerns reversibility. Once two countries have engaged in mutual restrictive measures, assuming their relations improve, how easily can they return to the status quo ante, or at least to a state of improved economic relations?

The tariffs imposed by the United States on Chinese goods in the course of 2018 provide an ongoing case study. The tariffs are still in place, three years into the Biden Presidency. A comprehensive review of the tariffs is underway, as legally mandated, with the U.S. Commerce Secretary stating in September 2023 that the tariffs “could have been much more strategic” – a choice of words that suggests that somewhat differently

targeted tariffs, but not a wholesale removal of tariffs, could be a future alternative.⁷

Protectionist measures display a certain durability, which is predictable from both a bargaining perspective and a domestic political economy perspective.

Deterrence and Mutually Assured Destruction

We frame economic deterrence as being the potential use of economic means to deter a rival state from pursuing an unwanted course of action, be it economic or military. Economic deterrence requires an accumulation of economic resources that can be weaponised. For example, a country enjoying monopolistic power in the supply of a strategic commodity could credibly threaten a target country with an embargo. In that context, one can envisage an equivalent to a military build-up: a state could choose to increase its production or its control of channels of distribution to raise its market share in a potential target state. Conversely, a state that is dependent on imports of a particular commodity could choose to build up exceptionally large security stockholdings with the intention of being able to withstand an embargo or a blockade. Also, both net importers and net exporters of strategic commodities may choose to build up financial reserves, to be able to withstand financial sanctions or to sustain domestic economic activity in wartime. On the other hand, such preparations could be interpreted as an intent to prepare for either a geoeconomic conflict or a military conflict, possibly leading to an economic security dilemma.

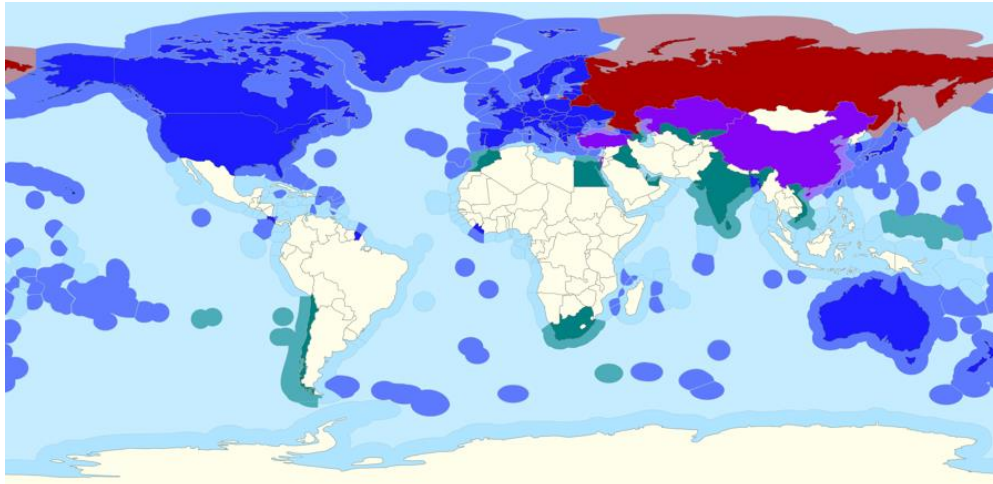
In the years prior to 2022, EU-Russia economic relations followed a peculiarly asymmetric trajectory. Russia openly prepared for possible confrontation by pursuing a strict fiscal policy and a partial import substitution policy.⁸ When viewed in the broader context

⁷ See <https://www.reuters.com/world/us/us-commerce-secretary-doesnt-expect-changes-trump-china-tariffs-until-review-2023-09-05/>.

