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Editorial

Economic Security and the Politics of Trade and Investment Policy in Europe

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Abstract

Facing recent global disruptions brought about by the COVID-19 pandemic, the war in Ukraine, climate change, and the race for raw materials and technology needed for the green transition, economic interdependence—not least unilateral dependence—has increasingly come to be seen as a security threat. In response, the EU has put resilience and strategic autonomy at the centre of its trade and investment agenda. The EU was long resistant to this geoeconomic turn, that is, the use of economic tools for geopolitical purposes in normal times. Since 2017, however, the EU has placed greater emphasis on identifying and mitigating the security vulnerabilities that accrue from open markets. This geoeconomic turn has culminated in the June 2023 release of the European Commission's Economic Security Strategy, which aims to maximise the benefits of economic openness while minimising the risks from economic interdependence. The aim of this thematic issue is to analyse the foundations of this new European focus on economic security and, more specifically, on the increased use of geoeconomic instruments. Coming at this objective from a variety of disciplinary traditions, methodologies, and substantive focus, our contributors tackle, among others, the following questions: Why has the EU abandoned its reluctance to use geoeconomics and finally made the switch towards economic security? How does the EU's approach compare with other major global players? And, what are the long-term implications of the EU's economic security strategy for European integration, its relationship with partners and allies, and the global economic order?

Keywords

anti-globalization backlash; economic security; European Union; geoeconomics; investment; trade

Issue

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1. Introduction

Interdependence has long been regarded as a mainstay of the globalised economy, where free trade and peace go hand in hand. Anchored by a set of multilateral rules governing economic exchange, the so-called liberal international economic order was designed in the post-World War II era to increase economic prosperity and tie economic partners in such binding ways that war between them would become too costly. However, recent years have shown that these close ties between states, companies, organisations, and individuals can

also be exploited for economic or geopolitical leverage—what is now commonly referred to as “weaponised interdependence” (Farrell & Newman, 2019). Facing recent global disruptions brought about by the COVID-19 pandemic, the war in Ukraine, climate change, and the race for raw materials and technology needed for the green transition, economic interdependence—not least unilateral dependence—has increasingly come to be seen as a security threat.

In response, the EU has put European resilience and strategic autonomy at the centre of its trade and investment agenda. In the face of a global context where power

politics is resurging with great speed and seems to trump liberal economics, the EU has changed course (Bauerle Danzman & Meunier, in press; Damro et al., in press; Matthijs & Meunier, 2023). The EU was long resistant to this geoeconomic turn, that is, the use of economic tools for geopolitical purposes in normal times. Since 2017, however, the EU has placed greater emphasis on identifying and mitigating the security vulnerabilities that accrue from open markets (Meunier & Nicolaïdis, 2019). In recent years, the EU has created in short order a panoply of innovative policy tools that blend trade and investment with essential security concerns.

This geoeconomic turn has culminated in the June 2023 release of the European Commission's Economic Security Strategy (European Commission, 2023). The stated aim of the Economic Security Strategy is to maximise the benefits of economic openness while minimising the risks from economic interdependence. The three key instruments proposed to achieve this ambition are to promote EU competitiveness, protect the EU's economic security through various new and existing tools, and partner with like-minded countries. What makes this strategy stand apart is its seeming change of tack for an international institution founded on the principles of the liberal world order. Despite its long reluctance to follow in the geoeconomic footsteps of its partners and competitors, the EU now appears to be launching its new strategy with a vengeance.

The aim of this thematic issue on "Economic Security and the Politics of Trade and Investment Policy in Europe" is to analyse the foundations of this new European focus on economic security and, more specifically, on the increased use of geoeconomic instruments. Coming at this aim from a variety of disciplinary traditions, methodologies, and substantive focus, our contributors tackle, among others, the following questions: Why has the EU abandoned its reluctance to use geoeconomics and finally made the switch towards economic security? How does the EU's approach compare with other major global players? And, what are the long-term implications of the EU's economic security strategy for European integration, its relationship with partners and allies, and the global economic order?

