Deploying Europe's Economic Security Policy in the Indo-Pacific Region

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Deploying Europe's Economic Security Policy in the Indo-Pacific Region

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Summary

Economic security policy and strategy toward the Indo-Pacific region are both current areas of focus among policymakers in France and across the Europe Union.[1] However, there is little convergence between these two policy areas – even though the Indo-Pacific region potentially offers interesting opportunities to deploy aspects of European economic security policy, there has been little effort to apply European economic security policy to the region so far. This is despite the fact that the Indo-Pacific region is increasingly emerging as a coherent regional economic space to which economic security considerations are not only relevant, but also central, as demonstrated by the rise of the Indo-Pacific Economic Framework for Prosperity ("IPEF") and the Quadrilateral grouping of Australia, India, Japan, and the United States (the "Quad"). These cooperative frameworks share, among other features, a lack of declared interest in recruiting new members from the EU Member States. The focus on economic security in these formats differentiates conversations about "the Indo-Pacific" from earlier discussions of "the Asia-Pacific," which tended to be focused on free trade, market access and the forces of globalization.

This policy paper aims to highlight how France and the EU can advance their economic security interests in the Indo-Pacific region. In particular, it stresses the importance of a clear and proactive political vision for the

[1] *European Commission, An EU Approach to Enhance Economic Security, June 20, 2023, https://ec.europa.eu/commission/presscorner/detail/en/IP_23_3358;*
European Commission, High Representative of the Union, Joint Communication – The EU Strategy for Cooperation in the Indo-Pacific, September 16, 2021, https://www.eeas.europa.eu/eeas/joint-communication-indo-pacific_en;
French Ministry of the Armed Forces, French Defense Strategy in the Indo-Pacific, 2019, https://operationnels.com/wp-content/uploads/2021/02/La-Strategie-de-defense-francaise-en-Indopacifique-2019.pdf ;
Ministère de l'Europe et des Affaires étrangères, La stratégie de la France dans l'Indopacifique, February 2022, https://www.diplomatie.gouv.fr/IMG/pdf/fr_a4_indopacifique_022022_dcp_v1-10-web_cle017d22.pdf ;
German Government, Policy Guidelines for the Indo-Pacific – Germany – Europe – Asia, Shaping the 21st Century Together, 2020, https://www.auswaertiges-amt.de/blob/2380514/f9784f7e3b3fa1bd7c5446d274a4169e/200901-indo-pazifik-leitlinien--1--data.pdf.

creation of partnerships aimed at economic and commercial diversification with certain Indo-Pacific countries. Strategic diversification appears to be one of the most promising ways of reducing risks to our economic security, especially for anticipating supply chain disruptions in Europe during times of crisis and reducing their impact. However, although a shift in this direction has begun and is gradually becoming evident in decisions made by certain EU companies, this trend is not yet clear or irreversible. The paper offers recommendations for strengthening Europe's economic security policy in four key areas: controlling technology transfers, responding to economic coercion, securing critical infrastructure and strengthening supply chain resilience. In sum, conceiving of the Indo-Pacific as a space for the effective application of European economic security policy can help reinforce the European footprint in this region.

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Introduction

Economic security is a relatively new topic in public policy discussions in Europe, the United States, and East Asia. There is still no widely accepted definition of economic security – its scope varies from one country to another and changes over time, and debates about the issue continue to evolve rapidly.[2] Over time, the concept has expanded to cover a broader range of issues. Whereas early discussions of economic security focused on protecting a country's strategic assets – particularly by controlling technology transfers – the concept is now understood to encompass a broader set of issues including supply chain risks, economic coercion, and industrial policy.

In Europe, the debate about economic security tends to focus on how to strike the right balance between **defensive measures to protect technology**, on the one hand, and **more offensive measures to promote our industrial and strategic assets**, on the other. Should economic security be narrowly defined in terms of military security, or should our understanding of it be expanded to include competitiveness? The question of where to draw the line between offensive and defensive strategies remains open, as public policy is gradually being developed to address both defensive and offensive approaches. Even though the fundamental debate between these two approaches has not yet been settled, progress can still be made in developing European economic security policy.

