



# INTERNATIONAL SECURITY FORUM BONN 2020

A TIME OUT OF JOINT – NEW REALITIES, NEW IDEAS  
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FULL REPORT  
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# A Transatlantic Geo-Economic Compact

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A few days after the attack on the Capitol in Washington, DC, President Joseph R. Biden promised to heal wounds – domestically and internationally. In his inaugural address on 20 January 2021 he underlined his willingness to repair alliances to meet today's and tomorrow's challenges and to lead "not merely by the example of our power but by the power of our example."<sup>1</sup>

But President Biden's open hand to the international community meets a geo-economic environment that has drastically changed since he left office as then-Vice President Biden in 2017. Norman Angell's "The Great Illusion" perhaps best captures the current state of affairs. Today the great illusion refers to the belief that globalization would make geopolitics and geo-economics irrelevant because distance and territoriality no longer matter. This ignored the fact that all economic supply lanes – at land, at sea, in the air as well as in space and cyberspace – run through geospatial corridors that are subject to national and corporate interests. There is no such thing as an interest-free geospatial corridor. That's why the forces of geopolitics and geo-economics have always been at play – even when decision-makers ignored them.

Western nations relearned this ground truth as the unipolar moment comes to an end and assertive

emerging nations are increasingly vocal in demanding their seat at the international table. The global power shift that started with the 2008/09 global financial crises has been significantly accelerated by the COVID-19 pandemic that has put a stark light on government failure in the West. The fading unipolar moment affects the strategic framework as it changes all constitutive elements such as norms, rules, and principles, industry standards, economic policy tenants as well as the use of different instruments of power and strategic narratives thus igniting true grand systemic competition.

The three decades that followed the end of the Cold War have been a gigantic testbed for real-life geo-economic experiments. Almost completely unchallenged, the US has perfected its geo-economic toolbox ranging from smart sanctions to technology export controls and the use of corporate monitors as well as extraterritorial security reviews. In strategic affairs, however, first mover advantages can turn toxic as peers are watching closely. So, the big question is if and to what extent other nations will use the same toolbox against the US, its allies and their companies. When it comes to sanctions levied against actors in the West, for example, most economies are badly prepared because a comprehensive understanding of the respective vulnerabilities is lacking.

<sup>1</sup> The White House (2021): Inaugural Address by President Joseph R. Biden, Jr., 20 January, <https://www.whitehouse.gov/briefing-room/speeches-remarks/2021/01/20/inaugural-address-by-president-joseph-r-biden-jr/>.

Against this background, Germany, the EU and the transatlantic partners need a more strategic approach to economic statecraft. **In this regard, the China challenge is first and foremost about the art of policymaking in a contested world** in which Western nations are no longer the sole dominating actors. The art of policymaking refers to the comprehensive use of all instruments of power and the synchronization of public and private actions in light of the new grand systemic competition. Under the impression of globalization, many Western governments came to believe that trade can be separated from security. This mis-conception needs to be corrected by joint efforts at transatlantic, European and national levels.

### Transatlantic Action Items

Traditionally, transatlantic allies have paid significant attention to military interoperability to ensure joint responses to defense challenges. **In a geo-economic environment, transatlantic partners need supply chain interoperability to provide joint responses to economic challenges.**

Today, however, supply chain interoperability is in danger. President Biden's plan to rebuild US supply chains<sup>2</sup> and the EU's idea of open strategic autonomy<sup>3</sup> can work together, but there is no autopilot guiding both sides to complementary policies unless they work hard to achieve mutually reinforcing goals. Therefore, supply chain management should become a top transatlantic priority. Four aspects are key:

- First of all, there is a need for an **instant US moratorium on supply chain disruption**. This should lead to a halt of unilateral US actions such as tariffs and sanctions against European partners and against third parties that affect Europe. At the time of writing, US President Biden is expected to sign a new executive order to review critical US supply chains. This review should be conducted in close cooperation with transatlantic allies to frame a joint understanding of the respective interdependencies and vulnerabilities.
- Analyzing supply chains in order to identify vulnerabilities puts the focus on supply chain transpar-

ency. Today, most supply chain partners are familiar with their immediate interlocutors, but beyond that darkness prevails. Whereas big companies and the public sector enjoy access to liquidity on favorable terms, smaller supply chain partners don't. This creates liquidity asymmetry along the supply chain. **Overcoming unequal access to liquidity is the strongest lever to tackle supply chain opacity**. Establishing liquidity flows among supply chain partners in return for accomplishing specific tasks monitored and verified by exchanging comprehensive data sets can significantly increase transparency. Europe should take the lead by using Gaia-X, Europe's ambitious initiative to set up an open and federated tech-ecosystem.<sup>4</sup> Gaia-X could serve as the digital backbone to ignite a new liquidity-for-data incentive mechanism to advance supply chain transparency with the help of a transatlantic tech-ecosystem open to partners in third countries.

- Third, the US and the EU need a **strategic-level dialogue to discuss the interplay of supply chain management, emerging technologies, and foreign direct investment (FDI) screening**. Divergent views on what endangers national security lead to fundamentally different criteria to assess the impact of FDI on national security. This, in turn, affects science and technology cooperation and technology sharing thus hampering supply chains and corporate agility. That's why a strategic dialogue is needed to harmonize assessment criteria and risk analyses and synchronize policy responses.
- Finally, the EU and the US need to **reinvigorate the World Trade Organization (WTO), because this is the prime instrument to stop economic decoupling**. The problem is that supply chain management cannot be discussed among the members of an exclusive democratic club as a complete withdrawal of Western corporate supply chains from emerging countries is not feasible. Thus, the need to avoid supply chain disruptions or global-scale supply chain reorganization requires constant dialogue even with strategic competitors. And the WTO is the only place where this can be done.

