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European Union–Republic of Korea Cooperation on Economic Security: Opportunities, Limits and Challenges

by Françoise Nicolas

ABSTRACT

In a context of heated great power rivalry and geopolitical tensions, security concerns now tend to prevail over considerations of economic efficiency. This change in context is particularly challenging for the European Union, first because of the potential differences in security perceptions across its member states, and secondly because its economic model has been based on an open, intervention-free economy. As a result, the EU's economic security strategy places a heavier emphasis on protecting its economy than on promoting its competitiveness through industrial policy-like measures. But the strategy also relies on partnering with other countries, with South Korea as an ideal partner due to the existing mechanisms already in place between the two countries to address economic security-related issues.

South Korea | *European Union* | *Bilateral trade* | *Economic cooperation*

keywords

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European Union–Republic of Korea Cooperation on Economic Security: Opportunities, Limits and Challenges

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Introduction

Over the past few years, national "economic security" has become a buzzword in the lexicon of global administrations. This is a broad concept encompassing a set of interconnected issues, including supply-chain resilience, anti-coercion measures and strategic autonomy. Although the concept remains relatively fuzzy, it reflects an increasingly common concern for governments and business. Indeed, in a context of heated great power rivalry and geopolitical tensions, security concerns have become front and centre, and now tend to prevail over considerations of economic efficiency. This change in context is particularly challenging for the European Union, first because of the potential differences in security perceptions across the twenty-seven member states, and secondly because its economic model has been based on an open, intervention-free economy. While the quest for economic security is, by definition, a national (or EU) concern, there may be scope for cooperation in this domain between like-minded countries. The objective of the paper is to examine whether and how the EU and the Republic of Korea (ROK) may join forces to enhance their respective economic security.

The paper starts by providing a brief account of the reasons for the rise of economic security concerns. As a second step it examines the EU's response, emphasising the paradigm shift in the way of thinking of the European Commission and highlighting the objectives and instruments of the Commission's economic security strategy. The concluding section identifies the potential for cooperation with like-minded partners such as South Korea and lists recommendations as to the way forward.

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1. The rise of economic security concerns

Cross-border supply chains, as one of the main features of a globalised economy, were long perceived unanimously as positive developments. This organisation of production, based on the full exploitation of comparative advantages, led to the so-called fragmentation of production and the emergence of global value chains (GVCs) that could shift from one place to another based on comparative advantages. GVCs used to be based on efficiency. However, in a context of heated great-power rivalry, security concerns have changed the calculus. Over the past few years, the need to safeguard national "economic security" has become a widely shared mantra.[1]

1.1 The discontent with globalisation

The emergence of economic security as a major concern can be accounted for by two main developments, which reflect an overall disappointment with economic globalisation as it has developed so far. Until recently, globalisation was deemed to be economically optimal – because it was based on cost-efficiency – and politically desirable – because it was thought to contribute to peace in international politics.[2] These two points, however, are increasingly challenged.

First, doubts started to emerge about the unequivocal advantages of globalisation as early as the late 1990s. Public authorities realised that globalisation was often associated (at least in developed economies) with deindustrialisation, the hollowing out of the manufacturing basis, and jobs lost to low-wage countries,[3] all of this potentially a source of social costs. There were losers as well as winners of globalisation, but the gains of the latter were supposed to compensate the former and economists tended to downplay the losses. As a result, the negative side-effects of globalisation were vastly underestimated.

Initially, little attention was paid to such considerations by the business sector, for which economic and cost considerations prevailed. Over time, however, these actors found out that fragmented production processes were prone to disruptions that could generate vulnerabilities, and potentially raise costs. To be sure, so long as the disruptions were temporary (as when they are triggered by some form of

[1] Jaichul Heo, "Geopolitical Risk in the Era of U.S.-China Strategic Competition and Economic Security", in *KIEP World Economy Brief*, Vol. 12, No. 35 (30 August 2022), https://www.kiep.go.kr/galleryDownload.es?bid=0007&list_no=10308&seq=1.

