

ECONOMIC SECURITY AND STRATEGIC AUTONOMY

Policy Brief No. 156, March 2025

The Russian invasion of Ukraine in 2022 kicked the European Union and its member states into action to strengthen their strategic autonomy, ideas for which have been in the making since at least 2013.¹ In March 2022 the European heads of state adopted under French leadership the Versailles Declaration focusing on three key dimensions of European strategic autonomy under the Kremlin's threat:

- Defense capabilities
- Energy dependencies
- Economic security.²

The EU leaders have followed through on their commitments, embarking on an unprecedented defense support for Ukraine, reducing considerably the EU's outsized dependence on Russian oil and gas, adopting a comprehensive economic security strategy, and implementing 16 packages of EU sanctions against the Kremlin. Yet, these have fallen short to effectively deter Russia from its aggression and have not been able to get the EU a seat at the negotiating table as US President Trump has pushed for peace talks directly with Moscow at the beginning of 2025. Without the US the EU could not provide the needed security guarantees for Ukraine to engage in peace talks. Russian oil and gas continued to flow to Europe and fund Kremlin's aggression,³ as sanctions enforcement has been deficient⁴ and member states, in particular in

¹ Damen, M., *EU strategic autonomy 2013-2023: From concept to capacity*, European Parliament, 8 July 2022.

² Informal meeting of the Heads of State or Government, *Versailles Declaration*, Versailles, 11 March 2022.

³ Center for the Study of Democracy, *Phasing Out Russian Gas in Europe*, Policy Brief No.146, June 2024.

⁴ Vladimirov, M., and Levi, I., *Tapping the Loophole: Czechia has spent five times more on Russian oil and gas than aid to Ukraine*, Sofia: Center for the Study of Democracy, 2024.

KEY POINTS

- The EU needs to act quickly in delivering on its strategic autonomy and economic security pledges. Increasing the EU's geopolitical weight requires **resilience built on innovation**, resource access diversification, and global engagement.
- The European Commission and the Council need to further build out a comprehensive, common EU approach to assessing and countering **energy and resource security risks**.
- The EU should strengthen **international industrial partnerships** in addition to reshoring. Clean-tech and supply chain alliances with trusted partners can reduce dependencies while preserving the benefits of trade.
- Growing Chinese economic assertiveness, coupled with EU **governance deficits** to effectively enforce economic security measure threatens critical sectors such as energy, telecommunications, and infrastructure.
- Dependencies in semiconductors, AI, quantum computing, and telecoms increasingly serve as **geopolitical pressure points**.
- Economic security must be embedded as a **horizontal priority** across all policy domains—from competition and cohesion policy to climate and research.

the Southeast have continuously sought to break ranks with Brussels, drawn by Russia's pervasive oligarchic networks and relentless information manipulation and interference.⁵

⁵ Vladimirov, and Levi, *Tapping the Loophole*, Sofia: CSD, 2024.

The EU needs to press on with strengthening its implementation capacity on defense cooperation and economic security, as the next crisis has loomed large, with the US administration’s clearly communicated intent on rebalancing burden sharing and gradually withdrawing from its engagement in Europe to focus on China. Even if sanctions on the Kremlin are eased or suspended altogether, Brussels needs to press on with its economic decoupling from Russia in energy and to bolster the EU’s industrial base by supporting investments in critical sectors, including deep tech, energy, and defense.⁶ The EU needs speed and commitment to work with coalitions of willing member states under French – German leadership to grow out and support its capacity on strategic autonomy, developing quickly new financial instruments for economic security on top of existing European tools to quickly deploy new fiscal commitments from EU/EEA member states.