<sup>2</sup> <https://joebiden.com/supplychains/>.

<sup>3</sup> Sabine Weyand (2020): 'EU Open Strategic Autonomy and the Transatlantic Trade Relationship', Opening remarks, AICGS, Johns Hopkins University, 15 September, [https://eeas.europa.eu/delegations/united-states-america/85321/eu-open-strategic-autonomy-and-transatlantic-trade-relationship\\_en](https://eeas.europa.eu/delegations/united-states-america/85321/eu-open-strategic-autonomy-and-transatlantic-trade-relationship_en).

<sup>4</sup> Federal Ministry for Economic Affairs and Energy: GAIA-X. A Federated Data Infrastructure for Europe, <https://www.bmwi.de/Redaktion/EN/Dossier/gaia-x.html>.

## European Action Items

In April 2020 Josep Borell, the EU High Representative for Foreign Affairs and Security Policy, signaled that Europe needs to rethink its approach to economic security amid a changing geo-economic landscape and the vulnerabilities that the COVID-19 pandemic brought to the fore. In his view the creation of the single market meant "that all protection mechanisms were viewed as obstacles hindering the construction of that market. As a result, while member states progressively reduced protection to allow the single market to take shape, Europe forgot to build collective protection."<sup>5</sup>

Based on this statement and a series of policy actions adopted since then, the EU-US agenda for global change proposed by the European Commission and the High Representative<sup>6</sup> underlines the need for closer transatlantic cooperation on technology, trade, and standards. This focus is all the more important as all three policy areas constitute the core of today's geo-economic competition. In trying to find common ground with the new US administration, European action should emphasize three strategic ideas:

First, Europe should refrain from mimicking US digital platform champions. Platform champions are an epitome of the unipolar moment in international affairs that comes to an end. As more and more centers of economic and political power emerge, it will become increasingly challenging to uphold the dominance of single platforms. Rather, withstanding economic decoupling requires the EU to focus on the ties that bind economic blocs together. **Safeguarding connectivity today requires the EU think about the geoeconomic equivalent of the freedom of navigation in international law.**

Second, Gaia-X is one way to ensure geoeconomically important flows of goods, services, capital, and data in an increasingly digitized world economy. But Gaia-X and the European data strategy presented in February 2020<sup>7</sup> are still very much inward looking and focused on the single market. In contrast, **Europe should understand Gaia-X and an open and federated tech-ecosystems as prime geo-economic instruments that help integrate third countries into Europe's "digital orbit"**, in order to strengthen stability and prosperity to mutual benefits. By emphasizing open architectures and open standards as well as the need to share rather than monopolize data, Gaia-X could become an important means to support Europe's concept of open strategic autonomy while at the same time upholding connectivity across different regions and bolstering transatlantic digital cooperation.

Finally, Europe should **use its connectivity strategy more vigorously** by combining foreign policy, trade and finance policy, technology development and overseas development aid to create zones of prosperity in regions of strategic importance to Europe. In the end, connectivity is all about infrastructure development. As the discussion about weaponized interdependence suggests, infrastructure constitutes a key vector of geo-economic competition as hubs and networks can be used to exert power. A European response could look at smart ports as a focal point, for example. Seaborne trade is essential for world trade, and smart ports that benefit from communication, digitalization, and automation are the main gates. A European smart port initiative designed to ensure connectivity would focus on shaping the respective standards, developing next-generation technologies, advancing governance frameworks for public-private interaction, and offer attractive funding solutions in an integrated package.

5 Josep Borrell (2020): 'The post-Coronavirus world is already here', ECFR Policy Brief, p. 7, [https://ecfr.eu/publication/the\\_post\\_coronavirus\\_world\\_is\\_already\\_here/](https://ecfr.eu/publication/the_post_coronavirus_world_is_already_here/).

6 European Commission (2020): Joint Communication to the European Parliament, the European Council and the Council. A new EU-US agenda for global change, 2 December, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020JC0022&from=EN>.

7 European Commission (2020): Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A European strategy for data, 19 February, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0066&from=EN>.

## German Action Items

As a powerful economy, Germany has taken a market-based and rules-oriented economic order for granted. But the rise of geo-economic competition constitutes a fundamental structural change in Germany's strategic environment. As a consequence, the new German government that will take office after the 2021 general election will need to make economic security a top national priority.

**Economic security emphasizes the interplay between national security, economic policy, technology, and innovation.** Economic security is meant to identify economic disruptions as early as possible in order to prevent them from arising and strengthen the coping capacity to deal with emergencies. Economic security ensures the continuity of strategic flows and makes sure that the respective infrastructure and technologies needed to enable these flows will be available at all time. To this purpose economic security nurtures and strengthens Germany's scientific-industrial ecosystem at home and in key markets abroad. Economic security adopts a comprehensive understanding of risks encompassing natural, technological, and socio-political disruptions. As corporate supply chains span different regions, economic security needs to be process-based thereby taking into account risks emanating from countries of origin, transit, and destination.

Against this background the new German government's approach to economic security will require

- **strategic-level public-private dialogue** involving the top ministries, leading multinational corporations, and the German Mittelstand to discuss the consequences of the new geo-economic environment for German business activities, identify German responses and shed light on how to best combine political and corporate efforts to protect and advance Germany's economic goals and ambitions;
- **closer synchronization of Germany's instruments of power** in particular with regard to trade, security, defense and foreign policy, research and education as well as development cooperation in order to project stability and prosperity to third countries that matter most to advance Germany's strategic agenda;
- investments in **competitive intelligence** as a key building block to understand how other nations and their corporate champions act and what how this is going to affect Germany's political and corporate leeway.



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