The European economic security agenda is being developed in response to an international environment characterized by marked asymmetries in our economic, technological, and commercial exchanges with China; a Chinese policy of using major infrastructure projects to gain influence; serious supply risks to certain products (e.g., masks, semiconductors, and critical materials); Russia's invasion of Ukraine; the risk of escalating

[2] *Mathieu Duchâtel, "Demystifying Economic Security: A Framework for the EU," Issue Paper from Institut Montaigne, February 2024, https://www.institutmontaigne.org/en/publications/demystifying-economic-security-framework-eu.*

geopolitical tensions in the Middle East and Asia; and the competition for technological superiority, driven above all by American and Chinese ambitions but with a significant impact on third parties.

Against this backdrop, the incorporation of economic security considerations into European foreign policy and the construction of an economic foreign policy is both unavoidable and necessary. The European Commission's June 2023 strategy on economic security was published in response to the deteriorating international environment and identified four key areas of concern: **supply chain resilience; physical and cyber security of critical infrastructure; technology transfers, particularly of dual-use technologies**; and the **instrumentalization of economic dependencies, or economic coercion**. Measures to address each of these four key areas could potentially be deployed by Europe in cooperation with partner countries in the Indo-Pacific region.

However, two questions remain unanswered: Is the Indo-Pacific a relevant framework for action in each of these critical areas? Which diplomatic formats are most likely to serve Europe's economic security interests?

1 Controlling Technology Transfers: Disseminating Best Practices

To address the issue of forced technology transfers effectively, it is necessary to implement measures such as export controls, filters on foreign investment, and limits on international cooperation in education and research. A balance must be struck between maintaining the openness required for innovation and prosperity and offering an effective response to hostile acquisition attempts. In Europe, the EU plays an important role in promoting a coherent and united European approach by disseminating best practices and encouraging the least proactive states to develop their own control mechanisms. However, the precise measures taken to address the issue of forced technology transfers are ultimately a matter for the individual Member States because enforcement is a matter of national sovereignty.

In developing a framework to address technology transfers, **the focus in Europe is evidently domestic** and concerns how to perfect the European toolbox in each of these three areas. The Indo-Pacific region is not currently seen as a priority in addressing these issues. However, in the context of Russia's war to conquer Ukraine and China's revisionist ambitions, the stakes associated with technological superiority are increasingly high, creating a favorable context for seeking in-depth partnerships with the Indo-Pacific states. Three avenues are worth exploring in this regard:

First, it is time to reassess Europe's external cooperation, as the modalities of international cooperation in the export controls field are bound to evolve. The Wassenaar Arrangement, the multilateral system that has coordinated updates to control lists for military technologies and dual-use goods since 1996, is currently facing unprecedented operational difficulties. These difficulties are primarily associated with the rapid pace of innovation originating in the private sector, which complicate the challenge of updating control lists. Second, they result from Russia's obstructive stance. As European countries align their export control lists with those of the Wassenaar Arrangement, solving these difficulties matters for European security.

Against this background, the fifth ministerial meeting of the EU-US Trade and Technology Council (TTC) provided an opportunity for both sides to discuss the possibility of a "Wassenaar minus one" arrangement. Although excluding Russia may not be realistic, Europeans could update their export control lists if a consensus was reached among all members apart from Russia.[3] Even though such a development would depend primarily on the internal dynamics within the European Union, it would translate into a need for informal coordination with the Indo-Pacific states that participate in the Wassenaar Arrangement – that is, Australia, India, Japan, New Zealand, South Africa, and South Korea. This option is in line with the position of several EU Member States that it is important to maintain ongoing discussions for better European coordination on export controls within the scope of the European regulation on dual-use goods. The enforcement of export controls is intended to remain within the competence of the Member States.

In considering the issue of how to establish an international framework for cooperation on export controls, the question arises of how to **implement policies aimed at denying Russia access to technologies necessary for the functioning of its arms industry**. The main concern here is Europe's capacity to enforce sanctions against Russia. More than 6 percent of critical components imported by Russia in 2023 were sold to the country by entities located in the EU, and 8.2 percent were shipped directly to Russia from European territory.[4] This subject also has an Indo-Pacific dimension insofar as Russia has built up a sprawling network of suppliers in the region to support its war effort despite the sanctions.

