

# Emerging technology, the geo-economic Achilles' heel NATO needs to address

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*Emerging technologies are the geo-economics Achilles heel NATO needs to address to deter aggressors. [Shutterstock/metamorworks]*

Emerging technologies are the geo-economics Achilles heel NATO needs to address to deter aggressors, write General John Allen, Heiko Borchert and Marcin Zaborowski.

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To ensure NATO's relevance and to keep "our people safe", the Alliance "must continue to strengthen and modernize our deterrence and defence," NATO Secretary-General Jens Stoltenberg said at the Riga Summit on 30 November 2021. Innovation plays a critical role in modernizing armed forces amid a complex strategic environment.

To this purpose, Stoltenberg unveiled the Defence Innovation Accelerator for the North Atlantic (DIANA) on 22 October 2021. DIANA shall bring defence and commercial companies together with military users to develop novel solutions that meet the needs of the future battlefield. He also launched the NATO Innovation Fund to invest up to €1bn to support innovators developing emerging technologies.

The announcement comes at a time when the Alliance is working on a new Strategic Concept. Innovation will be key to preserving NATO's edge, as the Secretary-General pointed out in his 2030 food for thought paper. Although NATO is a potent defence organization, emphasis on emerging technologies reveals its Achilles' heel.

Artificial intelligence, autonomy, biotechnology, quantum technology, and other technologies are at the heart of geoeconomic competition. Geoeconomic competition unfolds around the projection of economic power within and across the domains of land, air, sea, space, and cyberspace to achieve political goals.

Today's geoeconomic dynamic defines winning business models amid a growing dichotomy between market-driven and state-driven nations. It aims to set the rules, principles, and standards that guide economic activities and access to and ownership of emerging technologies.

NATO's current emphasis on emerging technologies with defence and commercial applications risks making the Alliance subject to this new geoeconomic dynamic. This dynamic can undermine NATO's innovation agenda and endanger its strategic edge. Therefore, NATO needs to respond.

First, NATO needs to embrace the realities of economic security seriously. This call flows logically from Article 2 of the North Atlantic Treaty, encouraging allies' economic collaborations.

In our view, economic security combines national security and economic policy with technology and innovation policy to identify economic disruptions. It also prevents these disruptions from arising and strengthens a coping capacity to deal with economic emergencies.

Economic security requires allies, for example, to engage on defence-critical standards, advancing transparency for defence supply chains, and considering the interplay between technology development, foreign direct investment, and export control. Therefore, the new Strategic Concept should incorporate economic security as an essential element.

Second, economic security requires NATO to shape mindsets about defence investments and sustainability. Already today, defence companies face financial challenges as banks cancel bank accounts or refrain from covering export risks.

The emphasis on environmental, social, and governance criteria (ESG) that increasingly shapes and determines financial investments will reinforce these problems as defence is considered toxic. But a narrow interpretation of ESG that considers defence incompatible with the world view underpinning ESG is detrimental to NATO's ambition to invest in companies. It also means other investors will likely shy away from investing in the same companies.

Therefore, the Alliance needs to step up activities with the European Commission, which works on a classification system to identify ESG-compliant activities, to make defence investments compatible.

Third, business is the first line of defence in a geoeconomic world, and NATO needs a platform to discuss geoeconomics with business.

Today, the NATO Industry Forum is the leading gathering to address defence industrial matters with defence companies. However, the emphasis on emerging technologies underlines the importance of non-defence companies.

Therefore, NATO should envisage a new special format of the North Atlantic Council to meet with the NATO Industry Forum members – and possibly also the European Commission – to allow state and corporate leaders to jointly engage on the proposed economic security agenda.

Fourth, strategic-level public-private dialogue also breathes new life into deepening cooperation with the private sector. NATO should become an early adopter of the solutions developed with allied money.

Making NATO the launch customer sends important market signals and provides companies with an initial track record confirming the relevance of their solutions. In addition, the Alliance should step up efforts to incorporate business into military operations. Logistics companies already play a crucial role, and traditional defence businesses provide frontline support.

The next stage comes with closely integrating digital companies to leverage their contribution. But for non-defence companies to provide frontline support, NATO not only needs the right mindset, but the Alliance also needs to think about incentives such as covering personnel risks on overseas deployments.

Finally, NATO's ability to stimulate innovation and ensure economic security also depends on how it does business.

Critically, NATO needs to strive for a mission and capabilities-based innovation portfolio that maximises the value of allied money. NATO may take a page from the financial services industry and use a real options approach to manage technological risk and drive technology development. This approach prices technology building blocks like financial options, advances risk mitigation, speeds up technology adoption and gives force planners and developers more leeway to maximise input and output.

In addition, NATO should offer strategic hedging solutions for defence critical raw materials by combining corporate demand estimates with AI-based insights on financial and raw material markets. This will facilitate optimal, company-tailored hedging strategies to mitigate the corporate security of supply and price risks.

Overall, NATO's relevance in the 21<sup>st</sup> century remains tackling defence challenges in a new strategic environment, increasingly defined by emerging and rapidly changing technologies and the profoundly important role of the private sector. To this purpose, NATO has embraced innovation and emerging technologies.

This step, however, makes NATO subject to a new geoeconomic dynamic that unfolds around competition for standards, business models, technologies, and supply chains.

This requires NATO to make economic security a core element of its new Strategic Concept to ensure NATO's edge. In turn, this will provide a sound basis for expanded cooperation with the European Union, and make NATO an esteemed partner of the new Transatlantic Trade and Technology Council, the new body set up to enhance the EU-U.S. technology, economic, and trade partnership.

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