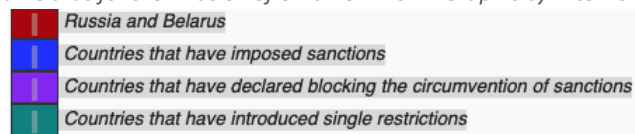
⁸ See e.g. Albrecht Rothacher, *Putinomics: How the Kremlin Damages the Russian Economy*, Springer Nature, 2021, Ilya Matveev, ‘State, capital, and the transformation of the neoliberal policy paradigm in

Putin’s Russia’, *International Review of Modern Sociology*, Vol. 45, Special Issue 1, 2019, pp. 29-51, Natalia V. Merzlyakova and Nadezhda A.

Goncharova, ‘Investigation of Import Substitution and Expansion Impact in Russian Foreign Economic Practice by Supply Chain Strategy’, *International*



Sanctions against Russia and Belarus for the invasion of Ukraine in 2022. Graphic by Artemis Dread, 18 April 2022



of Russia’s ambitious rearmament programs, large military exercises, and uses of military force in Ukraine and in Syria, the overall signal should have been ominous for European governments.⁹ While this was a regular fixture of official statements by nations in Central and Eastern Europe, Western European governments took no serious steps to prepare for a full cut-off of Russian energy supplies or for any other type of serious confrontation. On the contrary, in the case of Germany in particular, the choice was made to deliberately increase dependence through the development of the Nord Stream 2 pipeline. One could argue that Russia successfully deterred the large Western European states from diversifying their energy supplies, but the most direct analogy is that Germany and certain other European states were practicing economic appeasement towards Russia. As in the military realm, a state that has pursued appeasement finds itself ill-prepared in case

the conflict it hoped to avoid arises anyway. In the event, over the period from September 2021 to January 2023, EU member states allocated a total of 540 billion euros in national fiscal measures, and the UK 103 billion euros, to shield consumers and firms from the effects of the Russia-induced energy supply crisis that accompanied the war.¹⁰ These sums represent roughly double the annual national defence budgets of the relevant countries.¹¹

Russia has faced serious economic headwinds due to the cumulative impacts of multiple packages of sanctions and the costs, both direct and indirect, of the war. On the other hand, the initial months of the war provided windfall revenues thanks to elevated oil prices and record-high natural gas prices. Overall, Russia is assessed to have experienced only a minor recession in 2022, with real GDP falling by only around 2 percent, and to be on track for positive GDP growth in

Journal of Supply Chain Management, Vol. 9, No. 2, April 2020, pp. 772-778.

⁹ For an overview of Russia’s movement towards greater military capabilities prior to 2022, see e.g. Fredrik Westerlund and Susanne Oxenstierna (eds), Gudrun Persson, Jonas Kjellén, Johan Norberg, Jakob Hedenskog, Tomas Malmjöf, Martin Goliath, Johan Engvall and Nils Dahlqvist, ‘Russian Military Capability in a Ten-Year Perspective – 2019’, Swedish Defence Research Agency (FOI), December 2019.

¹⁰ Giovanni Sgaravatti, Simone Tagliapietra, Cecilia Trasi and Georg Zachmann, ‘National policies to shield consumers from rising energy prices’, Bruegel Datasets, 26 June 2023, <https://www.bruegel.org/dataset/national-policies-shield-consumers-rising-energy-prices>.

¹¹ For comparison see e.g. NATO, ‘Defence Expenditure of NATO Countries (2014-2023)’, Press release, 7 July 2023.

2023 and 2024.¹² As for European states, in spite of several months of high inflation and far higher energy import bills in 2022, economic growth was robust in 2022 for the EU as a whole, and is projected to be low but still positive in 2023 and 2024.¹³ In short, economic mutual destruction did not materialise, and given the extent of decoupling achieved to date, it will never materialise – save under the very unlikely scenario of a full-blown Russian economic suicide which would occur if Russia halted all oil exports to the rest of the world. In light of the latter reflection, one could consider that there is such a thing as mutually assured destruction in the realm of economic security – and that it is an extraordinarily remote possibility precisely because it would be mutually destructive.