[3] *Emily Benson, "The Fifth Ministerial of the U.S.-EU Trade and Technology Council," Center for Strategic and International Studies (CSIS), February 7, 2024, https://www.csis.org/analysis/fifth-ministerial-us-eu-trade-and-technology-council.*

[4] *Kyiv School of Economics.*

There has been a **noticeable increase in exports from Europe of so-called high-priority goods** – which are prohibited from being exported to Russia – **to Turkey, the United Arab Emirates, and Kazakhstan**. Imports of these goods by Turkey, the UAE, and Kazakhstan rose by around 81 percent year-on-year between October 2022 and September 2023, compared to a drastic drop of approximately 95 percent in exports of these products from Europe to Russia. This highlights the effectiveness of Russia's strategy of organized circumvention of sanctions through an international network of intermediaries.[5] Of goods or components of this type imported by Russia between January and October 2023, **over 63 percent were produced in China, 5.8 percent in Malaysia, and 2.5 percent in Vietnam**.[6] It should be emphasized that some goods are now produced in third countries on **behalf of entities or companies in jurisdictions on which sanctions have been imposed**. If we consider the country of shipment rather than the country of production, a different breakdown emerges: **over 53 percent of high-priority goods imported by Russia in 2023 came from China** as the last country of transit, **around 23 percent from Hong Kong** (considered a separate jurisdiction), **over 5 percent from Turkey, 5 percent from the United Arab Emirates, 2.5 percent from Thailand, 1.4 percent from the Maldives**, and **1.2 percent from Malaysia**. Although responding to the circumvention of sanctions on Russia is an urgent matter for European security, it is not the only issue involving trade flow controls on which more effective cooperation with Indo-Pacific countries is called for. For example, China imports twice as much oil from Malaysia as the country's total production capacity – a phenomenon that can only be explained by the fact that much of this oil is actually from Iran.[7]

[5] *Study conducted by IESEG School of Management, mentioned in "EU Sanctions on Russia 'Massively Circumvented' via Third Countries, Study Finds," Euractiv, February 26, 2024, https://www.euractiv.com/section/economy-jobs/news/eu-sanctions-on-russia-massively-circumvented-via-third-countries-study-finds.*

[6] *Statistics from the Kyiv School of Economics, quoted in: Olena Bilousova, Benjamin Hilgenstock, Elina Ribakova, Nataliia Shapoval, Anna Vlasyuk, and Vladyslav Vlasiuk, "Working Group Paper #16: Challenges of Export Controls Enforcement – How Russia Continues to Import Components for Its Military Production," Stanford, January 11, 2024, https://kse.ua/wp-content/uploads/2024/01/Challenges-of-Export-Controls-Enforcement.pdf.*

Finally, it is in the interest of the EU to **go beyond export controls when further internationalizing cooperation on controls on the transfer of dual-use technologies**. The EU is currently working to strengthen its legal framework for screening foreign investments. It is developing a policy for controlling intangible technology transfers, which may involve cooperation on education and research, talent recruitment, and preventing economic espionage. European Commission President Ursula von der Leyen explicitly justifies this stricter approach by the risks posed by China's policy of "explicit fusion of its military and commercial sectors," otherwise known as "civil-military fusion."[8] It seems unrealistic to try to include this sensitive subject on the agenda of the Indo-Pacific Ministerial Forum, a European initiative started in 2022 during the French presidency of the EU, whose third edition was held in February 2024 in Brussels. Nevertheless, it seems necessary to bring up the subject of the risk of technology theft in our exchanges with our Indo-Pacific partners to amplify the impact of our own policies. The example of the Gulf countries – some of which, following several initiatives by the Bureau of Industry and Security of the US Department of Commerce, have aligned their semiconductor export control practices with the American approach – suggests that cooperation in this area is possible.

