



APRIL 2019

## Economic Security Methodology and approach

The second Global Security Pulse (GSP) of 2019 focuses on economic security. The design of the GSP is concise and aims to be agenda-setting. This accompanying paper is intended to explain and justify the underlying (methodological) choices and reflects upon the process.<sup>1</sup> It consists of four parts. Firstly, it will outline the concept of economic security, as understood in this Pulse. Secondly, it provides the results of the Horizon scan, including a 'medium list' of the signals we have found during the scan. Thirdly, it will show the 10-year threat assessment and a table on the state of the international order. It concludes with a comprehensive source table.

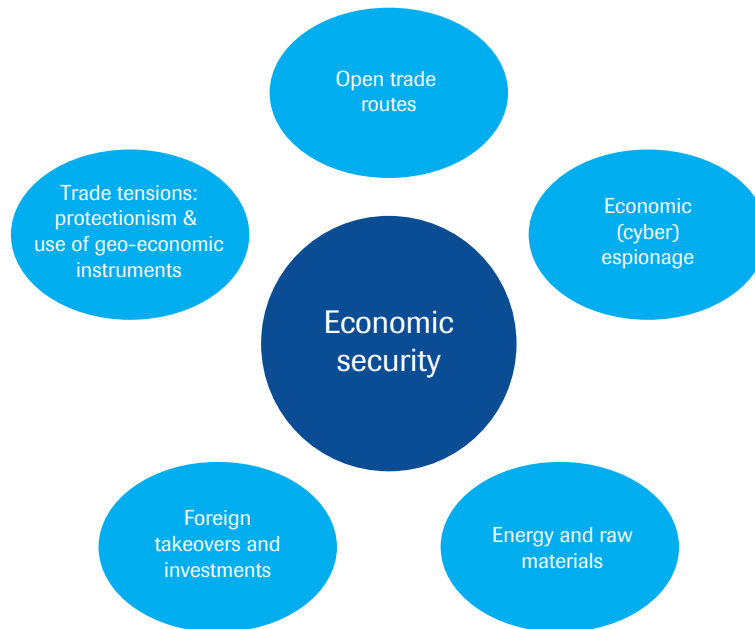
### Economic security

Economic security has been on the agenda of European and Dutch policymakers for a while now. The topics include foreign takeovers and investments, trade espionage, security of energy supply etc. The fast-changing and increasingly complex geopolitical context has led to extra attention being focused on these issues. Geopolitical competition is reshaping the global economy; economic power and means are increasingly used for political purposes. Hence, the economy and (geo)politics are increasingly interwoven. At the same time, in the absence of global leadership, global norms and standards are under pressure. There are numerous examples, such as the trade war between the US and China, which was on the brink of escalation in 2018, and rising concerns about the Chinese technology giant Huawei, which is accused of being a tool of espionage for the Chinese government.

Economic security is a broad term. We have looked at various European and Dutch strategy and policy documents to see what is deemed to constitute 'economic security'.<sup>2</sup> We have identified five main topics in the Dutch political discourse (see Figure 1):

- 1 See "[General Method: Global Security Pulse](#)" for an outline of the general horizon scanning methodology.
- 2 Ministry of Foreign Affairs: An Integrated International Security Strategy 2018-2022 (2018), NCTV: Rapportage Werkgroep Economische Veiligheid: 'Tussen naïviteit en paranoia' (2014), Strategie Nationale Veiligheid (2007), ANV: Nationaal Veiligheidsprofiel (2016), Ministry of Defence: 'Houvast in een onzekere wereld' (2015), AIVD: Yearly report (2017), Internationale Veiligheidsstrategie (2013), EU Global Strategy (2016), EU Global Strategy Implementation Report Year 2 (2018).

**Figure 1 Economic security topics**



1. Preventing trade tensions (the use of economic means for (geo)political purposes, the use of protectionist measures such as tariffs and quotas, commitment to the WTO as a pillar of a free trade regime);
2. Keeping trade routes open;
3. Combating cyber espionage;
4. Ensuring the supply of energy and raw materials;
5. Safeguarding national security when investments are made or companies are taken over. Foreign takeovers and investments can become a matter of national security if they lead to strategic dependency or actors can obtain vital information.