European states also failed to generate any deterrent effect from the sanctions they were signalling they would take prior to February 2022. Whether a threat of near-total economic decoupling could have given Moscow pause for thought, had it been issued credibly in January 2022, will have to remain an open question. It was, at minimum, clearly the case that the signalled sanctions were insufficient, not just in hindsight but also ex ante.¹⁴ Nonetheless, there is much to argue for the position that the strongest form of deterrence is military deterrence, and that while economic measures can have palpable effects, they provide an inherently weak signal if they are known to be intended as a substitute for a military response, rather than as a possible prelude to such a response.

¹² See European Commission, 'European Economic Forecast Autumn 2023', Institutional Paper 258, November 2023.

¹³ Ibid.

¹⁴ "Rather than expecting war to actually happen while seeking sanctions that have low costs, Western governments should adopt a sharper bifurcation: it's either business as usual or decoupling. If this principle could be fixed, the incentive for all concerned to preserve peace would be far greater", see Edward Hunter Christie, 'A proposal for a new Western policy on the Russia-Ukraine conflict: re-position to de-escalate', FIIA

Economic Appeasement

When Western states prepared their initial packages of sanctions against Russia in anticipation of its full-scale invasion of Ukraine, they had already gone through a process whereby military intervention had been ruled out. With clear signals that such intervention was off the table, the Russian leadership knew it could attempt its gamble against Ukraine without facing serious consequences. Western countries then opted for low-cost sanctions. The two most potent types of sanctions were taken off the table: sanctions relating to energy supplies, and disconnecting Russian banks from the SWIFT messaging service.¹⁵ In the multiple public discussions that preceded the invasion on 24 February 2022, the expectation was that Western states would impose only two types of economic sanctions: so-called blocking sanctions against major Russian banks and export bans on technology items.¹⁶

However, once the war had started, the psychological impact of its brutality required that Western governments do more. Sanctions that had either been rejected or not even considered prior to February 2022 became reality. On 26 February 2022, Western allies agreed on two new and major economic sanctions: the removal of major Russian banks from the SWIFT messaging system, and the freezing of the Russian Central Bank's (CBR) reserves.¹⁷ As mentioned above, prior to the invasion, the SWIFT sanction had been discussed but taken off the table. The freezing of the CBR's reserves was a new element which had not been discussed previously. According to later reporting, it was first

Comment, the Finnish Institute of International Affairs, 5 January 2022.

¹⁵ Andrea Shalal, 'SWIFT off Russia sanctions list, state banks likely target -U.S., EU officials', *Reuters*, 11 February 2022. Michael Crowley and Edward Wong, 'U.S. Sanctions Aimed at Russia Could Take a Wide Toll', *New York Times*, 29 January 2022.

¹⁶ Ibid.

¹⁷ European Commission, France, Germany, Italy, United Kingdom, Canada, United States, 'Joint Statement on Further Restrictive Economic Measures', 26 February 2022, https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_22_1423.

proposed by Canada on the day of the invasion, Thursday 24 February, and negotiated and prepared for implementation over the weekend to ensure it was in place when markets opened the following Monday.¹⁸ It is demonstrable that Russia was not prepared for this measure: in the preceding years, the Russian Central Bank had reduced its exposure to the United States, but not to Europe or Japan, and it had even increased its exposure to Germany.¹⁹

An additional unplanned sanction was airspace closures, which unfolded through emulation among European states. The first mover was the UK, with an announcement on 24 February, followed by Poland, the Czech Republic, and Bulgaria on 25 February, by Romania, Germany, and the Baltic states on 26 February, and by Finland, Denmark, and Sweden on 27 February.²⁰ That same afternoon, Putin reacted by issuing a nuclear threat. His announcement was that Russia's nuclear deterrent was being placed "on a special mode of combat duty", which he justified by stating that "Western countries are taking not only unfriendly actions against our country in the economic sphere (...) leading NATO countries also make aggressive statements against our country".²¹ There had not been any aggressive statements, so one could make a case for interpreting the unexpected economic measures as a genuine motivation for Putin's nuclear threat. The threat had no effect on the unfolding economic measures: the European Union's Foreign Affairs Council extended the airspace closures to the entire EU and confirmed the other announced measures a few hours after Putin had made his threat.²²