[7] *Javier Blas, "The US Should Enforce, Not Increase, Iranian Oil Sanctions," Bloomberg, April 23, 2024, https://www.bloomberg.com/opinion/articles/2024-04-23/the-us-should-enforce-not-increase-iranian-oil-sanctions.*

[8] *European Commission, "Speech by President von der Leyen on EU-China Relations to the Mercator Institute for China Studies and the European Policy Centre," March 30, 2023, https://ec.europa.eu/commission/presscorner/detail/en/speech_23_2063.*

Recommendations for Europe

- **Lead a multilateral initiative to strengthen the implementation of sanctions against Russia in partnership with key Indo-Pacific countries:** Australia, Japan, South Korea, Singapore, and Taiwan, as partners whose policies are already aligned with the European approach; beyond these natural partners, Indonesia, Malaysia, the Philippines, South Africa, and Vietnam should be given priority. The subject could be addressed first through an informal initiative (Track 1.5 diplomacy).
- **Aim to extend the alignment of our export control systems under the "Wassenaar minus one" logic beyond the Indo-Pacific members of Wassenaar** (Australia, Japan, New Zealand, South Africa, and South Korea) by targeting certain countries as a matter of priority: Indonesia, Malaysia, the Philippines, Singapore, and Vietnam. Such initiatives can be carried out through a joint effort gathering the EU Member States that are currently most active in this area (the Baltic States, the Czech Republic, France, Germany, and Poland).
- **Reinforce exchanges of best practices in technology transfer controls (beyond export controls) with Indo-Pacific countries and through coordination at the EU level**.
- **Build a screening procedure for access to European research programs that manages the risk of diversion** of accumulated knowledge being passed on to military end-users in countries practicing civil-military fusion, as well as control exemption procedures in the form of a positive list for trusted EU partners. This would be in line with and give additional substance to the Council of the EU recommendation on enhancing research security, adopted in May 2024."[9]

2 Critical Infrastructure Security: Building a More Attractive European Offer

Critical infrastructure security is a matter of national security for EU Member States. The EU intervenes on this issue to promote convergence, best practices, and the pooling of national resources between Member States, or to put the subject on the political agenda of certain Member States that would otherwise have ignored it or regarded it as a low-priority issue.

The European Commission published a *Green Paper on a European Programme for Critical Infrastructure Protection* in 2005.[10] This document distinguishes between European critical infrastructure, which is cross-border in nature, and national critical infrastructure. In 2008, a European Directive focusing on energy and transport referred to critical infrastructure, stating that its "disruption or destruction… would have a significant impact in a Member State."[11] In March 2021, the European Commission published its "EU Toolbox for 5G Security," which aims for a coordinated approach by Member States to the issue of overdependence on high-risk suppliers.[12] In 2022, a directive adopted by the European Parliament broadened the range of sectors covered by the notion of critical infrastructure, adding nine other fields to energy and transportation: **banking, financial**

[9] *Council of the EU, "Council adopts a recommendation to enhance research security" (press release), May 23, 2024, https://www.consilium.europa.eu/en/press/press-releases/2024/05/23/council-adopts-a-recommendation-to-enhance-research-security/.*

[10] *Commission of the European Communities, Green Paper on a European Programme for Critical Infrastructure Protection, November 17, 2005.*

[11] *Council Directive 2008/114/EC on the Identification and Designation of European Critical Infrastructure and the Assessment of the Need to Improve Their Protection, December 8, 2008.*

[12] *European Commission, "EU Toolbox for 5G Security: A Set of Robust and Comprehensive Measures for an EU Coordinated Approach to Secure 5G Networks," March 2021, https://op.europa.eu/en/publication-detail/-/publication/7def1c03-da16-11eb-895a-01aa75ed71a1/language-en.*

markets, healthcare, drinking water, waste water, digital infrastructure, public administration, space, and food.[13] In September 2023, the Commission proposed a master plan for critical infrastructure intended to strengthen the coordination of intra-European responses to attempted disruptions. In 2023, the EU-NATO Task Force on the Resilience of Critical Infrastructure presented its recommendations, which focused on conducting regular, parallel, and coordinated assessments of threats to critical infrastructure in Europe.[14]

Critical infrastructure is exposed to three main types of risk: **paralysis in times of conflict** (war or gray-zone operations) resulting from sabotage, physical destruction, or cyber-neutralization; exploitation **by a hostile state to force political concessions**; and **use for espionage via 5G networks or by intercepting data carried on communication systems**.

Port infrastructure is undoubtedly one of the most emblematic cases. Between 2004 and 2021, China recorded twenty-four acquisitions and thirteen greenfield investment projects in European maritime infrastructure, notably through the China Ocean Shipping Company (COSCO) and China Merchants.[15] Altogether, Chinese state-owned enterprises have acquired stakes in some fifteen European ports. This Chinese presence poses several risks: distorting free competition among shipping companies, exposing states to economic coercion, and cyber or data security threats. At this stage, the two concrete responses to counter these are filtering foreign direct investment and monitoring on-site activity.

