



# Building security through competitiveness

## Preface

This paper presents the views of Confederation of Swedish Enterprise and its member organizations on the EU Economic Security Strategy. We believe that many of the areas contained in the strategy will be in focus for trade policy in the coming years. There is clear merit to some of the thinking in the Strategy but also many risks that cannot be neglected and thus we have compiled this paper with our overall position.

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## Our main points

- The Swedish business community recognises that the world in which we operate has become increasingly dangerous and unpredictable, and that businesses today face multiple security threats. However, we also recognise that there is a certain amount of risk inherent in all economic transactions, particularly in international commerce.
- As a rule, it should be up to the businesses themselves to strike the appropriate balance between economic efficiency and economic security, as long as it does not endanger the safety and security of society.
- Public policy, both in the EU and the Member States, should strive to create the best possible conditions for business to diversify trade and supply chains of goods, services and data. It should be adapted to changing circumstances when required, thus reducing risks associated with economic dependency.
- Protection against economic security risks is one thing; protection against economic competition is another. While the first is essential, the second is destructive, as it amounts to protectionism that is negative for the long-term business climate in Europe. The issue of 'fair trade' should not be conflated with security.
- The security lens - and the security lens alone - must always act as the guiding principle when assessing those technologies that merit attention as posing potential risks. Any list of sensitive products must be clearly and narrowly defined, so as to not affect trade any more than necessary.
- Selective intervention in the market and support for sectors/technologies deemed critical may be needed in some instances, primarily to address market failures. These, however, cannot and must not be the main instruments for building a strong economy.
- We reject the concept of outbound investment screening. We do not see any need for such legislation, as the export control regime already makes it possible to stop the transfer of sensitive technologies. This regime was revised as recently as 2021, and it is still too early to tell whether further reforms are necessary to coordinate the system to ensure its efficiency, or whether it requires even more fundamental change.
- Outbound investment screening would control the flow of capital, rather than the flow of technology. This is a potentially protectionist idea, one that may be used to mandate reshoring and/or deny our competitors the technologies they need. Such policies will not lay the foundation for growth and may invite tit-for-tat retaliation from trade partners around the world.
- Before adopting new and/or stricter conditions for inward investment screening instruments, a thorough assessment of the existing instruments should be undertaken.
- The anti-coercion instrument and other defensive tools may be required, but these are weapons that can backfire and thus must be wielded with extreme caution.
- The most important factor that contributes to economic security is our economic strength. This we can build through a renewed focus on our greatest assets: the Single Market and our open trade policy. We must not allow increased regulatory burdens to hamper European competitiveness.

## Recognising the risks

**Swedish businesses recognise the fact that the world in which they operate has become more dangerous and unpredictable, and that the process has been rapid and is multi-faceted.** We confirm the European Commission's description in its recently published strategy<sup>1</sup>, which stated “The global pandemic, Russia's illegal and unprovoked war in Ukraine, hostile economic actions, cyber and infrastructure attacks, foreign interference and disinformation and a global increase in geopolitical tensions have exposed risks and vulnerabilities in our societies, economies and companies that did not exist only a few short year ago”. Moreover, blockages in the Suez and Panama canals have highlighted the need for resilience in core supply routes.

We also share the general goal of the strategy, which according to the European Commission, is “minimising risks arising from certain economic flows in the context of increased geopolitical tensions and accelerated technological shifts, while preserving maximum levels of economic openness and dynamism”. **The challenge is to strike the appropriate balance between minimising risks and preserving openness.** The basic fact is – which must be borne in mind when seeking such an equilibrium – that a diversified trade pattern saved us from the worst consequences of the pandemic. In other words, the global market economy was not the problem at the time, but rather provided the solution.

## Accepting some risks

It must be recognised **that risk is inherent in all economic transactions, particularly in international commerce.** The extent to which risks should be considered and reduced depends on the costs and other consequences in each specific case. If, for example, the risks of severe disruption in the supply chains could be minimised at low cost, then it will be a worthwhile investment. However, if the costs of moving production from one site to another in order to reduce some minor risks outweigh the benefits of the enhanced security, then it is not worth it.