Strategic Vulnerabilities

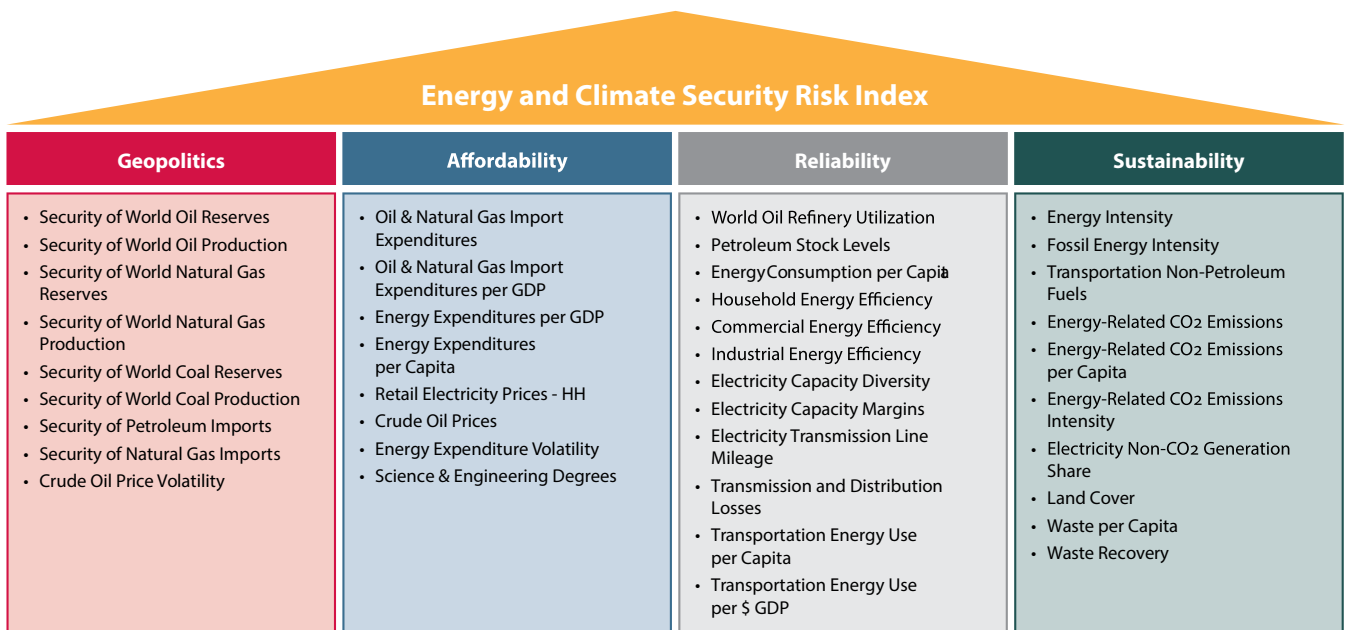
The past decade has reshaped global economic security. Trade wars, supply chain disruptions, and the weaponization of critical resources have exposed the fragility of Europe’s economic foundations. A broad reliance on reshoring, nearshoring, or “friendshoring” carries inherent economic trade-

offs. Reducing interdependencies in the name of security may, in some cases, increase vulnerability by concentrating supply risks in smaller, more regionalized markets. Trade fragmentation could lower global GDP, disproportionately impacting smaller, open European economies. Yet, in cases where international substitutability is low, economic costs of disruptions are high, or monopolistic power threatens to restrict access to critical technologies, targeted interventions may be justified. The key is ensuring that policies remain proportionate, evidence-based, and tailored to the specific needs of each sector.

Energy and Resource Security

Energy and resource dependencies remain at the core of Europe’s economic security vulnerabilities. The EU has made efforts to reduce its reliance on unstable suppliers, particularly in response to Russia’s weaponization of energy following its invasion of Ukraine.⁷ However, now in the fourth year of the Kremlin aggression, the EU is yet to strategically decouple from Russian energy imports. Although it is largely Russia’s targeted cuts in the supply of natural gas that brought about the surge in natural gas prices, Europe continues to import Russian gas. Indeed, the share of Russian gas in the EU’s import mix has fallen from around 40% before the war to just

Figure 1. Energy and Climate Security Risk Index



Source: Center for the Study of Democracy.

⁶ European Commission, *An EU Compass to regain competitiveness and secure sustainable prosperity*, 29 January 2025.

⁷ Vladimirov, M., and Rangelova, K., *The Great Energy and Climate Security Divide: Accelerated Green Transition vs. the Kremlin Playbook in Europe*, Sofia: Center for the Study of Democracy, 2022.

around 10% after the halt of the Ukrainian gas transit at the start of 2025. However, purchases of Russian LNG and pipeline gas rose by more than 25% in 2024⁸ as the two largest Russian gas exporters, Gazprom and Novatek, dumped cheaper gas on the European market undercutting competition from alternative, mostly LNG suppliers.

According to the Energy and Climate Security Risk Index (Figure 1), in addition to the security of supply risks, Europe is facing an energy affordability crisis. Consumers in the EU are paying around five times higher prices for gas consumption than their counterparts in the U.S. and roughly 70% more than those in China. As natural gas is clearing the electricity market in the merit order of power plants entering the system, electricity prices have also shot up to levels at least two times higher than the 10-year average before the Russian invasion. The outcome has been that between 2021 and 2025 dozens of energy-intensive factories across Europe have closed down, and many more are operating at reduced capacity.⁹ Energy affordability risks have surged close to fivefold during the energy crisis of 2021 - 2023.

In response, the EU member states have spent more than an estimated EUR 1 trillion in subsidies to the business and vulnerable household consumers to prevent deindustrialization and a steep rise in energy poverty and social unrest. This strategy, however, has not stopped European companies from relocating their plants to more cost-competitive locations cutting roughly a million European jobs to oversee competitors.¹⁰ This has cascading effects on public welfare and economic stability.

