# POLICY BRIEF

## Economic Security Strategy calls for Regional Policies

TWIN SEEDS

Funded by the European Union

COVID-19, recent geopolitical conflicts in Europe and the Middle East and the increasing geo-politicization of trade have triggered a transition towards a new trade policy. The EU is moving away from managing interdependencies to reducing and reorienting dependence through its objective of Open Strategic Autonomy and, more recently, through the Economic Security Strategy. That strategy summarizes the EU's modern international trade policy in the phrase: "as open as possible, as autonomous as necessary".

While Europe certainly needs a New Normal trade policy to restore a level playing field in international trade, there are questions about the costs of this shift and whether these costs will affect regions differently. The answers have important policy implications. Indeed, if geoeconomic fragmentation hurts low-income regions more than rich ones, there are consequences for the EU's interregional disparities and cohesion goals.

TWIN SEEDS provides answers to these questions, through the simulation of GDP growth rates at NUTS2 level for all EU member countries (+ UK) under the assumptions of this new trade policy.

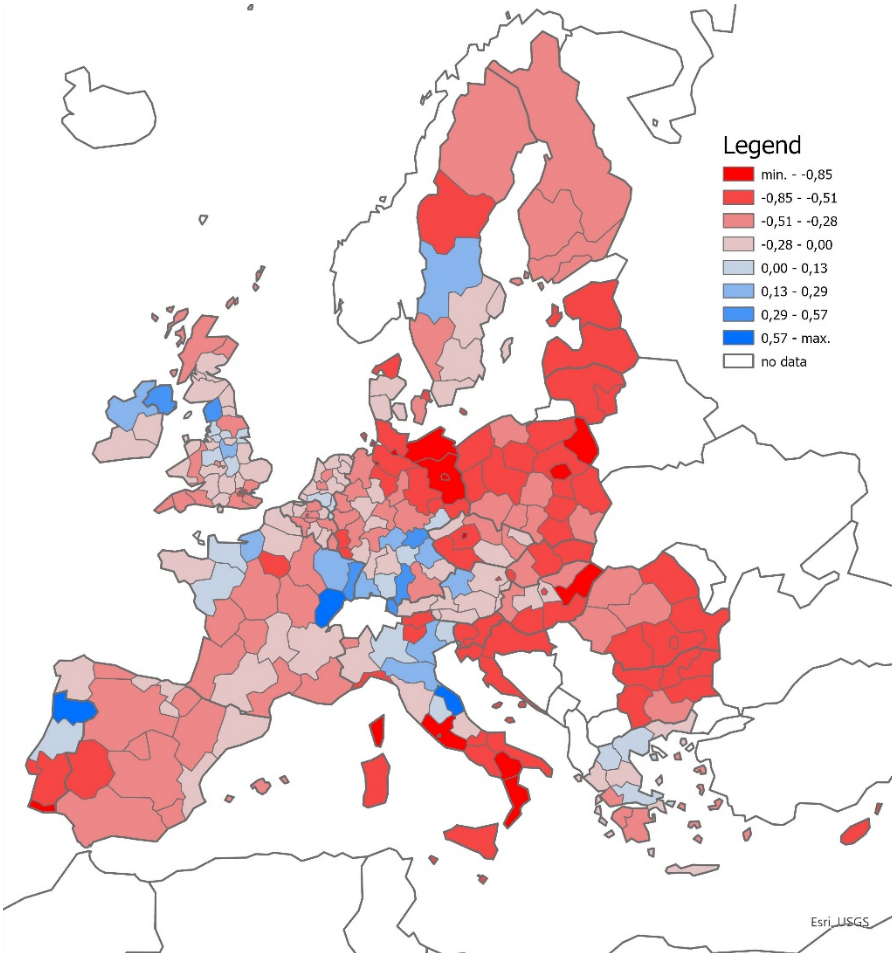
### THE NEW TRADE POLICY IMPACTS EUROPEAN REGIONS UNEVENLY

Hidden costs exist in the new trade policy, in line with what is already reported in the literature: "strategic autonomy policies are estimated to create income losses in the EU of between 0.08% and 0.15% of EU27 GDP. These losses correspond to short-term economic harm resulting from changes in the use of productive resources in the EU. Long-run impacts, which reflect losses to productivity and innovation, could be up to 3 to 5 times higher with national income per capita falling by up to 0.5% to 0.75%" (Bauer, 2022, p. 1).