The sequence of events shows that, once the war was on, Western governments were able to enact potent economic measures (including, later in 2022, an EU ban on imports of Russian oil), but they proved incapable of signalling (and perhaps even believing) that they could take such measures when it mattered most, namely before 24 February. On the contrary, by publicly removing crucial economic weapons from the table, they signalled a lack of resolve. This suggests that Western states had fallen into appeasement: they took insufficient economic security measures prior to a confrontation out of fear of their costs, only to find themselves facing even greater costs at a later and less favourable juncture.

Alliances and Burden-Sharing

Is there an equivalent to NATO in the realm of Western economic security? Historically, the Organisation for Economic Cooperation and Development (OECD) was created around the same time as NATO. Like its military counterpart, it brought together like-minded allies from both sides of the Atlantic, based on an inter-governmental model. However, while the OECD is an essential forum for economic policy consultation, NATO allies chose other fora for trade policy and for economic security. Trade negotiations were pursued on a wider, global basis through the GATT (later the World Trade Organization) and, in parallel, European states created the European Economic Community (later the EU) through which they pursued mutual trade liberalisation and, from the start, a customs union which meant a common external trade policy by all members towards all non-members, including the United States. That

¹⁸ Valentina Pop, Sam Fleming, and James Politi, 'Weaponisation of finance: how the west unleashed 'shock and awe' on Russia', *Financial Times*, 6 April 2022.

¹⁹ See Gary Clyde Hufbauer and Jeffrey J. Schott, 'The United States should seize Russian assets for Ukraine's reconstruction', Peterson Institute for International Economics (PIIE), 21 April 2022.

²⁰ See Helen Coffey, 'UK bans Russian aircraft from its airspace', *The Independent*, 25 February 2022. Reuters, 'Germany to close airspace to Russian

planes', 26 February 2022. Anne Kauranen and Niklas Pollard, 'Nordic countries prepare to shut airspace to Russian planes', *Reuters*, 27 February 2022.

²¹ <https://ria.ru/20220227/putin-1775390301.html>.

²² Council of the European Union, 'Informal video conference of foreign affairs ministers, 27 February 2022', 27 February 2022, <https://www.consilium.europa.eu/en/meetings/fac/2022/02/27/>.

arrangement has meant that trade disputes between the United States and the European Union can and do occur. While allies across the Atlantic generally keep their trade disputes small, it is an odd historical outcome that nations that are militarily so closely allied – committed to each other’s defence and with their armed forces permanently working together in the NATO framework – are permanently at risk of developing frictions on matters relating to their strategic economic interests.

Despite this structural weakness in the Atlantic alliance, policy coordination among Western allies has long been pursued through non-binding formats. At the broad strategic level, the G7 has retained a crucial importance in getting both sides of the Atlantic – and Japan – to pull in the same direction when faced with severe strategic challenges, such as with Russian aggression in recent years.

At a more granular level, institutional setups to address trade in security-sensitive items have traditionally been split between high-technology goods and services (relating to policy instruments such as export controls and, more recently, foreign investment screening) and raw materials (dependence on fossil fuels and, more recently, rare earths and semiconductors).

For high-technology goods and services, the most relevant format during the Cold War was the Coordinating Committee for Multilateral Export Controls (CoCom) which helped build consensus among allies on common lists of military goods and of dual-use goods that should be subject to export controls.²³ CoCom was succeeded in the 1990s by the more multilateral Wassenaar Arrangement which, because it came to include Russia, has now lost much of its usefulness.²⁴ On the other hand, nothing

prevents allies from consulting with each other bilaterally and in ad hoc formats, and that is what has continued to occur. Despite the lack of a well-tailored formal economic security organisation, the United States, the European Union, Canada, the United Kingdom, and other Western allies tend to pursue broadly similar economic security priorities and approaches, often introducing similar new legislation over time in response to global challenges.