There has been a limited common EU approach to assessing and countering energy and climate security risks. Each Member State pursues its own strategy, leading to inefficiencies and reduced bargaining power in global energy markets.¹¹ The energy market remains deeply fragmented with significant regulatory barriers and bottlenecks in interconnector capacity, which increases Europe's reliance on costly peak demand power plants operating on expensive and imported natural gas.¹²

⁸ CSD based on the assessment of ENTSO-G data on natural gas flows in Europe.

⁹ Crellin, F., Buli, N., and Chestney, N., "Gas price shock set to add to Europe's industrial pain", *Reuters*, 6 December 2024.

¹⁰ In 2023, around 60% of European businesses identified energy costs as a major barrier to investment, which is over 20% higher than U.S. businesses.

¹¹ For example, EU Member States implemented over 400 uncoordinated emergency energy measures, distorting energy markets. European Union Agency for the Cooperation of Energy Regulators, *Assessment of emergency measures in electricity markets*, 2023 Marketing Monitoring Report.

¹² IMF, *Staff Background Note on EU Energy Market Integration*, January, 2025.

The EU has responded to the energy supply shocks by initiating its flagship REPowerEU initiative, which has aimed to phase out Russian energy imports by 2027 and markedly accelerate the investment in renewable energy. The initiative has streamlined permitting procedures, increased funding for wind and solar projects, and strengthened incentives for green hydrogen production. As a result, the EU installed a record 56 GW of solar PV capacity in 2023—double the pre-crisis level, and another 65.5 GW in 2024,¹³ while wind power investments also surged by 31.3 GW since 2022.¹⁴

REPowerEU's emphasis on energy efficiency, including the widespread adoption of heat pumps and building renovations, has further reduced demand for imported fossil fuels. These efforts have helped the EU reduce greenhouse gas emissions (GHG) by 8% in 2023 and have increased the share of renewable energy in power mix to 48% from around 37% in 2021.¹⁵

The expansion of renewables investment has reinforced the bloc's economic competitiveness by driving industrial decarbonization and insulating businesses and consumers from volatile energy prices. The EU remains a leader in clean technologies, including wind turbines, electrolyzers, and low-carbon fuels, contributing to over 20% of global clean tech innovations. Yet, permitting issues and high capital costs have delayed renewable projects, particularly offshore wind, increasing reliance on fossil fuels. In addition, massive investment (EUR 90 billion/year) is needed for grid infrastructure upgrades to support the energy transition.¹⁶

The broader economic security implications of Europe's energy crisis extend beyond the dependence on Russia. The EU has become increasingly reliant on China, particularly for critical raw materials and clean technology manufacturing. The exposure to Chinese imports is most acute in key clean energy sectors such as electric vehicles (EVs), batteries, and solar PV products. For example, China dominates the processing of key critical minerals such as lithium, nickel, copper, and cobalt, accounting for 35-70% of global refining activity. This dominance has already been leveraged as a geopolitical tool, posing potential risks to the viability of Europe's energy transition.

It is also necessary to develop domestic capacity for raw material extraction and processing. Accelerating the opening of mines in EU member states could enable the bloc to meet its own demand for certain minerals and