Figure 1 reports the difference in the average annual real GDP growth rate of European regions if Europe moves to an Economic Security Strategy with respect to a reference scenario where trade policy remains stable.

The results are clear. Most European regions grow less in an Economic Security Strategy scenario compared to the reference. This is especially true for Eastern countries, as the reallocation of international trade from 'decoupling' countries goes at the advantage of Western countries. Fig. 1 also underlines the strong heterogeneity of income losses across space. The main beneficiaries of a New Normal Trade policy scenario would be located in core areas, attracting control functions and already hosting major manufacturing hotspots: this is the case of the Southern Germany, Western Austria, North-Western Italy, Northern Portugal, and Attiki in Greece. Moreover, urban areas gain more than the others. This is a phenomenon which was particularly strong for second and third-tier city regions, rather than capital ones. This is probably because of the geographical distribution of manufacturing headquarters that, at least in Western countries, favor second-tier cities (e.g. Turin, Munich, Toulouse, Lyon, just to mention a few).

*Figure 1: Difference in the average annual real GDP growth rate between the New Normal Trade policy and the reference scenario.*




## REGIONAL POLICIES IS MORE VITAL THAN EVER

The results indicate that, in the New Normal context of pressure to reduce global linkages and reshore production, some regions are particularly vulnerable to disruption. This is both because of their higher reliance on trade partners which are actively decoupling from international linkages (like China and the US) and because of varied positioning of different EU regions within Global Value Chains (GVCs). Certain inter-dependencies are particularly critical and there are important risks to certain regions if decoupling accelerates. For example, reshoring strategies pursued by American companies should be monitored carefully, because of **potential adverse effects on EU regions' relatedness to the technological frontier of the value chain**.

In cases of risk of losing core technological capacities as a result of these dynamics, **regional policies will be needed to stimulate technological and knowledge advances by EU companies**. In addition, policy support to promote foreign investments from partner countries can help to counterbalance the loss of traditional investors. A mix of place-based innovation and educational policies, as well as incentives for capital accumulation, will be needed. The regional design of such policies through an advanced and modern cohesion policy is vital if the EU is to counteract the spatial imbalances caused by trade reconfiguration.

In other words, a modern cohesion policy has to better integrate the reality that EU regions vary widely in their GVC structure, skills mix and trading relationships and so its evolving new trade policy will impact them in very different ways. This calls for adapting programs and actions to these realities in order to rebalance crucial assets (like human and financial capital) for the attractiveness and competitiveness of regions.

## PROJECT IDENTITY

### PROJECT NAME

Towards a World Integrated and Socio-economically Balanced European Economic Development Scenario (TWIN SEEDS).

### COORDINATORS

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- Old-Continent SPRL, Belgium
- Rijksuniversiteit Groningen, Netherlands
- Toulouse Business School -TBS, France
- Universidad De Castilla - La Mancha, Spain
- Universita' Degli Studi Di Milano-Bicocca, Italy
- Uniwersytet Ekonomiczny W Poznaniu, Poland
- Wiener Institut Fur Internationale Wirtschaftsvergleiche, Austria

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HORIZON-RIA - HORIZON Research and Innovation Actions

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### BUDGET

€ 2 707 496,50

### LINK TO THE RESEARCH AND DETAILED RESULTS

https://twinseeds.eu/wp-content/uploads/2025/09/New-Normal-Scenarios-Twin-Seeds-WP6.pdf

### FOR MORE INFORMATION ON THIS BRIEF

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