For illustration, in recent years both the United States and the EU introduced or strengthened legislation on the screening of foreign investments, on export controls, and on the protection of trade secrets. In doing so, both sides of the Atlantic displayed an evident degree of mutual consultation and policy awareness, and were both clearly responding to the growing challenge posed by China. More recent discussions about decoupling versus de-risking provide further illustration of the ability of Washington and Brussels to pull roughly in the same direction, even if structural differences in economic interests arise. Another development is the EU-U.S. Trade and Technology Council. Launched in 2021, its five announced areas of priority are export controls, foreign direct investment screening, secure supply chains (especially regarding semiconductors), technology standards (including cooperation on Artificial Intelligence), and global trade challenges.²⁵

Regarding dependence on raw materials, Western allies set up the International Energy Agency (IEA) in 1974 as a direct response to the 1973 oil shock. Under the treaty underpinning the creation of the IEA, member states committed to always holding at least 90 days’ worth of net oil imports and to be ready to collectively respond to severe supply disruptions affecting the global oil market.²⁶ Since its creation, the

²³ See e.g. Kenneth W. Abbott, ‘Linking Trade to Political Goals: Foreign Policy Export Controls in the 1970s and 1980s’, *Minnesota Law Review*, Vol. 65, Issue 739, 1981, pp. 739-889; Richard T. Cupitt and Suzette R. Grillo, ‘COCOM is dead, long live COCOM: Persistence and change in multilateral security institutions’, *British Journal of Political Science*, Issue 27, no. 3 (1997): pp. 361-389.

²⁴ See e.g. William Alan Reinsch, ‘Wa, Wa, Wassenaar!’, *Commentary*, Center for Strategic and International Studies (CSIS), 24 July 2023.

²⁵ See https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/stronger-europe-world/eu-us-trade-and-technology-council_en.

²⁶ See Republic of Austria, Kingdom of Belgium, Canada et al., ‘Agreement on an International



Tubes for Nord Stream 2 in Mukran Port, Germany. Photo by Gerd Fahrenhorst, 30 October 2019, Wikimedia Commons.

IEA has activated its collective response mechanism five times, the three most recent cases being once during the Libyan Civil War in 2011 and twice at the beginning of the current Russia-Ukraine war, in March 2022 and again in April 2022.²⁷ However, while the IEA's response mechanism has proven useful with respect to oil supplies, natural gas has posed deeper problems.

Germany's pursuit of the Nord Stream projects prior to the current Russia-Ukraine war highlights the failure of Western allies to create a genuine economic security alliance that would rule out beggar-thy-neighbour policies in the area of economic security. While much analysis was devoted to the proximate economic effects of the Nord Stream projects, notably the loss of transit revenues for countries circumvented by these pipelines, the latter also had a predictable effect on the balance of incentives for Moscow to commit aggression against transit countries such as Ukraine.²⁸ As noted already at the time of the first Nord Stream project, if

one had assumed "that Russia has aggressive designs against transit states (...) then Germany's current position runs directly counter to the national security interests of the by-passed countries".²⁹ As for Nord Stream 2, it is notable that a German government minister stated, in November 2022, that "the decision to pursue Nord Stream 2 following the annexation of Crimea in 2014 was Germany's contribution to the outbreak of the war in Ukraine".³⁰

Whereas the EU has long transcended strategic economic antagonisms between its members with respect to trade policy, thanks to its customs union, it is extraordinary that further steps were not taken to abolish competition between member states regarding the key strategic vulnerability of dependence on fossil fuel imports.

Burden-Sharing

In the NATO context, U.S. complaints about Europeans not spending enough on defence have been a feature of policy discussions since

Energy Program (as amended 17 February 2018), 18 November 1974 (amended 17 February 2018), <https://iea.blob.core.windows.net/assets/c6be6d60-1ca8-4b99-b8c7-7ac508ec157c/IEP.pdf>.

²⁷ See International Energy Agency, 'Oil security: The global oil market remains vulnerable to a wide range of risk factors', online information page, undated, <https://www.iea.org/about/emergency-response-and-energy-security/oil-security>.