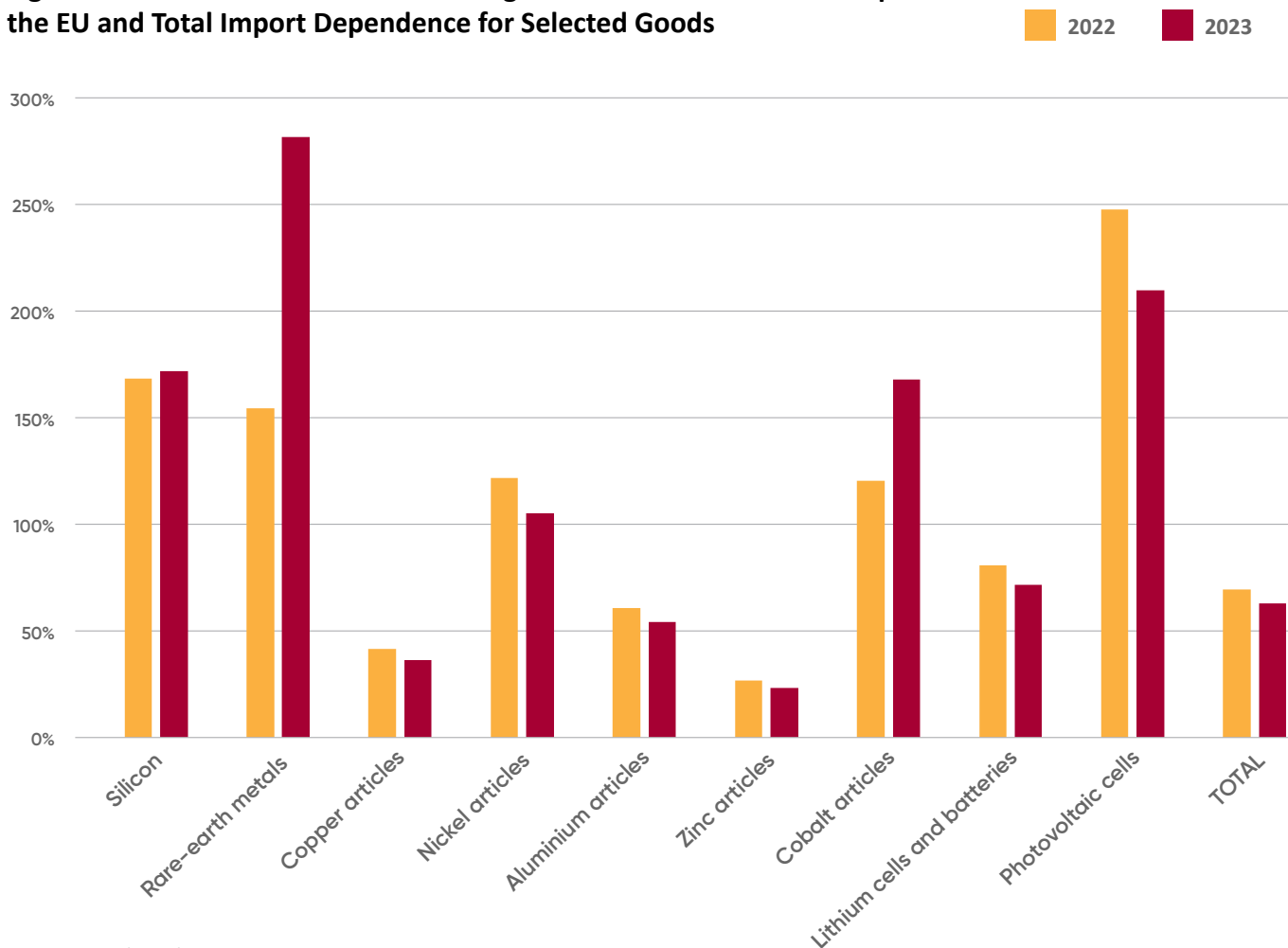
¹³ Hemetsberger, W., Acke, D., and Schmela, M., *EU Market Outlook for Solar Power: 2024-2028*, Solar Power Europe, 2024.

¹⁴ Based on the annual reports of Wind Europe for 2023 and 2024.

¹⁵ CSD based on Eurostat data.

¹⁶ Draghi, M., *The future of European competitiveness*, *European Commission*, September 2024.

Figure 2. Non-EU to EU Ratio for the Origin of Metals and Minerals Imports in the EU and Total Import Dependence for Selected Goods



Source: CSD based on COMEXT Data.

reduce the dependence on external suppliers (Figure 2). Additionally, enhancing coordination on supply chain security and industrial policy is crucial. This can be achieved by replacing overlapping coordination mechanisms with a more streamlined framework to ensure that policy interventions are efficient and effective.

Industrial Competitiveness

A key barrier to Europe's industrial competitiveness lies in its fragmented internal market¹⁷ and burdensome regulation.¹⁸ Internal trade barriers act as de facto tariffs—equivalent to 45% for manufacturing and 110% for services—limiting the scale and competitiveness of European companies.¹⁹ hamper growth. This is

¹⁷ Minguez, J., *The Letta Report: A Set of Proposals for Revitalising the European Economy*, SSRN, 2024.

¹⁸ Petrova, V., and Stefanov, R., *Open Gates, Guarded Walls: The Balancing Act between Openness and Security in European Investment Policies*, Sofia: Center for the Study of Democracy, 2024.

¹⁹ Draghi, *The future of European competitiveness*, EC, 2024.