**As a rule, it should be up to the businesses themselves to decide on the appropriate balance between economic efficiency and economic security, as long as it does not endanger the safety and security of society.** Maintaining this balance is a continuous process. Currently, there is a reassessment of reliance on certain third countries underway. Many companies are reducing their exposure, partly by finding suppliers closer to home. These may be more costly and less efficient but do provide for greater security. This is – and should remain – a business-driven process without mandated policies for reshoring.

## A strong economy is the foundation for a secure economy

**The single most important contribution to overall economic security is overall economic strength.** For this reason, a focus of the strategy should be at minimum to safeguard, but preferably to also improve, the competitiveness of the EU. This is recognised in the strategy, and various measures to achieve this are listed under the headline *Promote*.

<sup>1</sup> European Commission (2023) Joint communication to the European Parliament, the European Council and the Council on “European economic security strategy”.

### *Refocusing on our greatest strategic asset: the Single Market*

It is often remarked that the EU's main strength lies in its vast, integrated Single Market. It is fundamental for international competitiveness; it guarantees open trade between Member States and give our companies the opportunity to efficiently diversify their value chains and thus make them more resilient. Consequently, **nothing could be more fundamental to our basic economic security than to build it on a strong Single Market.** Instead, there has been - for some time - a certain degree of disinterest and/or neglect. This is precisely the opposite of what we need; it makes us weaker and less secure as a result.

**Inaction regarding the basic functioning of the Single Market has been coupled with several more specific sector and/or technology focused proposals.** This has, among other things, led to a more strategic (politicised) control over the standard setting process in some sectors deemed critical. Exerting more political control in this area risks undermining the whole process with less innovation in the EU and weaker economic growth as a result.

### *Resilient value chains without distorted competition*

Most of these sector-specific initiatives are aimed at increasing resilience and strengthening supply chains, as well as focusing on supporting and/or steering developments in particular technologies. The EU Industrial Strategy, the European Chips Act, the Critical Raw Materials Act and the Net Zero Industry Act are all aimed at reducing dependencies and making the EU more resilient, prominently by boosting European production of semiconductors, critical raw materials and fossil-free energy technologies. The latest initiative is the Strategic Technologies for Europe Platform (STEP), where additional funding for development and manufacturing of certain technologies are proposed. <sup>2</sup>

The European Commission's initiatives are similar in content. Several things can be mentioned as positive. These include, to a varying extent, new measures to improve trade, **general investment in research, skills enhancing measures along with improved and shortened permit processes.** However, the emphasis of these measures has been elsewhere. Much focus has been placed on **increasing public funding, not only for research but also investment and operating aid to mass production.** This brings a number of negative effects. It leads to **distorted competition**, both between individual Member States and between companies. It risks reducing **business dynamism, and - in the long term - lower productivity and competitiveness.**

Promotion of certain types of production with the goal of increasing the EU's sovereignty comes with the risk of taking place at the expense of the long-term competitiveness of business and Europe as a whole.

These initiatives should also be seen in the context of EU's Strategic Compass for Security and Defence, emphasising more robust securing supply chains and access to vital resources for an innovative, competitive and resilient European Defence Technological and Industrial Base.

<sup>2</sup> Deep and digital technologies, clean technologies, and biotechnologies.

## Protecting EU economic security without protectionism

**Protection from economic security risks is one thing; protection against economic competition is another. While the first is essential, the second is destructive as it amounts to protectionism and undermines the long-term competitiveness of Europe.** It is important to ensure that any actions seeking to increase our economic security do not take place at the expense of our economic openness. Protectionism has never generated innovation nor lasting economic development, rather, it tends to aggravate the problems it has set out to solve.

A range of tools have been developed in recent years or are currently in the making. These include the Anti-Coercion Instrument (ACI), the Foreign Subsidies Regulation (FSR), along with new export controls and FDI screening mechanisms (by Member States). This has been added to the arsenal of already-existing traditional trade defence measures that have recently been expanded in scope in order to prepare the EU for new kinds of trade conflicts.