In this Global Security Pulse we have looked for new signals that relate to these five topics of economic security. In addition, we have scanned for new or important signals that can tell us something about the status and developments with regard to the international order, more specifically the free-trade regime.

## Results of the horizon scan

In total 179 sources were consulted for a period of six months (August 2018 to March 2019 inclusive). This generated 141 potentially relevant signals. 75 of these were potential threats, 22 were potentially relevant to the international order and 44 had a potential impact on either category. The 141 potentially relevant signals included 61 potentially underappreciated signals. 74 signals qualified as new developments rather than as new manifestations of existing trends (68) or signals already on the radar (70).

The scan resulted in the following medium list, which served as a basis for an expert discussion that was held in April 2019.

In this meeting, experts reflected upon these results and shortlisted the trends which they deemed most important in terms of their potential impact on national security and the degree to which they were reflected in Dutch policy discourse. The shortlisted signals are part of the final Global Security Pulse.

## Medium list

Threat & opportunity signals
<p><b>The Chinese communist party and Chinese companies are becoming less covert in their economic espionage</b></p> <p>Although China (but also countries such as the US and Russia) has been conducting espionage for years, it is currently ramping up its espionage activities. In particular the number of corporate cyber attacks <i>outside</i> China has recently soared and costs have risen accordingly. The Dutch Intelligence Service (AIVD) has explicitly called China “the biggest threat when it comes to economic espionage”. China is interested in Dutch companies in the high-tech, energy, maritime and life sciences &amp; health sectors. A particularly concerning development is that China’s State Security Ministry is working more closely with Chinese enterprises and often uses cover organisations such as universities, trade associations and think tanks. China has become more aggressive and seems to care less if it gets caught or if people go to jail. It also uses non-cyber means of espionage, such as recruiting employees to steal information or the theft of specific technological inventions (for example genetically modified rice seeds). These developments show how advanced China has already become in the field of espionage.</p> <p>Sources: <a href="#">Washington Post</a>, <a href="#">Stratfor</a>, <a href="#">BBC</a>, <a href="#">AIVD</a></p>
<p><b>The Chinese government is expanding its aerospace programme aimed at economic expansion, thereby achieving greater aerospace dominance</b></p> <p>China is investing in space. China’s space ambitions are centred on wealth creation (instead of space exploration) through a space-based economy, as stated in the white paper issued by the Chinese government. In January this year, China’s Chang’e 4 was the first to land on the far side of the moon, with an extended goal of establishing a permanent lunar research station by 2035. This lunar base will be used for mining, deep space exploration and exploitation. Although technical difficulties remain, China aims to launch a solar power system and extract metals such as ores. The political implications of its potential space dominance are expected to become even greater, as space is also one of <i>the</i> new dimensions for military might.</p> <p>Sources: <a href="#">The Diplomat</a>, <a href="#">Digital Trends</a>, <a href="#">Dezeen</a></p>
<p><b>Chinese FDI is now prominent in the EU, increasing China’s political influence</b></p> <p>Greece, Portugal and Malta have already signed deals with China, in sectors ranging from energy to transportation, in addition to its significant presence in insurance, health and financial services. Italy – the first G7 member and the third largest EU economy – has recently signed deals worth €2.5 billion, and that figure could rise further to 20 billion. The two countries pledged closer economic cooperation, particularly in the fields of connectivity, (energy) infrastructure and trade. In its wake, Luxembourg has signed an agreement on the BRI. Even though these investments are relatively small, and projects may fail, the political significance may be greater. In other countries they have led to debt traps or divergent voting in international organisations. In the future, the EU will have to deal with China on other issues as well, such as export controls and defence cooperation. The question is: is the EU ready for this?</p> <p>Sources: <a href="#">Politico</a>, <a href="#">Reuters</a>, <a href="#">Carnegie</a>, <a href="#">EU Observer</a></p>
<p><b>Increasing worries about the Suez Canal as conflict in surrounding countries and the influence of Russia and China could affect trade</b></p> <p>There is concern that unrest in the Horn of Africa could threaten navigation in the southern entrance to the Red Sea, possibly affecting access to Egypt’s Suez Canal. Egypt has been making diplomatic overtures to Moscow and Beijing, as the US has become less active. Egypt and China have already signed deals worth \$18 billion as part of the BRI. Egypt recently also signed deals with Russia to establish a Russian industrial zone around the Suez Canal. This Chinese and Russian influence endangers access to the important trade corridor and threatens its economic independence.</p> <p>Sources: <a href="#">The Arab Weekly</a>, <a href="#">Egypt Today</a>, <a href="#">African Daily Voice</a>, <a href="#">Middle East Monitor</a></p>
<p><b>Cyber attacks against Dutch vital water infrastructure are becoming serious security challenges</b></p> <p>The Netherlands Court of Audit (<i>Algemene Rekenkamer</i>) recently issued a report stating that vital Dutch water defence structures such as the Delta Works, locks and pumps intended to protect the Netherlands against flooding are inadequately secured against cyber attacks. If a hostile country or terrorists took over digital control of these structures, they would potentially have the power to flood the Netherlands. The energy sector has become increasingly vulnerable to cyber threats as a result of rapid digitalisation. In addition, up-and-coming AI malware will increasingly usher in a new era of threats to the energy industry, allowing hostile actors to wreak havoc on a scale hitherto unknown. AI-driven malware can be employed with unprecedented accuracy and is very hard to stop.</p> <p>Sources: <a href="#">Atlantic Council</a>, <a href="#">ZDnet</a>, <a href="#">Financieel Dagblad</a></p>