2. The EU's Pivot Towards Economic Security

A core objective of the postwar liberal international economic order was to separate commercial policy and security issues as much as possible (Garcia-Duran et al., 2023). This was relatively easy to do because of a clear distinction between what belonged to the economic vs. the security realms, albeit with some grey area in between for dual-use goods and technologies. Technological development, however, has blurred this neat distinction. On one hand, the "Internet of Things" and the ubiquity of personal data have transformed any economic good and interaction into a potential security threat, from your connected home assistant device

to your DNA ancestry kit. Devices and technology that service our interconnected world, not to mention the parts and items that are key to making them work, represent an increasing security hazard. On the other hand, issues that used to be considered scientific or economic in nature, such as climate change or a pandemic, are now understood to be part of national security, as was demonstrated clearly by the dramatic disruptions during the Covid-19 years. Economic interaction and security are so deeply entangled now that many states, and scholars, blend them under the concept of "economic security." This section explains the factors that have led to the EU's pivot towards economic security, introduces some of the tools in the EU's new geoeconomic arsenal, and analyses whether this is a true paradigm shift or the continuation of the same objectives through other means.

2.1. Explaining the EU's Pivot Towards Economic Security

The EU took longer than its partners and competitors to embrace economic security and develop its own geoeconomic tools. As Bauerle Danzman and Meunier (in press) explain, "the EU was less equipped institutionally and politically than other advanced economies to adjust to the new world of deglobalization, fragmentation, and economic statecraft" because of "the centrality of the single market to the process of European construction, the institutional division of competences that empowers the Union in the areas of trade and competition, and the traditionally pro-free market ideological bent of DG Trade."

In addition to technological change and the Covid-19 pandemic, two external factors prompted the EU's realization that it needed to expedite a strategy on economic security: First was China's simultaneous strategy of economic self-reliance, including through legal and illegal acquisition of Western technology, and rising authoritarianism and geopolitical ambitions. Second, the rapid move away from multilateralism and rules-based trade during the Trump administration made Europeans realize that taking the US as a reliable partner in defending the liberal international economic order was no longer granted. The embrace of industrial policy and economic security under the Biden administration only reinforced this American transformation. In both cases, these external factors pushed the EU away from its "naivete" towards liberal globalization and the free market (Bauerle Danzman & Meunier, 2023). Challenges of globalization and the rise of protectionist measures worldwide have caught up with the EU, forcing a rethink of its approach to international trade and economic openness (Garcia-Duran et al., 2023).

If external factors made the EU's pivot towards economic security necessary, internal factors made it possible. Demands for more economic security emanated from some of the member states starting in 2017 (see Calcara & Poletti, 2023) and from some business interests (Vlasiuk Nibe, 2023). In the wake of Brexit, the urge to develop industrial policy at the EU level has gained

new impetus, pushed forward by specific EU members (see Donnelly, 2023; Hoeffler, 2023). The EU's geo-economic turn was also made possible by the transfer of competence over foreign direct investment policy to the EU level (Meunier, 2017) and by the skilful political entrepreneurship of the Commission (Vlasiuk Nibe et al., in press).

The combination of the weaponization of economic interdependence, the undermining of liberal international economic order by the EU's main economic partners and competitors for their own geopolitical purposes, and the blurring of economy and security meant that the time was ripe for the European pivot towards economic security.

2.2. Developing a Panoply of EU Geoeconomic Tools

"Strategic Autonomy" encompasses the EU's broader aim of being able to act independently in various economic spheres without undue external influence or dependency. The EU's trade strategy has also been evolving to ensure that trade policy supports its strategic autonomy while promoting multilateralism ("open strategic autonomy") and addressing challenges like climate change and digital transition (European Commission, 2021). In light of global disruptions such as the Covid-19 pandemic, the EU's emphasis is on creating more resilient and diverse supply chains, especially in critical sectors like pharmaceuticals, semiconductors, and raw materials.