As a general proposition, **we would like to see thorough impact assessments carried out before establishing any new measures. Furthermore, we also think that the effectiveness of already-existing measures should be evaluated before developing them further.**

**We also believe that the issue of economic security and unfair competition must be kept separate.** We realise that it is not always clear what relates to hard security issues and what is more a matter of perceived unfair competition. It is, nevertheless, important to distinguish between the two as the tools and instruments to handle security threats are generally ill-suited to handle competition issues and may, as pointed out above, have negative overall effects if used for this purpose.

### *Limiting the ‘size of the yard’*

The tools set out in the restrictive aspect of the strategy (‘Protect’) are only supposed to impact small sections of the economy but to do so forcefully. In the US, this kind of thinking is referred to as a ‘small yard, high fence’ policy.

The main problem, however, is not necessarily the height of the fence. **If there is a serious security threat, forceful action is required.** For example, the Swedish business community stands fully behind the sanctions imposed on Russia. However, the size of the yard can easily be increased unintentionally through value chain effects, giving rise to disproportionate economic costs. Consequently, **a comprehensive impact analysis, covering both the security and economic effects, is essential before taking any decisions on restrictions.** We must recognise that defensive policies could lead to both a weakening of our competitiveness and to increasing risks of retaliation.

The strategy proposes to undertake assessments of the risks to economic security in several areas.<sup>3</sup> Naturally, this is an approach that must be supported, as the risks are real and are likely to be increasing. **Multidimensional, thorough and continuous risk assessment is essential.** Working with allies in this respect is both natural and more efficient.

One of the concrete steps that has been taken is to focus the risk assessment on critical technologies to 10 areas. At the moment, attention is being directed towards four key such technologies; advanced semiconductors, artificial intelligence (AI), quantum computing and biotech. The purpose is to determine potential measures (see below) on how to reduce likely economic risks once the exact definition of these technologies has been agreed. The problem with such an exercise is the classical risk of attempting to ‘pick the winners’ when it comes to choosing which technologies to support and which to restrict. This is inherently difficult; as a guiding principle, **we prefer a technology-neutral approach to risks.**

<sup>3</sup> Risks to the resilience of supply chains, including energy security; risks to physical and cyber security of critical infrastructure; risks related to technology security and technology leakage and risks of weaponisation of economic dependencies or economic coercion.

Even without actually introducing measures against these four technologies, there is the risk of a chilling effect on trade with related products. From our perspective, **it is important that this list of critical technologies is not broadened** further; in fact, it should be specified and narrowed, in order not to create unnecessary investment uncertainty or inhibit trade partnerships.

The list could have been longer, as is the case with its American counterpart.<sup>4</sup> For example, it includes clean tech, which is not in the EU list. It is vital that it is excluded, since clean tech in itself cannot be regarded as a security risk but will be essential for the green transition.

**When the list will be defined at a more detailed level, this needs to be undertaken with surgical precision.** AI technology, for example, can take many forms and merge rapidly with other technologies. There is also a significant difference between generative AI and more simple applications. The same is true of semiconductors; they are needed everywhere, and the differences between advanced conductors and simple ones are substantial.

**The security lens, and the security lens alone, must be the guiding principle for deciding which technologies merit attention as posing potential risks. Protectionist agendas, to ‘compensate’ for a lack of competitiveness, must not become criteria for selection.** For example, any restrictions on AI must be applied solely for security purposes, and not to protect segments of the industry or certain jobs from competition.

*Export controls: the proper instrument to restrict the flow of sensitive technology*

**Export control of military and dual use products and services to some countries are necessary.** Some sensitive technologies that can be used for military purposes and pose a substantial security threat cannot be allowed to leave the EU. This, however, is a highly complex area, not least in light of rapid technological developments and new applications of technologies. Hence, **it is welcome that the EU in 2021 adopted a revised export control** regime which is intended to lead to a more coordinated EU-approach amongst the Member States in this area. The Commission rightly notes in the strategy that “these provisions are currently being tested”. Since they have only been in force since 2021, we caution against immediately moving on with changes.