Box 1. Growing Chinese Economic Influence in Europe

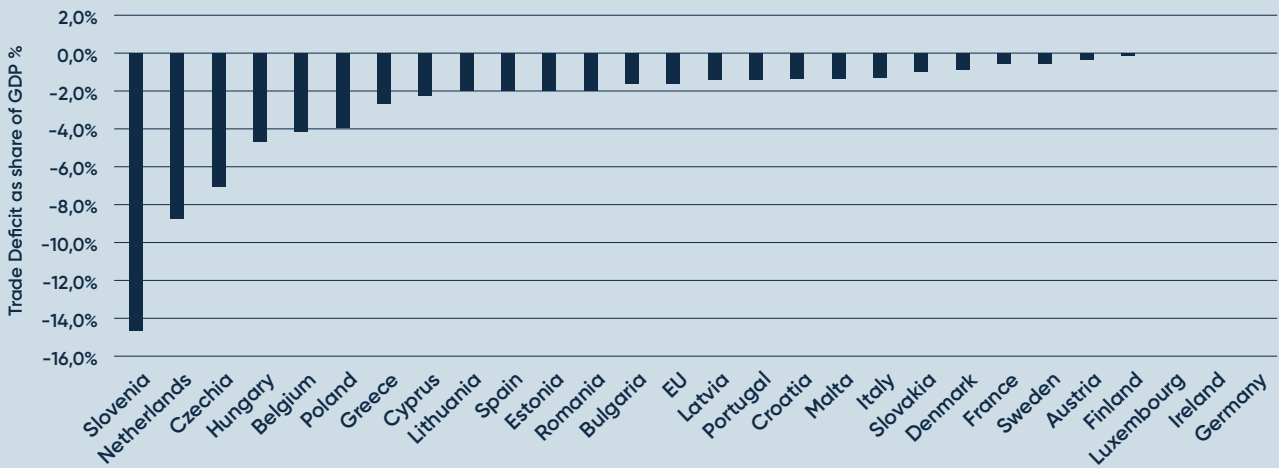
Over the past decade, China has significantly expanded its economic and political footprint in Europe. The EU is running a persistent trade deficit with China although it has hovered at a relatively low level of between 1.5-2% of GDP. Yet, this masks the significant structural trade dependencies of certain EU member states such as the Netherlands, the biggest gateway for Chinese imports, and Central European countries (CEE), which have seen their purchases of Chinese goods rise multifold over the past decade.

In addition, Chinese foreign direct investment (FDI) including from mainland China and Hong Kong in Europe has surged 2.5 times since 2014 to more than EUR 221 billion, particularly in offshore-like financial hubs such as the Netherlands, Luxembourg, Cyprus and Ireland, as well as in the EU's economic leaders, France and Germany.

While Western European nations have implemented tighter investment screening mechanisms, the CEE region remains a vulnerable entry point. In fact, CEE has been the main focus for Beijing’s capital injections, accounting for a significant share of China’s European investments after the COVID-19 pandemics. This strategic pivot is indicative of how China is exploiting the region’s governance vulnerabilities to establish itself in critical sectors such as energy, telecommunications, and infrastructure.²⁰

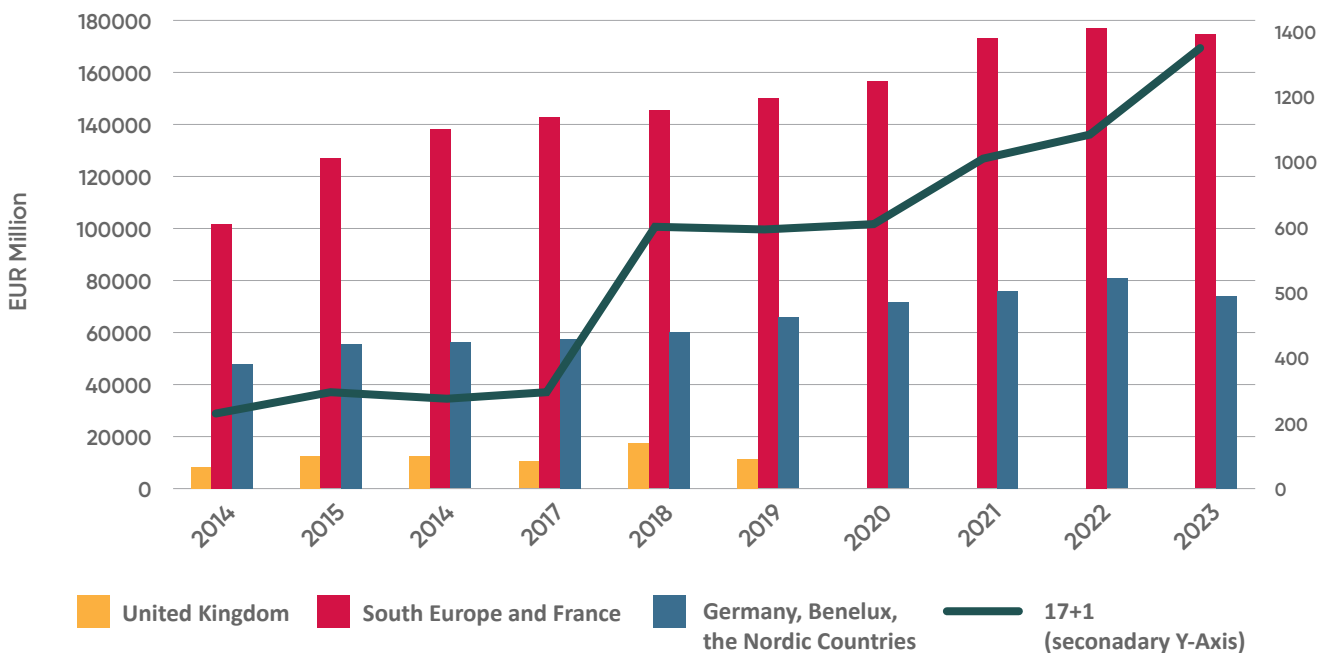
To put this into perspective, since 2009, around \$20 billion in Chinese funds have entered the CEE region through grants, loans, mergers, and acquisitions. More than 10,000 firms in CEE are now under Chinese ownership, and around \$50 billion in Chinese-led projects are currently under construction or in the pipeline. Chinese investments are particularly concentrated in energy, infrastructure, and telecommunications, sectors, critical to the countries’ national security and vulnerable to state capture risks.