Within a short amount of time, the EU has developed a broad range of geoeconomic tools to implement its new ambitions. Some of the new instruments are designed to promote European industry and business, while others aim to protect the single market from exploitation by third countries but also from the exit of key technologies and raw materials. Among the defensive instruments that have already been decided are the Investment Screening Framework (2019), the Foreign Subsidies Regulation (2022), and the Anti-Coercion Instrument (2023).

The EU has also launched a series of offensive initiatives, for example, the International Procurement Instrument (2022), which aims to ensure reciprocity in market access for public procurement. Reducing dependency on external energy sources, especially from geopolitically sensitive regions, has been a priority. This includes diversifying energy sources and routes and promoting renewable energy within the bloc. The aim of the proposed Net Zero Industry Act (2023) is to strengthen the EU's self-sufficiency through major investment in the development of green technology and industrial capacity. The Critical Raw Materials Act was proposed in March 2023 by the Commission to increase domestic production of critical raw materials and reduce dependency on other countries, particularly China. This is not about protection but about diversification of suppliers. The European Chips Act (2023) aims to ensure the EU's security of supply, resilience, and technological leader-

ship in semiconductor technology. All these instruments are designed to bolster the EU's Green Deal, which is both a climate strategy and a growth strategy, with climate considerations and climate policy goals guiding all aspects of the EU's economic policy.

The protective instruments, the promotive legislation, together with an ambition to establish new global partnerships, were brought together when the Commission launched the European Economic Security Strategy in June of 2023.

3. The Three Pillars of Economic Security: Thematic Issue Contributions

We have grouped the contributions to this thematic issue under these three pillars of economic security. This is not a perfect grouping: Several articles address several pillars at once, while a few may not fall neatly under any of the three pillars. Nevertheless, they are sorted according to the three pillars to highlight current and possible future developments that serve to fortify the EU's new strategy, or potentially undermine it.

3.1. Promote

The European Economic Security Strategy aims at "promoting the EU's competitiveness, strengthening the Single Market, supporting a strong and resilient economy, and fostering the EU's research, technological and industrial base" (European Commission, 2023, p. 6).

Donnelly (2023) analyses how geopolitical threat assessments drive the US and the EU to protect critical ICT infrastructure from foreign influence and ownership, but also to promote independence in semiconductor research, development, manufacturing, and packaging. This article finds evidence that while the Trump administration adopted new forms of protectionism in many economic sectors, the Biden administration took the promotion of US industrial development much further, motivated by an explicit security threat from China. He argues that the EU's 2023 Economic Security Strategy reflects a similar approach and constitutes a step-change in promotion, albeit with fewer EU-level resources. It also seeks to partner with allies, though this largely translates into US companies building chip plants in EU member states. France emerges as a pace-setter in promoting independent technological capacity among the larger member states, while Germany continues to discount the drive to promote independence. The article examines the increasing importance of Waltian geopolitical security threats on both sides of the Atlantic as a driver of industrial policy, export controls, self-sufficiency, and friendshoring as a replacement for dependence on global supply chains. However, Donnelly (2023) also argues that, on the European side, differing national preferences dilute a Waltian turn with continued attachment to liberal (global supply chain) approaches to chips, 5G infrastructure, and a Waltian realist stance (capacity-building to build,

protect, and promote regardless of security threat) that occupies the middle ground.

Vlasiuk Nibe (2023, p. 149) takes as a point of departure that the Economic Security Strategy places investment screening within the framework of strategic priority on protecting Europe from “commonly identified economic security risks” and that the realisation of this priority requires the active participation of the private sector. Against this background, this author asks whether market actors share the same risk perceptions and what their incentives for security-motivated investment screening are. Studying business actors in Denmark, one of the most liberal member states initially sceptical about the idea of investment screening in Europe, Vlasiuk Nibe (2023) shows how they gradually accepted the idea of investment screening in the context of uncertainty and the gradual utterance of security threats by the European and local political elites. Being exposed to emerging security discourses across different levels and networks, businesses adjusted their policy preferences balancing between different identities. This author argues that the flexibility inherent in a multilevel and evolving securitisation process led to a legitimization of investment screening policies among interest groups that subsequently mitigated their resistance to the imposition of market constraints on security grounds. Throughout the policy-making process, Danish businesses embraced a two-fold perception of investment-related threats. The first aspect included a narrow understanding of specific sectors deemed vital for the functioning of society, such as critical infrastructure or strategic technologies. The second aspect related to investment coming from “non-friendly” countries, primarily from China. This article serves to illustrate the interface between protecting and promoting European economic and security, both at an ideational and empirical level.