[13] *Directive (EU) 2022 2022/2557 of the European Parliament and of the Council of December 14, 2022 on the Resilience of Critical Entities and Repealing Council Directive 2008/114/EC, Official Journal of the European Union, December 27, 2022.*

[14] *EU-NATO Task Force on the Resilience of Critical Infrastructure, Final Assessment Report, June 2023, https://commission.europa.eu/system/files/2023-06/EU-NATO_Final%20Assessment%20Report%20Digital.pdf.*

[15] *Ghiretti, F, Gökten, M, Gunter, J, Pindyuk, O, Sebastian, G, Tonchev, P, Zavarská, Z, Research for TRAN Committee, "Chinese Investments in European Maritime Infrastructure," European Parliament, Thematic Department for Structural and Cohesion Policies, September 2023.*

From the perspective of French and European interests, the issue of critical infrastructure in the Indo-Pacific presents an opportunity for cooperation to address two main challenges: climate change and excessive dependence on China. **The need for critical infrastructure in the Indo-Pacific region is immense**. Although it is difficult to assess precisely for such a vast and diversified zone, in 2016, the Asian Development Bank estimated that infrastructure costs – a condition for maintaining a sustainable growth trajectory across the region – amount to US$503 billion per year for the Asia-Pacific region (excluding China).[16] All countries in the region are looking to diversified partnerships to meet domestic demand.

For the Maldives, Kiribati, and the Marshall Islands, the need for critical infrastructure in the face of climate change and its consequences is an existential challenge – these countries' physical survival depends on it. Similarly, the Ganges-Brahmaputra delta (in India and Bangladesh) is highly exposed to the risk of extreme weather events.

For other countries, the main issue is having an alternative to China's offerings. China is very much present in the infrastructure projects of countries in the region: by 2021, **75 percent of South Asian countries and 73 percent of East Asian and Pacific countries had formally joined the Belt and Road Initiative (BRI)**.[17] Although China has been accused of conducting "debt-trap" diplomacy – particularly in its dealings with Sri Lanka – this is not true of its projects in the Indo-Pacific, where the problem tends to be more one of excessive dependence or excessive leverage. Some fragile Pacific economies that have taken out loans from China are among the most vulnerable to potential debt problems.[18]

[16] *Sungsup Ra and Zhigang Li, "Closing the Financing Gap in Asian Infrastructure," ADB South Asia Working Paper Series, No. 57, June 2018, https://www.adb.org/sites/default/files/publication/431261/swp-057-financing-gap-asian-infrastructure.pdf.*

[17] *Megan Duzor, "Highlights in China's Development Spending," VOA News, https://projects.voanews.com/china/global-footprint/english/highlights-in-chinas-development-spending.html.*

[18] *Roland Rajah, Alexandre Dayant, and Jonathan Pryke, "China, the Pacific, and the Debt Trap Question," The Lowy Institute, October 23, 2019, https://www.lowyinstitute.org/the-interpreter/china-pacific-debt-trap-question.*

Statistics compiled by AidData show that forty low- and middle-income countries have debt exposure to China of more than 10 percent of GDP.[19] Furthermore, Bangladesh, Cambodia, Kazakhstan, India, Indonesia, Laos, Malaysia, Myanmar, Pakistan, Sri Lanka, Turkmenistan, and Vietnam were among the largest Asian recipients of Chinese loans (according to the OECD nomenclature, *Other Official Flows* – OOF) between 2000 and 2017.[20]

In response, three regional powers have included **infrastructure initiatives in their Indo-Pacific strategies**, although they prioritize their immediate neighborhood over the region as a whole: Australia in the South Pacific, India in South Asia, and Japan in Southeast Asia.[21]

This context offers France and the EU a triple opportunity:

- For European companies, there is an opportunity to capture **the markets created by the needs of the countries** in the area.
- For European countries, there is an opportunity to **gain influence**, with the added benefit of diversifying their economic and commercial partnerships.
- For the EU, there is an opportunity to **strengthen a part of its foreign policy** that remains weak despite recent progress.