²⁸ Edward Hunter Christie, 'The battle of Nord Stream', Expert article 401, *Baltic Rim Economies*, 30 October 2009,

https://www.utu.fi/sites/default/files/media/drupal/BRE_2009_5.pdf.

²⁹ Ibid.

³⁰ Marco Buschmann, 'Welcoming address at the meeting of the G7 Justice Ministers – Welcoming address by Minister Buschmann at the meeting of the G7 Justice Ministers on 29 November 2022 in Berlin', 29 November 2022, https://www.bmj.de/SharedDocs/Reden/DE/2022/1129_G7_Welcoming_address.html;jsessionid=A336B72F85B7ABD5005FF7E8BFABB201.1_cid334.

as long ago as the 1960s. The tendency of European allies to spend a lower share of their national incomes on defence as compared to the United States is referred to as free riding in the relevant literature. While the guideline had some earlier history, NATO Allies made a high-level political commitment, at the NATO Summit in Wales in 2014, to each spend at least 2 percent of GDP on defence.

There is no direct equivalent in the economic security context. This is partly for institutional reasons: economic security is not a single budget heading in any national system, hence targeting it with a political commitment is technically difficult, even if states wanted to do so. There are, however, some narrow areas where burden-sharing discussions have emerged. The IEA's commitment to holding security stockholdings of oil or oil products is a common quantitative target for national efforts. This example is the closest equivalent to burden-sharing in a defensive military alliance.

There have also been ad hoc instances of burden-sharing in the area of economic sanctions. In 2014, as Allies were considering sectoral economic sanctions against Russia, it mattered for reasons of effectiveness for allies to target the same sectors in Russia. As a result, allies had to agree on what those sectors would be. Targeting manufacturing exports to Russia or energy imports from Russia would have harmed Germany far more than the United States or, for that matter, the United Kingdom or France. With financial sanctions, on the other hand, the large European economies and the United States were set to suffer roughly similar absolute losses, which would furthermore represent only a small percentage of each country's financial sector revenues. It was thus no surprise that the most potent element of the coordinated U.S.-EU sanctions against Russia were in the realm of finance – it was, in part, the result of a burden-sharing negotiation.

Relations with China, on the other hand, display weaker burden-sharing between the two sides of the Atlantic. The United States went further, and acted earlier and more strongly, in seeking a technological containment of China. Beginning with discussions on 5G in 2018, it was the United States that sought, with significant initial difficulty, to convince European allies to reduce their exposure to Huawei. The United States also prohibited financial investments into companies that are part of China's military-industrial complex or part of its surveillance technology sector, a move that was repeated under the Biden Administration but not matched by European allies.³¹

Concluding Questions

There is a plausible case for believing that there is such a thing as an economic security dilemma. However, it is broader in scope than merely a matter of tit-for-tat escalation in a purely economic realm. On the contrary, we believe that economic security is inherently related to matters of war and peace, and that no view of the economic security dilemma is complete without a connection to the conditions that may presage an outbreak of war or the avoidance of it. It is currently a matter of the highest relevance to understand whether the emerging Western choice of de-risking with respect to China, as opposed to a more muscular policy of decoupling (or as opposed to a return to a more market-centric approach), will ultimately make a direct military confrontation with China more or less likely, and what shape such a confrontation might take, should it occur.

In parallel, reflections about collective economic security could be deepened. As we have highlighted, the collaborative formats that Western allies have at their disposal do not amount to an economic security alliance, nor are there adequate burden-sharing arrangements. However, policies could be designed to plug these gaps, based on an

³¹ See Executive Order 13959 of 12 November 2020 (Trump) and the highly similar Executive Order 14032 of 3 June 2021 (Biden). On 3 November 2023, the emergency measures taken in those Executive Orders were extended for a

further year, see <https://www.federalregister.gov/documents/2023/11/07/2023-24776/continuation-of-the-national-emergency-with-respect-to-the-threat-from-securities-investments-that>.

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