Hoeffler (2023) studies economic patriotism in EU armament policy. This article underlines how, while linked to military security, armament policy is also shaped by economic security concerns, as its firms depend on global supply chains and rely on exports. Armament is thus a fertile site to observe how, before the publication of its 2023 Economic Security Strategy, the EU created instruments to secure its industrial and technological capacities. Furthermore, Hoeffler (2023) highlights how the European Economic Security Strategy testifies to the growing entanglement of the economic and security logics in EU policies. Armament shows how the EU’s shift away from liberalism does not, so far, translate into EU-level protectionism. In the language of the Economic Security Strategy, the European Defence Fund (EDF) relies on a mix of promotion and protection: The EDF promotes European firms, but only as part of a circle of insiders larger than the EU, and only protects insofar as it insulates European decision making from foreign interference. Far from an EU fortress in arms, the EDF and current initiatives reveal how the EU, on the one hand, tries to walk the fine line between securing EU

defence industrial capacities and cultivating the transatlantic security space, on the other. Achieving both is a very delicate balancing act. Hoeffler (2023) argues that understanding what the EU will make of its Economic Security Strategy in the years to come requires going beyond dichotomies such as Atlanticist/Europeanist and liberal/protectionist and looking at how they combine in specific policy instruments.

3.2. *Protect*

The second pillar of the EU’s Economic Security Strategy is to protect against economic security risks through a range of existing policies and tools, including targeted new instruments where needed. These would be applied with proportionality and precision to limit any unintended negative spill-over effects on the European and global economy (European Commission, 2023, p. 3–6).

Garcia-Duran et al. (2023) focus on how the EU is seeking to protect itself against ever more sophisticated economic security risks. The authors argue that there has been a rapprochement between the trade and security paths due to a common ideational framework and strategic autonomy, exemplified through trade defence instruments with security objectives. These instruments are justified in the European Economic Security Strategy, especially the pillar focused on protecting against economic security risks. The Economic Security Strategy builds on the 2021 trade strategy, which focuses on openness, sustainability, and assertiveness. Drawing on work addressing ideational and instrumental levels of policy, the authors discuss how the EU is assessing the international environment through the ideational framework of strategic autonomy and how this has shaped the construction of new trade defence instruments intended to protect against economic and technology-related security risks. Focusing specifically on trade defence instruments addressing security concerns, which are justified in the 2023 European Economic Security Strategy, they show that the distinction between commercial policy and traditional security concerns is eroding. They argue that the EU may be less keen on geopolitics than its main competitors, but the security logic central to its quest for strategic autonomy will guide policies for the foreseeable future.

Turning their attention to the internal conditioning of the EU’s turn to market protection, Calcara and Poletti (2023) investigate why the Italian government suddenly changed position in the negotiations for the setting up of an EU-wide investment screening mechanism, shifting from leading supporter to staunchest opposer of such policy initiative. They emphasise how two factors combined produced this puzzling outcome. First, the role of political parties as drivers of governments’ foreign economic policy choices. Second, the tension between two different “varieties” of anti-globalism. Calcara and Poletti (2023) contend and show that the uniting of the Lega Nord and the Five Star movement around the common

denominator of anti-Europeanism was crucial in leading the Italian government to support a strategy of internal, rather than external, re-bordering in the context of negotiations for the establishment of a new investment screening regime in the EU. Their article effectively illustrates some of the political dynamics that may affect the EU's ability to put in place strategies to better protect its economy from security risks. The European Commission itself acknowledges that united and coordinated EU action is crucial if the EU wants to successfully shield its own economy from the security risks posed by new geopolitical and technological realities. Their article suggests that the likelihood that the EU will be able to engage in such strategies of external re-bordering is crucially affected by the variety of anti-globalism that will come to dominate the narratives and political choices of anti-globalist parties across EU member states in the coming years.