In a 2023 policy paper, Institut Montaigne highlighted numerous cases of French companies involved in infrastructure projects in the Indo-Pacific, underscoring France's corporate influence in the region, but noting that it did not automatically translate in foreign policy gains.[22]

[19] *"China: Is It Burdening Poor Countries with Unsustainable Debt?," BBC, January 6, 2022, https://www.bbc.com/news/59585507.*

[20] *"Ammar A. Malik, Bradley Parks, Brooke Russell, Joyce Jiahui Lin, Katherine Walsh, Kyra Solomon, Sheng Zhang, Thai-Binh Elston, and Seth Goodman, Banking on the Belt and Road: Insights from a New Global Dataset of 13,427 Chinese Development Projects, study conducted by AidData at William & Mary.*

[21] *By 2022, Japan had overtaken China in terms of infrastructure projects (by value) in Southeast Asia: $330 billion worth of projects financed by Japan, compared with $100 billion for Chinese projects.*

Alcatel Submarine Networks (ASN), owned by Nokia France, is one of only four major players in the world that specialize in submarine cable laying and maintenance.[23] The CMA CGM group's acquisition of the Fenix Marine Services terminal in the Port of Los Angeles was accompanied by a significant investment in capacity development.[24] TotalEnergies is developing offshore wind energy in Taiwan and South Korea.[25] Engie has built its largest photovoltaic park in India, in the state of Andhra Pradesh, and is the leading energy producer in Singapore.[26] RATP Dev is now a major player in urban transport in several of the region's metropolises, including Manila, Mumbai, Seoul, and Sydney.[27] Transdev is a major player in mobility in Australia and New Zealand.[28] VINCI Airports operates several airports in the Indo-Pacific region and is investing in their expansion (Santiago, Chile) or renovation (Sihanoukville, Cambodia).[29] Similarly, while Asia and Oceania account for only 6.5 percent of VINCI Construction's sales, several major projects are underway, including a drinking water treatment plant in Cambodia's capital and a transport network in New Zealand's capital.[30] The demand for industrial decarbonization also represents an identified growth opportunity for infrastructure projects for major French players in this sector, such as Air Liquide and Fives. What is true at the scale of

[22] *Mathieu Duchâtel, "La crédibilité de la France dans l'Indopacifique: premières pistes", Institut Montaigne, may 2023, https://www.institutmontaigne.org/publications/la-credibilite-de-la-france-dans-lindopacifique-premieres-pistes.*

[23] *For a map of submarine cables in the Indo-Pacific, see https://www.submarinecablemap.com.*

[24] *"CMA CGM finalises FMS Los Angeles terminal deal", Port Technology, January 5, 2022, https://www.porttechnology.org/news/cma-cgm-finalises-fms-los-angeles-terminal-deal/.*

[25] *"TotalEnergies and Corio join forces to develop offshore wind in Taiwan", TotalEnergies, February 16, 2023, https://totalenergies.com/media/news/press-releases/totalenergies-and-corio-join-forces-develop-offshore-wind-taiwan.*

[26] *"How to Deploy Large-Scale Renewables in India?," Engie, April 12, 2021, https://www.engie.com/business-case/engie-x-solaire-en-inde. Voir aussi : https://www.engie-sea.com/.*

[27] *RATP DEV, "Our References", https://www.ratpdev.com/fr/references.*

[28] *Transdev Australasia, https://www.transdev.com.au/.*

[29] *VINCI Airports, Annual Report 2022, https://www.vinci.com/publi/vinci_concessions/essentiel-2021-2022-vinci-airports.pdf.*

[30] *VINCI Construction, Annual Report 2022, https://www.vinci.com/publi/vinci_construction/essentiel-vinci-construction-2022-fr2.pdf.*

France offers a broader lesson for the European Union: many European companies contribute to infrastructure development in the Indo-Pacific region, without foreign policy gains for the EU, which is not perceived as a solution to the region's infrastructure needs.