[2] The idea that trade is an agent of peace dates back to Montesquieu, who argued in *The Spirit of Laws* (*De l'esprit des lois*, 1748) that "The natural effect of commerce is to lead to peace. Two nations that trade with each other become reciprocally dependent; if one has an interest in buying, the other has an interest in selling, and all unions are founded on mutual needs." Montesquieu, *The Spirit of the Laws*, translated and edited by Anne M. Cohler, Basia Carolyn Miller and Harold Samuel Stone, Cambridge, Cambridge University Press, 1989, p. 338.

[3] In the case of France for instance, there was a sharp drop in industrial employment from about 6 million in 1970 to merely 3,1 million in 2019.

natural disaster), they were not perceived as all that serious, were quickly brushed aside and did not result in a reorganisation of the production processes. The limited changes induced by the Fukushima nuclear accident in Japan and the flooding in Thailand in 2011 are good illustrations of this line of reasoning. The Covid-19 pandemic, and the magnitude of the disruptions in supply-chains associated with the lockdowns imposed in response, resuscitated and amplified such concerns. The crisis laid bare the vulnerabilities resulting from vertically integrated supply chains and called for securing them, be it through reshoring, diversifying suppliers or relocating production in what were deemed safer places. As a result, there was a gradual convergence of views between the public and private sectors about the downsides of globalisation and the costs in terms of security of the supply-chains. It is worth stressing, however, that the Covid-19 crisis acted as an accelerator, while the real drivers of change had been gradually building up over time.

A second, and probably more important, development is the realisation that such disruptions in the supply-chains can also be the result of deliberate and malicious manoeuvring. The conviction that globalisation would protect against conflict because the tight interdependencies associated with it would act as powerful deterrents, became deeply questioned.[4] In a context of intensifying technological and economic rivalry, the security of supply-chains, which was almost exclusively perceived as a technical problem (to be solved by companies), has become a geopolitical problem. Far from being a guarantee for peace, globalisation can be turned into an instrument of war, because economic interdependencies can be easily weaponised. The perception of a rising risk of weaponisation of interdependence results from the combination of the rise of China and the intensification of the China-US rivalry. Examples of such weaponisation can be observed in many countries in the Asia-Pacific such as Japan, South Korea and Australia, and even within the EU, with Lithuania as a case in point. Overdependence on China is increasingly perceived as a source of concern and even a threat. In this context, companies have become wary of supply-chain overreliance on China – 'the world's factory' – and are either implementing or considering "China plus one" strategies aimed at building production across multiple markets.

These various developments mean that the 'economics trumps geopolitics' era may have come to an end. The decisions to relocate production and reorganise value-chains are no longer the result of pure economic calculations. Countries and companies now need to recalibrate their strategies to adapt to this new context, factoring in geopolitical considerations. Some technical changes such as digitalisation may also make previously costly adjustments possible.

[4] The experience of the first World War should have led us to be more cautious or less hopeful. Before the 1st World War economic interdependencies were quite deep but this did not prevent the war from breaking out.

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1.2 Defining economic security

Economic security is an imprecise term that refers to the shoring up of national interests from an economic perspective.[5] Broadly defined, an economic security strategy aims at preserving national sovereignty, in other words a country's ability to define or shape its own fate, and the well-being of the population. As a result, an economic security strategy can be expected to be two-pronged. One pillar concerns threat detection and suppression, aiming at protecting the country against foreign predatory moves. The other pillar, industrial policy, is aimed instead at promoting endogenous economic capacities through a strategy of industrial reconquest and the creation of competitive poles.

2. The EU and economic security

The United States, Japan and now the EU have all in recent times embraced 'economic security' although they may differ in their definition of the term. What sets the EU apart from the United States and Japan is its reluctance to embrace industrial policy as a key component of its economic security strategy. There are two major hurdles to the development of a full-fledged EU's economic security strategy. The first hurdle is the ideology on which the single market has developed. The second hurdle is the distribution of powers between the European Commission and the individual member states.