### Threat & opportunity signals

#### **Heightening geopolitical tensions around the Nord Stream 2 pipeline among EU and NATO partners**

Even though the construction of the Nord Stream 2 gas pipeline is at an advanced stage, the debate surrounding the commercial and geopolitical implications is heating up, as the EU is becoming more aware of the risks. The debate highlights geopolitical tensions within the EU and NATO, and the private sector is very much engaged in the debate as well. Germany's role as an advocate of Nord Stream 2 has been heavily criticised, for example by Poland. The EP has adopted a resolution urging Germany to halt the project. The US is preparing sanctions on EU firms financing or cofinancing Nord Stream 2, which could also hurt Dutch firms like Allseas, Boskalis and Van Oord. Another source of debate is the Baltic region. In January, Russia launched an LNG power plant to make its Kaliningrad exclave self-reliant when NATO members unplug the power grid. The exclave is at risk of becoming the stage for a new gas "Cold War".

Sources: [DW](#), [Reuters](#), [Emerging Europe](#), [EUobserver](#)

#### **Both China and Russia are expanding their presence in the Arctic region and increasingly seeking mutual cooperation in this area**

Both Russia and China are expanding their presence in the Arctic. China has announced that it will start building its first airport in the Arctic. Russia has given the state corporation Rosatom the leading role in the development of the Northern Sea Route (including infrastructure, access, security and shipping). The company has recently opened a base in Murmansk to monitor and regulate ship traffic. Russia is also renewing and reactivating Cold War military infrastructure in the Arctic. The countries are also working together in the region. China is seeking to integrate its 'Polar Silk Road' – a predominantly Sino-Russian partnership – into the greater BRI. A major component is the development of joint ventures with Russia in resource extraction, including fossil fuels and raw materials. The Polar Silk Road, however, seems to be focused mainly on opening up trade routes. Moreover, Russia's real threat has not been established: China will likely gain more from their collaboration, and Russia's ventures are too reliant on stable oil prices.

Sources: [South China Morning Post](#), [High North News](#), [Financial Times](#), [The Diplomat](#)

#### **The number of pirate attacks and armed robberies is on the rise in West Africa, which is easily overtaking the Horn of Africa as Africa's piracy hotspot**

According to the International Maritime Bureau's annual report, pirate attacks and armed robberies rose worldwide in 2018 due to a surge in attacks off West Africa, despite the number of attacks declining in other parts of the world. Petro-piracy in particular is a growing risk off West Africa and could impact oil supplies to the EU.