Similarly, Dannerhäll (2023) investigates the trade policies of the radical-right party, the Sweden Democrats, between 2010–2022. Using the free-trade rhetoric of the Sweden Democrats as a point of departure, the author asks whether this means that the Swedish Democrats are not a protectionist party, thereby breaking the pattern among most other radical-right parties. By widening the definition of protectionism to include non-tariff barriers to trade in addition to tariffs and quotas, the author finds that the Sweden Democrats promote both protectionist and liberal trade policies. Advocacy of protectionist policies is grounded in protecting ethnonationalist notions of Swedish culture, history, and identity, while liberalisation emerges as a response to elite co-optation of the international trading system. Dannerhäll (2023) highlights that the dimension of the state as a guarantor of national security is likely to gain analytical relevance for the study of radical right parties and trade policy, given the geopoliticization of international trade and investments. The author also links this to the Economic Security Strategy. Because the strategy represents increased EU involvement in the security, as well as industrial, policy of the member states, it may activate populist antipathy of international organisations, particularly given the deep-seated scepticism of the EU of the Sweden Democrats. At the same time, the empowerment of states to safeguard economic security may appeal to authoritarian tendencies in the Sweden Democrats and radical-right ideology that prioritise security over economic aspects.

3.3. Partner

The third and final pillar of the European Economic Security Strategy aims at partnering with the broadest possible range of partners to reinforce economic security, foster resilient and sustainable value chains, and strengthen the international rules-based economic order and multilateral institutions, such as the World Trade Organization. It also means furthering and finalising trade agreements, and investing in sustainable devel-

opment through Global Gateway (European Commission, 2023, p. 3).

Dür and Lechner (2023) study the winners and losers of trade agreements through the prism of stock market reactions to news on the Transpacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). Their empirical test relies on a dataset with daily firm-level stock price data for close to 4,000 US companies over the period 2009–2016. Concretely, the article assesses how the shares of different types of firms reacted to the news on the (lack of) progress of the negotiations aimed at concluding the TPP and TTIP. The authors also present a novel approach to measuring progress and stagnation in international trade negotiations using computational text analysis. In contrast to a view that sees the largest companies as the main beneficiaries of trade agreements, Dür and Lechner (2023) find that medium-sized and diversified firms benefit the most from trade agreements. This insight, they argue, helps to better understand the distributional effects of trade deals. It is also relevant for the EU's economic security strategy, which suggests fostering trade agreements with a wide range of partners. Concretely, the study shows how difficult it can be to partner even with countries that are close geopolitical allies and at a similar level of economic development. Moreover, their study suggests that recent policies that have the potential to reduce global openness under the banner of "economic security," such as the EU's Economic Security Strategy, may negatively affect (especially) mid-sized firms that find it more difficult to adjust to new circumstances than the largest firms. If such policies really favour the largest players, they may reduce rather than enhance countries' resilience to shocks.

García (2023) turns the attention to EU PTAs. EU PTAs are a key part of EU trade policy and represent an important component of the new Economic Security Strategy's partnership pillar. PTAs are expressions of, and instruments to achieve, the pillar's goal of establishing ties with other states and diversifying trade and economic relations to limit excessive interdependence with key partners and limit the risk of these partners weaponizing that interdependence. The author argues that PTAs are not always implemented fully, which can jeopardise the achievement of this strategy. A more assertive EU trade policy is placing renewed emphasis on PTA implementation. The article starts to map issues raised in joint bodies created in PTAs. It finds that the key issues the EU focuses on relate to market access for agricultural goods, sanitary and phytosanitary measures, geographic indications, (to a lesser extent) government procurement, services, labour, and environment. García's (2023) initial analysis shows that joint Committees created in PTAs are able to resolve matters, especially when these relate to proposals for new regulations and laws, as opposed to changing those already in existence, and tend to be more successful in newer agreements. Coinciding with the shift to a more assertive policy, since 2019 there has also been

an increase in opening actual dispute proceedings within PTAs. Most disputes relate to market access in sectors of little economic relevance to the EU, but they serve to make the critical point that the EU will enforce its PTAs and demand respect for trade rules and commitments, the key message of the 2021 Trade Policy Review and the 2023 Economic Security Strategy.