2.1 The need for a paradigm shift in the EU

The EU has been for a long time a resolute defender of a liberal approach to trade. Open, rules-based trade has always been at the heart of its approach to international trade. For this reason, the EU has always been favourable to globalisation. Moreover, EU competition law has been built to prevent imbalances within the single market, thus calling for as little state intervention as possible in support of industrial development.[6] In particular, the EU favours an anti-trust logic over competitiveness concerns, as was exemplified by the Siemens-Alstom case (2019), when the Commission prohibited Siemens' proposed acquisition of Alstom in the name of customer protection under the EU Merger Regulation. In line with this approach, state aids were very tightly controlled by the Commission. Placing restrictions on trade for political and security purposes therefore was not part of the EU's toolkit. It is worth noting at this stage that, unlike trade, measures of industrial policy do not fall into the remit of the Commission but belong to the individual member states' competencies.

[5] David E. Adler, "What the EU Doesn't Get about Economic Security", in *Foreign Policy*, 30 October 2023, https://foreignpolicy.com/?p=1128292.

[6] Mathieu Duchâtel, "Economic Security, the Missing Link in EU-Japan Cooperation", in *Institut Montaigne Policy Papers*, April 2023, https://www.institutmontaigne.org/en/publications/economic-security-missing-link-eu-japan-cooperation.

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Yet, with technology at the heart of current competitive dynamics, the need for some form of industrial policy has become increasingly accepted. Faced with these new challenges, the EU has been forced to modify its approach to industrial policy and state support to strategic sectors.[7] First the so-called "Important Projects of Common European Interest" (IPCEI) that jointly mobilise companies and member states have been revived.[8] In IPCEI, projects that meet a set of criteria are allowed an exemption from the usual regulations against member state aid. More specifically, IPCEI provisions allow for direct support to be given to companies seen as vital to European political and industrial objectives. Such a departure from the traditional liberal approach is justified by the fact that the support provided to promote the execution of an IPCEI is deemed compatible with the internal market.[9]

Key changes in the international environment (the Covid-19 pandemic, China's rising economic assertiveness, the rising Sino-US economic and technological rivalry, US industrial policy initiatives such as the Inflation Reduction Act (IRA) and, more recently, Russia's aggression of Ukraine) have converged to lead the EU to further adjust its approach. One of the first move made by the Commission was the announcement of the EU Chips Act in February 2022, in the wake of the Covid-19 pandemic, the semiconductors production crisis in Taiwan between 2020 and 2021 and the manifest EU's vulnerability exposed by it. The objective of the Chips Act is to stimulate the production of semiconductors within the union's territory to better respond to a rapidly growing global demand for chips.

2.2 The EU's economic security strategy: Derisking as a priority

In June 2023, the European Commission and the High Representative for Foreign Affairs and Security Policy published a Joint Communication on a European Economic Security Strategy that focuses on minimising risks among certain economic flows in the context of increased geopolitical tensions and accelerated technological shifts, while preserving maximum levels of economic openness and dynamism.

It aims at (1) "promoting the EU's competitiveness, by strengthening the Single Market, supporting a strong and resilient economy, investing in skills and fostering the EU's research, technological and industrial base"; (2) "protecting the EU's economic security through a range of existing policies and tools, and consideration of new ones to address possible gaps", and (3) "partnering with the broadest

[7] Elvire Fabry, "Sécurité économique: l'Europe est-elle prête à changer de paradigme?", in *Institut Jacques Delors Blog*, 16 October 2023, https://institutdelors.eu/publications/securite-economique-leurope-est-elle-prete-a-changer-de-paradigme.

[8] Although present in European treaties since 1957, the IPCEI provision had been little used until recently.

[9] It is worth stressing that the IPCEI rules ensure that the EU economy at large benefits from the supported investments and limit potential distortions to competition.

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possible range of partners to strengthen economic security".[10] This strategy aims essentially at "derisking", in other words at reducing the vulnerabilities resulting from excessive dependencies.