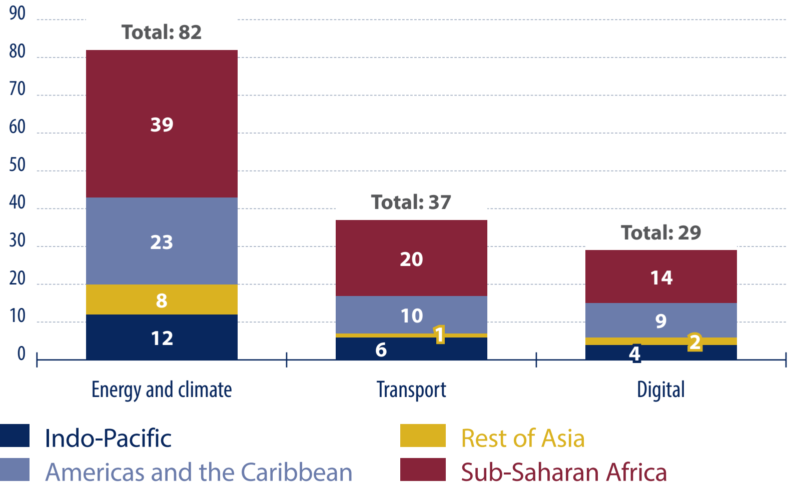
For the EU, **the question is about the effectiveness and concrete impact of the Global Gateway initiative**, which intends to mobilize up to 300 billion euro between 2021 and 2027 in the name of "the EU's deep commitment to enhancing critical infrastructure across the globe."[31] The list of Global Gateway signature projects includes the construction of a hydroelectric power station and associated micro-power stations and training centers in Pakistan, communications technology infrastructure in Bangladesh, critical infrastructure improvements for Thailand's main energy operator, urban and data infrastructure for Nusantara (Indonesia's new capital), and sustainable urbanization in India.

However, the Indo-Pacific is not the primary focus area of Global Gateway. In fact, despite the EU's focus on the Indo-Pacific, the "Asia-Pacific" terminology is still incoherently preferred in project classification. As such, of the eighty-three Global Gateway projects with relevance to energy and climate infrastructure, some twenty are or will be hosted in Asia-Pacific countries (Vietnam, Pakistan, Central Asian states, Mongolia, Bangladesh, Nepal, Fiji, Indonesia, Papua New Guinea, India, Kazakhstan, etc.). Of the thirty-seven transport infrastructure projects, seven are in the Asia-Pacific region (Malaysia, India, Pakistan, Indonesia, etc.). Finally, of the thirty-one digital projects, six will be based in the region (Central Asia, Bangladesh, Philippines, Thailand, Indonesia, etc.). Overall, the Indo-Pacific region accounts for less than one-third of the EU's priority projects, and is not even singled out as a priority region.

[31] *European Commission, press release, September 9, 2023, https://ec.europa.eu/commission/presscorner/detail/fr/ip_23_4421.*

Finally, it is important to emphasize that Europe does not provide turnkey infrastructure on behalf of the EU; rather, intervention is usually through financing, sometimes via international cooperation, and often on a modest scale. For example, in Malaysia, the EU's contribution to the Lumut port development project, a Global Gateway signature project, involves funding a study on Malaysia's port and maritime attractiveness.[32] Similarly, the project to rehabilitate the port of Rabaul in Papua New Guinea is jointly supported by the European Investment Bank and the Agence française de développement, in close cooperation with Australia.[33]

Graph #1 • Global Gateway projects by sector and region



Source: website of the European Commission.

[32] *Press and Information Team of the EU Delegation to Malaysia, "EU Grants RM9.5 Million to Port of Lumut in Perak", December 19, 2023, https://www.eeas.europa.eu/delegations/malaysia/eu-grants-rm95-million-port-lumut-perak_en?s=170.*

[33] *European Commission, "Signing of agreements by the EU on support to Papua New Guinea for a Forest, Climate Change and Biodiversity Programme and Green Investments", July 28, 2023, https://international-partnerships.ec.europa.eu/news-and-events/news/signing-agreements-eu-support-papua-new-guinea-forest-climate-change-and-biodiversity-programme-and-2023-07-28_en.*