Figure 3. Bilateral Trade Deficit with China as % share of GDP in 2023



Source: CSD based on COMEXT Data.

Figure 4. Chinese Inward FDI Stocks in the EU by country (EUR Million)



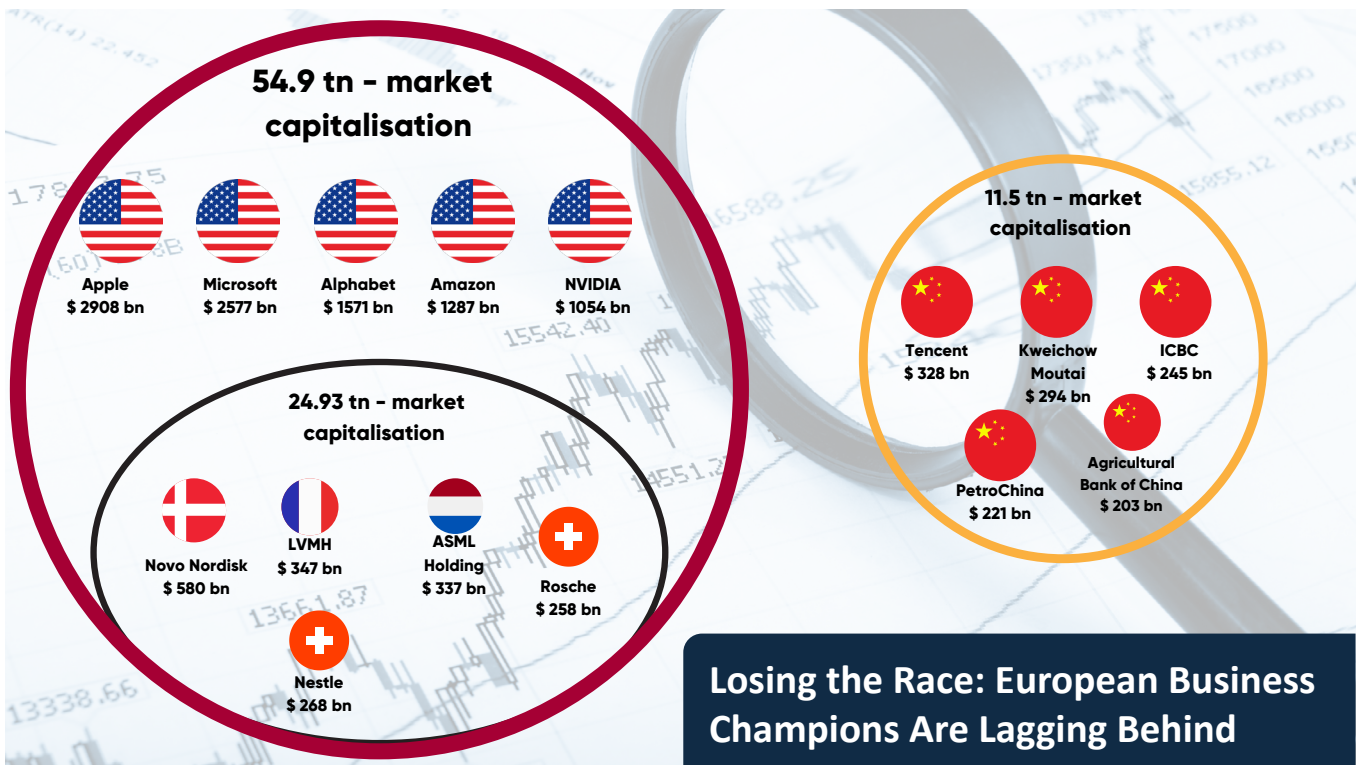
Source: CSD based on Eurostat Data.

²⁰ Vladimirov, M., and Gerganov, A., *Chinese Economic Influence in Europe: The Governance and Climate Conundrum*, Sofia: Center for the Study of Democracy, 2021.