Although the definition of what may put economic security at risk is very broad, the strategy identifies four categories of risks that need to be addressed as a matter of priority: risks to the resilience of supply chains; to the physical and cyber security of critical infrastructure; for technology security and of technology leakage; and of weaponisation of economic dependencies or economic coercion. A list of "critical technologies" provided by the EU should help shape export controls and outbound investment screening, but it suggests that derisking will not be easy.[11] Such an approach would be particularly difficult – and risk-enhancing – in the case of China, given Beijing's crucial role in many manufacturing sectors, in particular those related to green and clean technologies.[12] For example, derisking from China may delay the EU's decarbonisation efforts.

Following the communication on economic security strategy issued in June 2023, the European Economic Security Package (EESP) was approved in January 2024. It aims at reducing EU's dependence on products and investments from third countries (with a particular focus on China). To that end, it seeks to enhance the EU's significant trade protection arsenal and is a further indication of the EU's determination to seek additional means of protecting EU companies from unfair external competition.

2.3 The instruments of EU's economic security strategy

The EU's economic security strategy implies a sounder deployment of existing tools – such as foreign direct investment (FDI) screening and export controls – and the adoption of new ones in order to protect the EU from economic security risks.

A first set of instruments are aimed at tackling unfair competition and economic distortion from third countries, among which the anti-coercion instrument (ACI), export controls and inbound and outbound investment screening mechanisms. Of note is the ACI that is designed to act as a deterrent against any potential economic coercion through tariffs or other trade restrictions. Its objective is to shield the EU and member states from coercive pressure by third countries by providing a legal basis for an expedited procedure for the EU to take anti-coercion countermeasures, including the ability to impose new customs duties or additional charges on the import or export of goods and services. A second set of instruments are aimed at

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[10] European Commission, *An EU Approach to Economic Security*, 20 June 2023, https://ec.europa.eu/commission/presscorner/detail/en/IP_23_3358.

[11] Agathe Demarais, "What the EU List of Critical Technologies Tells Us About Its De-Risking Plans", in *ECFR Commentaries*, 11 October 2023, https://ecfr.eu/?p=112993.

[12] Also, isolating China may be a risky strategy as China may be pushed to behave even more aggressively.

bolstering EU competitiveness, with the EU Chips Act as a case in point. Another such example is the Net Zero Industry Act, an initiative stemming from the Green Deal Industrial Plan that aims to scale up the manufacturing of clean technologies in the EU. The Critical Raw Materials Act seeks to reduce the EU's dependence on single third-country suppliers and promote circularity. With regards to financing, the new Temporary Crisis and Transition Framework for state aid extends,[13] in an unprecedented way, the relaxation of controls on financing or tax credits granted by national authorities to their economic players in response to the pandemic, and more recently to the war in Ukraine. The initial objective was to facilitate and accelerate Europe's green transition,[14] but this approach is set to expand well beyond the energy sector. Also, industrial alliances and the IPCEI now encompass many sectors, including batteries and microelectronics. Although these projects primarily focus on research and development (R&D) activities, they all contribute to enhance the EU's economic security.

For the time being, however, instead of a pan-European funding solution, national spending for industrial policy still dominates. This is due to the way the EU is organised and competencies are distributed between the Commission and individual member states. But there are also diverging views within the EU, with France (not surprisingly) showing more support to state intervention and financial support to technological development.[15] EU member states still tend to be reluctant to engage in a bold financial strategy that would bolster the union's technological and industrial capabilities. The failure of the Sovereignty Fund proposed by Commission President Ursula von der Leyen in her State of the Union address in September 2022 is a testament to this state of affairs. The Sovereignty Fund would have enabled the European Commission to co-fund early-stage, capital-intensive critical technology projects, but the proposal was never turned into reality. Following this debacle, in June 2023 the Commission proposed a new platform to improve investment in strategic technologies in the 2024 to 2027 period.[16] Called the Strategic Technologies for Europe Platform (STEP),[17] it is intended to direct

[13] European Commission, *Amendment to the Temporary Crisis and Transition Framework for State Aid Measures to Support the Economy following the Aggression against Ukraine by Russia* (C/2023/8045), 21 November 2023, https://eur-lex.europa.eu/eli/C/2023/1188/oj. See also European Commission DG Law website: *Temporary Crisis and Transition Framework*, https://competition-policy.ec.europa.eu/node/712_en.