Sources: [ICC-CS](#), [Solace Global](#), [Seatrade Maritime](#)

### International order signals

#### **The chronic crisis around the WTO has grown into an existential crisis**

The US, under President Trump, is blocking the appointment of new members of the WTO Appellate Body, the organisation's dispute settlement mechanism, at the risk of sparking an existential crisis. Within a few months it could paralyse 23 years of WTO enforcement, the keystone of international efforts to prevent trade protectionism. This is particularly worrisome at a time of heightened global trade tensions. Some argue that without effective dispute resolution there is a risk that the whole WTO system will collapse. Meanwhile, states are turning towards plurilateralism. A telling example is the recent announcement by 76 member countries that they will start independent negotiations on e-commerce, because in their opinion the WTO lacks vigour. All this highlights the need for reforms within the WTO.

Sources: [EPICE](#), [Financieel Dagblad](#), [EJIL](#), [Reuters](#)

#### **China's Belt and Road Initiative (BRI) is increasingly present in Europe, causing political discord within the EU**

China's BRI has been criticised as a tactic by Beijing to undermine EU unity. The 'divide-and-rule' tactic could pit European powers against each other. Even though major European countries are increasingly vocal against China's unfair trade policies, investments and unfulfilled reform promises, deals with the Chinese are still being signed. In total 15 of the 28 EU member states have signed up for the BRI. Italy has signed deals worth €2.5 billion and that figure could rise further. The issue is dividing the EU. EU member states such as Germany and France have pushed for tougher screening criteria for Chinese investments, while other countries such as Greece and Portugal have adopted a more lenient approach.

Sources: [Financial Times](#), [South China Morning Post](#), [Business Insider](#), [CSIS](#)

### International order signals

#### **EU shifts gear when it comes to European industrial policy**

EU industrial policy is back on the agenda, driven mainly by the debate on Chinese FDI. There is growing concern about foreign investors, notably state-owned enterprises, who take over European companies for strategic reasons. In light of this, the EU has adopted a new framework for screening FDI into the EU, which will come into force this April. It will provide a means of detecting and addressing security risks that may be posed by foreign takeovers of critical assets, technologies and infrastructures. France and Germany are leading the push for a common strategy to deal with competition with Chinese state-led firms. In March, the European Commission presented a new strategic 10-point action plan, marking a new approach in which the EU is openly moving to protecting itself better in trade relations with China. Other drivers of this debate are geopolitical consequences of the energy transition.

Sources: [EUobserver](#), [Politico](#), [European Commission](#), [South China Morning Post](#)

#### **China has become a standard-setter in technology, with the risk that some fields (such as ICT) are splintering into US and Chinese spheres of influence**

The strategic rivalry between China and the US is rapidly evolving into an arms race for technological dominance. China is highly proactive in influencing global tech standards (from AI to hydropower) and exporting its own standards along the “Digital Silk Road”. European economies may find themselves increasingly dependent not just on US but also on Chinese digital technologies. This might also affect military operators, as they are increasingly dependent on technologies from the commercial sector (dual use technologies). Also, Chinese companies are intensifying their influence in international standard-setting bodies such as ITU and ISO. State-sponsored efforts to shape international standards have been ongoing since the country entered the WTO. A recent report by the UN World Intellectual Property Organisation (WIPO) showed that China and the US are leading the global competition to dominate AI. Political trends in both countries imply that a growing divergence in ICT systems and standards is likely.

Sources: [The Economist Intelligence Unit](#), [WIPO](#), [Mercis](#)

#### **Despite having largely the same concerns about China’s economic policy, the US and EU barely cooperate on this topic**

The US is in a trade war with China. European leaders are increasingly alarmed by China’s economic influence on the continent. However, because of frictions between the EU and the US, there has been little or no cooperation or coordination in their strategies. While they share many of the same concerns (and both used to be defenders of the liberal order), they are far apart on what to do about it. The US is using tariffs – or the threat of them – while the EU wants to preserve the WTO as the prime forum. Increasing attention is being devoted to this problem, however, and there are signs that efforts are being made to curb it.