Industrial policy should focus on fostering competitiveness and innovation. Research and development spending in the EU as share of GDP has stayed flat at around 2% of GDP over the last decade, while it went to almost 3.5% in the U.S. Hence, policies should prioritize technological advancements and recycling solutions to extend the lifecycle of existing materials. Similarly, strengthening the electric vehicle battery sector should address the industry’s documented skilled-labor shortages rather than simply increasing production subsidies.

Protectionist policies related to economic security may offer short-term stability, but long-term resilience will come from ensuring that Europe remains an attractive, dynamic, and innovative industrial hub. By striking the right balance between strategic autonomy, targeted intervention, and international collaboration, Europe can enhance its economic security without undermining the very competitiveness it seeks to protect.

Figure 5. Market capitalisation of listed companies and market leaders in the US, EU and China.



Losing the Race: European Business Champions Are Lagging Behind

Source: CSD based on estimates by the S&P Dow Jones Indices.

Technological Sovereignty

Strategic dependencies in semiconductors, AI, quantum computing, and telecoms increasingly serve as geopolitical pressure points, and threaten to squeeze European companies and consumers between US and Chinese tech giants. The Union’s overreliance on third countries for dual-use technologies, alongside fragmented national approaches to export controls and FDI screening, exposes it to significant vulnerabilities.

Although the European Commission has taken steps to coordinate these areas, member states still hold primary authority, creating loopholes that can be exploited—particularly by systemic rivals such as China, which has acquired critical high-tech assets by exploiting regulatory gaps. The EU needs a centralized

mechanism for technology risk assessment, harmonized export control and investment screening standards, and forward-looking governance across research and innovation programs. A dedicated European Technology Security Coordination Office could serve this function, bridging the Directorate-General for Trade and Economic Security, the Directorate-General for Defense Industry and Space, and the Directorate-General for Research and Innovation within the European Commission.

A coherent EU strategy must also respond to the rising use of technology restrictions as tools of statecraft. Rather than reacting to pressure from allies, Europe should assert an independent approach that protects both its security and competitiveness. Export controls should be applied selectively and strategically, not

as automatic alignments with external agendas. Technology sovereignty should not become isolationist.

Moreover, research security must be institutionalized across the different funding instruments of the European Commission, such as Horizon Europe and Digital Europe. The funding from the European Commission of joint research with third-country partners, especially in dual-use technologies, has not been adequately safeguarded. An EU-wide “strategic integrity clause” should be adopted to ensure that research beneficiaries conduct due diligence on potential national security risks and avoid IP leakage to systemic rivals.²¹

Institutional Resilience

There is a core institutional paradox at the heart of EU economic security: while the Commission has far-reaching powers in market regulation and trade, it lacks authority in national security domains, including most facets of economic security policymaking. In addition, the member states retain almost all of the implementation sovereignty, resulting in worrying implementation gaps and tendencies for EU economic security capacity to depend on the weakest link member states. The resulting governance fragmentation has delayed risk responses and complicated strategic coordination.

The EU’s economic security strategy remains largely reactive and operationalized through a dispersed set of instruments—FDI screening, export control proposals, research security, and the Anti-Coercion Instrument—each governed under separate institutional mandates. This creates silos that prevent an integrated response to rapidly emerging and evolving geoeconomic threats.

Another defining feature of the EU’s approach to economic security is its emphasis on economic outcomes over national security imperatives. While the U.S. directly links economic security to national defense, China frames it within the broader goal of self-sufficiency, and Russia has directly instrumentalized it militarily, the EU’s focus remains on mitigating foreign policy shocks and ensuring supply chain resilience.²² This reflects the Commission’s historical role as the guardian of the single market rather than a geopolitical actor. However, as economic and security concerns become increasingly intertwined, the EU must develop a more integrated approach that bridges these two domains.

The EU’s economic security strategy’s implementation remains fragmented. To overcome this challenge, the EU needs a permanent, cross-institutional structure for economic security governance. One instrument could be the establishment of a European Economic Security Council at the interface of the European Commission, Council, and Parliament. This Council would not only steer long-term strategic planning but also conduct horizon-scanning, threat mapping, and policy coordination in real-time. Establishing such a body would also anchor national perspectives, align responses to foreign coercion and technology risks, and foster a shared security culture across the EU. It could be embedded in a wider EU strategic autonomy policy setting mechanism, combining defense, energy and economic security.

Economic security must be embedded as a horizontal priority across all policy domains—from competition and cohesion policy to climate and research agendas.²³ For example, the Net-Zero Industry Act and Critical Raw Materials Act should be adapted to reflect not only sustainability goals, but also strategic resilience metrics, such as exposure to hostile suppliers or concentration risks in supply chains.