**Export control is, and should remain, the main instrument for managing companies’ technology transfers.** If it turns out that - even with the implementation of the new regime - there are substantiated security concerns, then further improvements should be sought within this instrument.

*Restricting Outbound Investment: a dangerous route*

The most novel idea in the strategy is the concept of outbound investment screening. This concept, which is also being discussed in the US, aims at “preventing the narrow set of technological advances that are assessed to be core to enhancing military and intelligence capabilities of actors who may use them to undermine international peace and security from being fuelled by our companies’ capital, expertise and knowledge”.

The idea of obstructing firms from investing abroad is not new, it is a natural element of economic sanctions. It will also form part of the anti-coercion instrument. However, introducing the concept on a more ‘permanent’ basis, and not just as part of a temporary conflict, is a new approach.

<sup>4</sup> [What the EU list of critical technologies tells us about its de-risking plans | ECFR.](#)



**We reject the idea of outbound investment screening**, and we offer two strong arguments against the approach. First, **there is no need for such legislation, as the export control regime already allows Member States to stop the transfer of sensitive technologies**. This is even in cases when there is no export in the commercial sense (such as when the technologies are transferred within a corporation or given away as part of an investment).

**Such an instrument would control the flow of capital rather than the flow of technology**, and that would be the wrong approach. Which leads us to our second argument; **It is protectionist in nature**. The notion that a state, or the EU, can stop a firm from conducting business in third country markets in such a way risks opening a Pandora's Box. The mechanism could be used as a tool to enforce homeshoring, or as a method of denying competitors access to vital technology for the sake of making them less competitive. It will also most certainly lead to countermeasures from third countries, which are likely to adversely affect the flow of desirable investments into Europe.

It is easy to envisage pressure in the future to use this instrument as a way of stopping investments for purely economic reasons, in the belief that this would create growth and jobs in Europe rather than overseas. However, since FDI and trade are - to a large extent - complementary, this would prove detrimental for EU exporting firms and for jobs in Europe. With a regionalisation of the global economy, **EU firms need to be present in other markets with affiliates**.

#### *Protecting against risky FDI without undue red tape*

Inward FDI screening in areas essential for national security is important and has been, or is being, put in place in most Member States. However, **before adopting any new and/or stricter conditions in screening instruments, be it nationally or at European level, a thorough assessment of these instruments should be undertaken**. Such an assessment should include effects on costs for companies and concerned authorities, the effects on desirable FDI as well as those on national and European security.

#### *Protecting against economic coercion, with caution*

The Anti-Coercion Instrument (ACI) has just entered into force. According to the strategy, this instrument is to “deter countries from restricting or threatening to restrict trade or investment to bring about a change of legitimate policy in the EU, but also foresees the possibility for the EU to take countermeasures as a last resort”.

**The ACI may be needed, but it is also a potent weapon that must be wielded with great caution**. It gives the European Commission the authority to impose a wide range of measures in various economic areas against countries that have been seen as coercing the EU. These measures are similar to economic sanctions but without the need for unanimity (qualified majority voting will suffice), which means that any conflict can be officially labelled as ‘economic coercion’ leading to potentially severe measures. These in turn may, of course, lead to counter reactions and the risk of escalating conflicts.



### *Protection against technology and research leakage, with legal certainty*

It is critical for EU competitiveness to both develop, and keep pace with, new technologies. The security and leakage of sensitive knowledge is a threat that should and must be taken seriously. There is also a clear overlap between military and civilian technologies, so called 'dual-use' technologies. However, the **R&D and innovation space is not a zero-sum game. It is to a large extent built on openness and cooperation. This is vitally important in areas where European competence is lagging, such as - for example - AI. In these areas, increased R&D cooperation yields important knowledge in critical technologies for European competitiveness.** These two perspectives, security on one hand and cooperation on the other, must therefore be carefully balanced. One example is participation of industry in Horizon Europe with a majority owner in a third country. This scenario affects many R&D-intensive industries, as a result of the international character of the EU economy. In most cases, such participation would be highly beneficial to the EU. If there are grounds for excluding such companies, such measures must be taken according to transparent criteria that respect the principle of legal certainty.