Heldt (2023) explains the establishment of the EU's Global Gateway strategy—a new geopolitical instrument to project the EU as a global infrastructure lender. With a geographical focus on Africa, it links infrastructure investment projects with condition principles—including democratic values, good governance, and transparency—and catalyses private investment into EU development financing. Heldt (2023) argues that a combination of three factors enabled the Global Gateway: China's role as a global infrastructure lender in Africa; the shift to private investment in multilateral development financing; and the transformational leadership of the European Commission as an entrepreneurial agent. The EU's Global Gateway marks a geopolitical turn in EU politics through which the EU can project its power in the world. At the same time, it illustrates the third pillar of the EU's Economic Security Strategy, namely, partnering. The global gateway intends to partner with countries pursuing similar de-risking strategies and that also have common interests with the EU. At the same time, strategic competition with China has just begun and it remains to be seen whether the EU will be able to position itself as a geopolitical power to become a game changer in global infrastructure finance or if it will remain a mere shadow in the prevailing US–China rivalry.

Hamanaka (2023) makes two main claims: First, a state's legal tradition is embedded into its domestic institution in each issue area. Second, a state that has a common/civil law type domestic institution in a certain issue area prefers a common/civil law type international agreement on the same issue area. By conducting a theoretical and empirical investigation in three issues areas covered by free trade agreements, Hamanaka (2023) demonstrates that different modes of governance are preferred by civil and common law states domestically and internationally and this difference partially explains (non)participation in international agreements. This author also links the impact of domestic regimes to the partnering pillar of the Economic Security Strategy. The critical component of the EU's partnership strategy is the signing of Free Trade Agreements or Economic Partnership Agreements, which include regulatory issues. If the EU has civil law-type regulatory regimes in a certain issue area, states that have similar regulatory regimes could be good partners in such a field. This, in turn, means that if a potential partner's domestic regulatory regimes can be adjusted in line with the EU, the partnering strategy is more likely to succeed. With technical cooperation and other forms of assistance, it is possible to help develop regulatory regimes compatible with the EU in partner states. Without consistent domestic

regimes, issue-specific international cooperation might not be possible.

4. Conclusion: A Paradigm Shift or the Continuation of the Same Objectives Through Different Means?

A remaining question running through all the articles is whether the adoption of an economic security strategy is a paradigm shift. "Economic security" has two different meanings. On one hand, it means ensuring security through economic tools, such as investment screening. Though the tools may be novel, using economic instruments to achieve security goals is not new for the EU, which has long leveraged the power of its single market for other purposes. This approach to economic security would be the continuation of the same goals through other means, and thus would not represent a true paradigm shift in the EU's approach towards globalisation. On the other hand, "economic security" means ensuring the security of the economy. This could be achieved, for instance, through the diversification of supply chains, reindustrialisation, de-risking, and friendshoring. For the EU, this would be a paradigm shift and a crossing of the Rubicon of sorts towards the protectionist side, as a lot of policies can be subsumed under economic security. While this shift is deeply contentious between member states, it seems popular with a public opinion eager for more protection and assertiveness.

If it is really a paradigm shift, this opens up several important questions, to be addressed in future related research. First, how will all these new economic security policies be financed? Will the EU need its own resources to compete with similar policies in other countries, such as the US' Inflation Reduction Act that offers \$369 billion in subsidies and tax credits? Will these policies be a public or private sector responsibility? Second, will the EU be a leader or a follower in economic security and what will be the reaction of its economic partners and competitors? The answers to these questions will to a large extent determine the future of the liberal international economic order.

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Conflict of Interests

The authors declare no conflict of interests.

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