Sources: [New York Times](#), [The Washington Post](#), [Carnegie](#)

#### **The international energy transition is leading to immense shifts in the geopolitical order**

As countries become less dependent on oil, the energy transition towards renewable energy will alter the global distribution of power and relations between states. It will also influence the risk of conflict and the social, economic and environmental drivers of geopolitical instability. The weight of energy dependence will shift from global markets to regional grids. The Baltic states, for instance, want to connect their grids to those of continental Europe in order to decouple their electricity systems from Russia. This move also has geopolitical motives. While there are new initiatives emerging to promote multilateral cooperation and boost renewable technologies, alliances are also forming between oil-producing countries. For instance, Russia and Saudi Arabia have continuously strengthened ties, especially following the Western sanctions against the Russian energy sector. There are signs that Saudi Arabia wants to formalise the pact between OPEC and Russia. The two countries are discussing huge investments in each other’s oil industries.

Sources: [High North News](#), [Wall Street Journal](#), [Chatham House](#), [Geopolitics of Renewables](#)

#### **The advance of digital technology is increasingly dividing the world into haves and have-nots, which is impeding regime development**

Digital technology (AI, IoT, 3D, Blockchain etc.) is reshaping economic activity in every corner of the globe. However, this change is taking place at different speeds, depending on each country’s degree of readiness to participate in the digital economy and the extent to which each can benefit from it. Although some argue that there are signs that the so-called digital divide is narrowing, there is clearly still a great disparity worldwide. This indicates that the digital divide between developed and developing countries can act as a barrier to more economic integration in the digital realm. The trends seem to result in market concentration, first-mover advantages for incumbent firms and barriers to entry into the relevant markets.

Sources: [The Conversation](#), [WTO](#), [The Diplomat](#)

## Data used for long-term trend tables

	Indicator	Sources
<b>Trade tensions</b>	Trade protectionism: export and other subsidies, tariff measures, trade-protective measures, government procurement restrictions	<a href="#">Global Trade Alert database</a>
	Level of WTO dispute settlement activity	<a href="#">WTO dispute settlement activity</a>
	Economic freedom	<a href="#">Fraser Institute – Economic Freedom of the World: 2018 Annual Report</a>
<b>Trade routes</b>	Global seaborne trade (80% of total trade in goods)	<a href="#">UNCTAD Review of Maritime Transport 2018</a>
	Number of piracy attacks	<a href="#">Annual Reports ICC International Maritime Bureau</a>
	Vulnerability of maritime chokepoints	ANV Themarapportage Financieel-economische dreigingen (as part of the Integrated Risk Analysis, soon to be published on the website of the NCVT); <a href="#">Chatham House report</a>
<b>Foreign direct investment and takeovers</b>	FDI regulatory restrictiveness	<a href="#">OECD – FDI Index</a>
<b>Energy and raw materials</b>	Energy dependence of EU (gas, petroleum, solid fuels)	<a href="#">Eurostat – Energy Dependence</a>
	(Critical) raw materials dependence of EU	<a href="#">EU – Raw materials scoreboard</a> ; <a href="#">Strade – Raw materials scoreboard</a>
<b>Economic (cyber) espionage</b>	Threat level of economic espionage (NL and EU)	<a href="#">AIVD – Yearly reports (2008 – 2018)</a> ; <a href="#">European Commission</a>

Norms	Sources
States are bound by a system of rules dedicated to open, fair and undistorted competition	<a href="#">WTO Principles of the Trading System</a> ; <a href="#">Clingendael Report on Free Trade</a>
States resolve trade disputes within the multilateral framework of the WTO	<a href="#">WTO Dispute Settlement Body</a>
(Trade) espionage is acceptable state behaviour when used for traditional purposes	<a href="#">Emory International Law Review</a>
States refrain from taking protectionist measures	<a href="#">G20 Information Centre</a>
Rules	Sources
The broad regime of WTO rules and agreements on trade, goods and intellectual property rights	Free trade regime - WTO: most importantly: <a href="#">General Agreement on Tariffs and Trade (GATT)</a> , <a href="#">General Agreement on Trade in Services (GATS)</a> , <a href="#">Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)</a>
Rules of non-discrimination (most-favoured-nation principle and national treatment)	<a href="#">Art. 1 GATT</a> , <a href="#">Art. 2 GATS</a> , <a href="#">Art. 4 TRIPS</a>