### *Protection against attacks on infrastructure is essential*

Physical infrastructure - such as roads, railways, ports, airports as well as energy and digital infrastructure - needs to be resilient. Transport, communications and data flows are essential both for the EU Single Market and for trade with third countries. Identifying and reducing vulnerabilities in order to safeguard and protect infrastructure and communication flows from attacks is therefore imperative.

EU programmes could be further developed and updated. However, it is also important to note that security measures for aviation and shipping, as well as certain other modes of transport, are regulated within the UN and its specialised agencies; ICAO (International Civil Aviation Organization) and IMO (International Maritime Organization).

FDI screening is increasingly common within the EU to evaluate investments in infrastructure. It is **important that any legislation and other decisions taken to protect infrastructure are proportionate.** It should also be borne in mind that such measures (for example screening of goods and passengers in airports and ports) are financed through user fees, thus increasing the cost burden.

## **Partnering with allies**

According to the strategy, the European Commission is aiming for the EU to partner "with the broadest possible range of partners to strengthen economic security, including through furthering and finalising trade agreements, reinforcing other partnerships, strengthening the international rules-based economic order and multilateral institutions, such as the World Trade Organization, and investing in sustainable development through Global Gateway". It also states we should work with "long-standing, like-minded partners, such as the members of the G7, as well as others with whom we share common interests and who are willing to cooperate with us".

We strongly support all of the above. Wherever possible, multilateral solutions should be the aim. If these are not feasible, **cooperation with like-minded partners should be pursued, seeking - as far as possible - to keep a way open for others to join** if they sign up to the same conditions. Pure **unilateralism is not the way forward; it is neither feasible nor desirable.** We want to avoid a 'might is right' situation, which would be bad for our economy and for our economic security.

### *Saying 'No' to excessive friendshoring*

At the same time, **we want to caution against moving toward overreliance on our allies and 'friends', which might result in excessive 'friendshoring'**. Who is currently a friend and who is not may change over time. The coordination of sanctions and intelligence amongst allies is one thing, but an excessive focus on clubs of allies trading on preferential terms may undermine the gains realised from the economic specialisation on which international trade is based. There is also a problem of identifying those countries which should be eligible for such a club. If human rights and democracy are the main criteria, this might lead to a different outcome than a focus on reliability as a trading partner that follows the WTO rulebook.

It is also important that the Transatlantic Trade and Technology Council (TTC) does not become a forum purely for economic security, in the sense of the US and the EU working together to restrict trade and investments with China and Russia. It must not become an 'economic NATO', but rather focus on activities that promote transatlantic trade.

### *FTAs and other 'new kind of agreements' for the sake of diversification*

In the strategy, the European Commission writes “We will continue to make the most of the EU’s vast network of Free Trade Agreements through full implementation while also working to expand it. These agreements facilitate business de-risking, diversification and reduction of dependencies by opening new markets, help build mutual beneficial economic ties especially in regions where the EU would otherwise leave a void that third countries would fill”. The Commission also mentions other forms of cooperation with third countries, such as digital partnerships and those for raw materials, which can serve similar purposes.

We could not agree more with these aims, as **we strongly support an ambitious agenda for free trade agreements and other arrangements to open up markets and keep them that way**. However, we could wish for greater efforts when it comes to actually advancing such an agenda, not least regarding the essential agreement with Mercosur.

### *Cooperation with partners in the developing world*

Working with partners in the developing economies is essential, and the forms of this cooperation could take different shapes, depending on the context. FTAs, financial support, development assistance and the Global Gateway all have roles to play - as the European Commission puts it - to “diversify supply chains and integrate value chains with partners in key sectors”.

## **Involving the private sector in consultations**

It is, as the European Commission has stated, **essential to always involve the business community as a stakeholder and a partner in this work. It is businesses that conduct trade and that best understand the risks**. They know how to avoid the pitfalls and they can assess the costs of various restrictions and balance these costs against the risks. A structured dialogue in various fora is therefore needed. That said, a structured dialogue must result in concrete actions; actions that are based on an understanding of the principles of a strong Single Market and an open trade regime.