[14] In January 2024, the Commission has approved a 902-million-euro German State aid to support Northvolt in the construction of an EV battery production plant. This was the first individual aid to be approved under the Temporary Crisis and Transition Framework.

[15] France embraced the concept of economic security a long time ago. The first concerns about "economic intelligence" were expressed in the Martre Report in 1994, followed a decade later (2003) by the Carayon Report that highlighted the linkages between economic security, economic intelligence and national security. As a result, the Economic Security and Strategic Information Service (SISSE) was established in 2016 within the Ministry of Economy.

[16] European Commission, *Proposal for a Council Regulation amending Regulation (EU, Euratom) 2020/2093 Laying Down the Multiannual Financial Framework for the Years 2021 to 2027* (COM/2023/337), 20 June 2023, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52023PC0337.

[17] Nathan Crist, "How STEP Investment in Strategic Technologies Could Help EU Regions Catch Up", in *Global & European Dynamics*, 8 November 2023, https://globaleurope.eu/?p=33659.

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funding toward projects that contribute to European competitiveness in strategic technologies and secure value chains. This platform is a downsized version of the proposed Sovereignty Fund and a far cry from the original ambition. The mobilised amounts are far from being close to what would be needed.[18] Moreover, out of the 160-billion-euro investments earmarked for strategic industries under STEP, only 10 billion euro would be new funds, while the rest would come from existing funds or private capital.

In line with the United States and Japan, the EU's economic security strategy has integrated elements of national security. Overall, however, the EU's economic security strategy appears to be relatively imbalanced, with a heavier focus placed on defensive measures (the first of the three "Ps") rather than on offensive (industrial policy-like) measures.

3. Scope for cooperation on economic security

3.1 General considerations on the challenges of bilateral cooperation

International cooperation on economic security is not an easy task. First because of the potential differences in the definition of economic security between countries, secondly because of the close to oxymoronic nature of the term, and thirdly because of the differences in risk assessments.

In the case of the ROK and the EU, the perceptions of economic security risks are indeed quite different, with the former putting an almost exclusive focus on China, while the latter has a broader view based on the conviction that protecting against risks is not country-specific. This may be especially clear in the case of investment screening, which is about protecting "strategic assets" that are not exclusively threatened by China. Another point worth noting is that the EU's economic security strategy is still recent and very much work in progress, while the ROK's strategy has been under discussion for some time already. The two partners have also been going through very different trajectories in terms of industrial policy. Seoul has been traditionally more reliant on government intervention, while the EU remains reluctant to take measures that may be perceived as "anti-market". These differences in economic and policy "cultures" make the discussion on economic security a complex one.

Lastly, given Seoul's heavy reliance on the alliance with the United States, especially under the Yoon Administration, the EU does not appear to be part of the equation when it comes to cooperation on economic security. By contrast, Seoul is perceived by the EU as a promising partner. This is because the EU considers

[18] The European initiative pales in comparison with similar initiatives like the US Inflation Reduction Act (IRA).

free trade agreements (FTAs), such as the one signed with the ROK in 2009, as one of the most effective instruments to improve European resilience and preserve supply-chain security by allowing for the diversification of sources of supply.

3.2 The way forward

Partnering is one of the three pillars of the EU's economic security strategy. There is thus scope for cooperation with South Korea in this domain, and even more so since the two share the same concerns and have been close partners for a long time. As put by Yoon Soongu, former ROK ambassador to Belgium, Luxembourg, the EU, and NATO, Seoul and the EU are "born to be the best like-minded partners, united by the common values and principles of democracy, market economy and the rule of law, as well as a shared commitment to global peace and prosperity."[19] ROK-EU cooperation could advance by making the best of existing mechanisms and at the same time setting up new ones. Among the former, the EU Chips Act plans cooperation with the United States, Japan, Singapore, the ROK and Taiwan on standardisation, talent development and information exchange on chokepoints. Further efforts related to economic security could be pushed in the context of the ROK-EU FTA and the recently signed bilateral digital partnership. Although new issues are now almost systematically included in FTAs negotiated by the EU, (such as sustainable development or labour rights considerations), rules on digital services and e-commerce were rather thin in these agreements. Since 2021, the EU has developed a 'model' digital chapter that advances its own digital trade regulatory agenda, which has only been included in the most recent deals.[20]