Finally, foresight capabilities must be strengthened around the EU’s strategic foresight initiative.²⁴ Building a strategic intelligence infrastructure—akin to a European economic equivalent of the European Union Intelligence and Situation Centre (EU INT-CEN)—could enable anticipatory action, risk-sharing, and timely deployment of crisis mechanisms like joint procurement or emergency subsidies.

Towards a New Geoeconomic Compass

To secure its economic future, the EU must move from a **defensive to a proactive stance** that enhances competitiveness while protecting strategic interests. Economic security cannot be achieved through isolationism or protectionism, but through **resilience built on innovation**, strategic diversification, and global engagement. Traditional reliance on open trade and regulatory diplomacy is no longer sufficient in an era of economic coercion and systemic rivalry. A new geoeconomic compass is needed—one that strengthens Europe’s leverage and positions it as a rule-shaper in the global order.

²¹ Markov, D., and McLaren, R., *Forging the Shield: National Economic Security Policies in an Era of Global Uncertainty*, Sofia: Center for the Study of Democracy, 2024.

²² Petrova, and Stefanov, *Open Gates, Guarded Walls*, Sofia: CSD, 2024.

²³ Petrova, and Stefanov, *Open Gates, Guarded Walls*, Sofia: CSD, 2024.

²⁴ European Commission, *Strategic foresight*.

Improving the EU's overall economic performance is essential. A stronger economy deters coercion and ensures Europe remains indispensable to global supply chains. The key economic security pillars should include **continuous risk assessment**, diversified trade, and ex-post tools to counter coercion. Data gaps and the complexity of supply chains mean firms—especially SMEs—often remain unaware of their indirect dependencies. Initiatives like the semiconductor value chain mapping under the European Chips Act and the Internal Market Emergency and Resilience Act are steps forward, but further support must be tied to information-sharing.

The European Commission must prioritize **removing internal market barriers and streamlining regulation**. In the digital sector, fragmented rules and compliance burdens, such as GDPR, disproportionately affect small firms—cutting profitability by up to 12%.²⁵ Regular regulatory competitiveness audits would help continuously identify and reduce such obstacles.

At the same time, a **more active and coordinated fiscal policy** is needed to stimulate innovation and industrial growth. This includes targeted support through instruments like the Strategic Technologies for Europe Platform (STEP)²⁶ and reformed state aid rules. The EU members should strengthen international industrial partnerships rather than defaulting to reshoring. Cleantech and supply chain alliances with trusted partners can reduce dependencies while preserving the benefits of trade.

Trade diversification, both in imports and exports, is vital to limiting exposure. However, aligning economic incentives with security goals is crucial, especially where market forces alone fall short. While the EU has an extensive network of trade agreements, political resistance often hampers new deals. Even existing agreements may not sufficiently address key dependencies, such as in critical raw materials. The EU should modernize trade deals to embed diversification and resource security priorities.

Strategic partnerships must go beyond resource extraction. Initiatives like the Global Gateway should support industrial development in partner countries, creating long-term shared benefits. Reducing over-reliance on dominant export markets is equally important. Cases such as Australia and Lithuania show how economic coercion from economic giants like China, is often targeted at exports. Broad-based, flexible diversification strategies are needed to anticipate evolving vulnerabilities. Instruments like the Anti-

Coercion Instrument must be reinforced by underlying economic strength.

The EU's Critical Raw Materials Act, alongside initiatives such as the Critical Raw Materials Club and the Minerals Security Partnership Forum, represents an attempt to mitigate these risks by diversifying supply chains. A twofold approach is necessary: **reinforcing domestic production capacity** where feasible and deepening strategic partnerships with resource-rich nations. Yet these agreements must go beyond transactional arrangements. European economic security cannot be built on resource extraction alone; instead, the EU must **engage in value creation**, ensuring that partner countries also benefit from industrial development rather than serving merely as suppliers of raw materials. Aligning these efforts with the Clean Industrial Deal is crucial to maintaining a sustainable economic model while securing the materials needed for the green transition.

Internal cohesion on implementing economic security policies is critical in strengthening Europe's strategic autonomy and geopolitical standing. This calls on core member states, leaders in economic security to put forward more common initiatives to build coalitions of the willing around policy priorities, supported by national financial instruments, in addition to EU funding tools. One such existing example is the work and experience of the German European climate initiative EUKI, which prioritizes connecting Europe through climate action.²⁷

Ultimately, the EU must lead, not follow, in shaping economic trends. By aligning resilience, competitiveness, and strategic engagement, Europe can build a model of economic security that ensures lasting influence and prosperity in the emerging global landscape.

²⁵ European Commission, *Strategic foresight*.

²⁶ The Strategic Technologies for Europe Platform (STEP) was set up by the EU to support the European industry and boost investment in critical technologies in Europe.

²⁷ European Climate Initiative (EUKI) [website](#).