## Sources used for the scan

(Inter)national organisations	Think tanks / research centers	Specific sources	General sources	Twitter
<a href="#">Atlantic Council</a>	<a href="#">Clingendael</a>	<a href="#">South China Morning Post</a>	<a href="#">Reuters</a>	<a href="#">Gitika Bhardwaj</a>
<a href="#">World Trade Organization</a>	<a href="#">Lowy Institute</a>	<a href="#">The Diplomat</a>	<a href="#">Washington Post</a>	<a href="#">M. Huotari</a>
<a href="#">OECD</a>	<a href="#">Brookings</a>	<a href="#">The National Interest</a>	<a href="#">Financial Times</a>	<a href="#">Rem Korteweg</a>
<a href="#">European Commission</a>	<a href="#">Carnegie</a>	<a href="#">Bloomberg</a>	<a href="#">LA Times</a>	<a href="#">CSIS Simon Chair</a>
<a href="#">International Energy Agency</a>	<a href="#">Bruegel</a>	<a href="#">Lawfareblog</a>	<a href="#">New York Times</a>	<a href="#">Bloomberg Economics</a>
<a href="#">International Chamber of Shipping</a>	<a href="#">European Centre for International Political Economy (ECIPE)</a>	<a href="#">Emerging-Europe</a>	<a href="#">BBC</a>	<a href="#">Financieel Dagblad nieuws</a>
<a href="#">Council on Foreign Relations</a>	<a href="#">Finnish Institute of International Affairs (FIIA)</a>	<a href="#">China Daily</a>	<a href="#">Project Syndicate</a>	<a href="#">IRENA</a>
<a href="#">International Chamber of Commerce - CCS</a>	<a href="#">EJIL</a>	<a href="#">The Week</a>	<a href="#">RTLnieuws</a>	<a href="#">Clingendael</a>
<a href="#">European Council on Foreign Relations</a>	<a href="#">Stockholm International Peace Research Institute (SIPRI)</a>	<a href="#">Solace Global</a>	<a href="#">Volkskrant</a>	
<a href="#">World Intellectual Property organization</a>		<a href="#">Polar Connection</a>	<a href="#">NRC</a>	
		<a href="#">Business Insider</a>	<a href="#">CNBC</a>	
	<a href="#">Peterson Institute for International Economics (PIIE)</a>	<a href="#">Europa-nu</a>	<a href="#">Wall Street Journal</a>	
	<a href="#">International Institute for Strategic Studies (IISS)</a>	<a href="#">Euronews</a>	<a href="#">Politico</a>	
	<a href="#">Center for Global Development</a>	<a href="#">High North News</a>	<a href="#">The Economist</a>	
	<a href="#">Clingendael International Energy Program</a>	<a href="#">The Economist Intelligence Unit</a>	<a href="#">Financieel Dagblad</a>	
	<a href="#">VOXeu</a>	<a href="#">Newsweek</a>	<a href="#">DW</a>	
	<a href="#">PwC</a>	<a href="#">Real Clear Defense</a>		
	<a href="#">Arab Gulf States Institute in Washington</a>	<a href="#">Digital trends</a>		
	<a href="#">ChinaPower (CSIS)</a>	<a href="#">Fortune</a>		
	<a href="#">Stratfor</a>	<a href="#">Dezeen</a>		
	<a href="#">International Institute for Sustainable Development</a>	<a href="#">Seatrade-Maritime</a>		
	<a href="#">Chatham House</a>	<a href="#">African Daily Voice</a>		
		<a href="#">The Arab Weekly</a>		
		<a href="#">Daily News Egypt</a>		
		<a href="#">Egypt Today</a>		
		<a href="#">Middle East Monitor</a>		
		<a href="#">ZDNet</a>		
		<a href="#">Forbes</a>		
		<a href="#">EUobserver</a>		
		<a href="#">QUARTZ</a>		
		<a href="#">The Conversation</a>		

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