As a preliminary attempt to upgrade existing FTAs, the European Commission has negotiated Digital Partnerships with some of its partner countries (Japan, Singapore and the ROK) with a view to advancing cooperation on the full range of digital issues, including trade facilitation, trusted data flows and data innovation, digital trust, standards, digital skills for workers, and the digital transformation of businesses and public services. The main goal of these partnerships is to develop and entrench standards for emerging technologies in line with EU principles and values, but they can also provide a promising channel for cooperation on economic security-related issues such as supply-chain resilience. In the wake of the first Digital Partnership Council that took place in June 2023 between Brussels and Seoul, both sides agreed to exchange information on the semiconductor supply

[19] Alexandra Brzozowski, "Ambassador: EU and South Korea Born to Be Best Like-Minded Partners", in *Euractiv*, 5 May 2021, https://www.euractiv.com/?p=1600744. See also Sohyun Zoe Lee and Françoise Nicolas, "Trade", in Ramon Pacheco-Pardo (ed.), *South Korea-EU Cooperation in Global Governance*, KF-VUB Korea Chair Report, Brussels, December 2021, p. 60-73, https://brussels-school.be/sites/default/files/Korea%20Chair%20report%20December%202021-ROK-EU%20cooperation.pdf.

[20] Françoise Nicolas, "The EU, the Indo-Pacific and the US-led IPEF: Which Way Forward?", in Amitendu Palit and Ramita Iyer (eds), *The Making of the Indo-Pacific Economic Framework for Prosperity (IPEF)*, Tokyo, Konrad-Adenauer-Stiftung Japan, 2023, p. 197-209, https://kas-japan.or.jp/en/pub/consolidated-publication-the-making-of-the-indo-pacific-economic-framework-for-prosperity-ipef.

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chain and to expand cooperation on secure digital connectivity infrastructure links, including submarine cables; digital skills and capacity-building; and exchange of best practices on digital start-ups.[21] Moreover, in the context of their bilateral strategic partnership, the two parties have committed to pursuing dialogue on economic security, including supply-chain resilience, export controls and economic coercion. They are also committed to an Industrial Policy dialogue as well as consultation on legislation covering access to supply of critical materials and the development of batteries.

What remains to be done is to walk the talk. To that end, the two partners should draw from their respective experiences with the Indo-Pacific Economic Framework (IPEF, South Korea) with the United States and the Trade and Technology Councils (TTCs, the EU) with the United States and India. The IPEF and the TTCs are platforms for discussion and cooperation on trade-related issues. A similar mechanism would be useful to deepen cooperation between the EU and the RoK. The first area that comes to mind is cooperation with regards to supply chain resilience.[22] Seoul and Brussels could seek to identify items that are at risk of supply network disruption, share information in normal times, expand sources for the procurement of important goods and items, as well as allow for flexible procurement during crises. To that end, setting up a TTC between the EU and the ROK may be an option, as an alternative to the EU joining IPEF. Lastly, Seoul and Brussels have agreed to strengthen cooperation on early warning systems to detect and address potential supply chain disruptions in key industries both through bilateral and multilateral cooperation. The ROK and the EU have a long history of support to multilateral settings such as the World Trade Organisation.[23] They can now build on this experience to push the topic at this level as well.

Updated 14 June 2024

[21] European Commission, *EU and Republic of Korea Digital Partnership: Strengthening Our Economic Resilience*, 30 June 2023, https://digital-strategy.ec.europa.eu/en/node/11903.

[22] The IPEF Supply Chain Agreement is the first one to enter into force on 24 February 2024, after Japan, the United States, Fiji, Singapore and India deposited their instruments of ratification.

[23] Sohyun Zoe Lee and Françoise Nicolas, "Trade", cit.

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