Recommendations for Europe

- **Build a Global Gateway offer specific to the Indo-Pacific**. The first easy step would be to adopt the Indo-Pacific terminology. The second step would involve conducting a targeted communication campaign to explain the nature of the offer and current projects in the area. A third step could be to leverage the network of European delegations in the Indo-Pacific (EU delegations and embassies of Member States) to promote Global Gateway as an option for developing national critical infrastructure. The Indo-Pacific Ministerial Forum is also a good format for clarifying what we can offer. Europe can learn from US and Japanese approaches, which emphasize infrastructure quality and sustainability through guarantees and certifications.
- **Form a coalition of European public and private players to support critical infrastructure development in targeted Indo-Pacific countries**. Complementing general EU programs for the Indo-Pacific with more targeted offers would help build priority partnerships and show concrete results across the region. For example, a critical infrastructure development partnership could bring together several EU countries and European companies to provide both technical expertise and attractive commercial terms. The goal would be to position Europe as a privileged partner in a country's infrastructure development strategy, demonstrating its tangible impact to other countries in the region. One success story would make a big difference.

- **Improve the European infrastructure offer toward the South Pacific Island Countries**, which are estimated to need US$ three billion per year in infrastructure financing between now and 2030, representing 10 percent of their combined GDP. Their infrastructure needs mainly involve basic infrastructure (roads and power plants) that would be resilient to climate change.
- **Work toward strengthening connections between European companies that can deliver infrastructure solutions and multilateral development banks**.
- **Incentivize companies to occupy the niche for solutions that enable states to control their exclusive economic zones and the airspace above them**. European companies have radar and satellite solutions that can support the needs of countries that are seeking partnerships to control their maritime resources in compliance with international maritime law but currently lack the capacity to do so.
- **Develop a European digital infrastructure offering**. This offer already exists at the private level, with Nokia and Ericsson leading the global market (excluding China) for 5G telecom networks, while Alcatel Submarine Networks is a major player in submarine cables. However, this offer has yet to be integrated into foreign policy. To include it in an infrastructure partnership policy, it will be necessary, in some cases, to couple it with financing facilities.

3 Combating Economic Coercion: Coalition Thinking

The European Commission defines economic coercion as "a situation where a third country attempts to pressure the EU or a Member State into making a particular choice by applying or threatening to apply measures affecting trade or investment against the EU or a Member State."[34]

In recent years, several countries in Europe and the Indo-Pacific have been subjected to economic coercion by China. The Center for Strategic and International Studies (CSIS) has counted eighteen cases in Europe and Asia of Chinese measures denying market access for coercive purposes over the past fifteen years.[35] The following cases are the most emblematic:

- Following the arrest of a Chinese fishing boat captain in the territorial waters of the Senkaku/Diaoyu Islands (administered by Japan but claimed by China) in the East China Sea, **Japan faced disruptions** in its rare earth supplies from China from 2010 onward.
- After the 2010 Nobel Peace Prize was awarded to Chinese dissident Liu Xiaobo, China increased health controls and restrictions **on imported salmon from Norway**, causing the market share of Norwegian salmon in China to drop from 90 percent to around 30 percent over just a few years.[36] These restrictions were further tightened in 2015, with Beijing citing the risk of disease transmission allegedly linked to the consumption of Norwegian salmon.

[34] *Council of the European Union, "Trade: Council Adopts Regulation to Protect EU against Economic Coercion from Third Countries," press release, October 23, 2023, https://www.consilium.europa.eu/fr/press/press-releases/2023/10/23/trade-council-adopts-a-regulation-to-protect-the-eu-from-third-country-economic-coercion/.*

[35] *Victor Cha, "Examining China's Coercive Economic Tactics" (Congressional Testimony), Center for Strategic & International Studies (CSIS), May 10, 2023, https://www.csis.org/analysis/examining-chinas-coercive-economic-tactics.*

[36] *Benjamin David Baker, "Soul or Salmon? Norway's Chinese Dilemma", The Diplomat, May 9, 2014, https://thediplomat.com/2014/05/soul-or-salmon-norways-chinese-dilemma/.*

- Against the backdrop of the confrontation between China and the Philippines over Scarborough Shoal, a reef located in the Philippines' exclusive economic zone, but over which China has gained control, China imposed stricter controls on imports of **bananas produced in the Philippines** in 2012, with devastating consequences for Filipino banana producers (by imposing longer export times, leading to substantial financial losses).
- In 2017, **South Korea** was the target of a raft of economic measures following its decision to host elements of the US THAAD missile defense system on its territory. China targeted South Korea's tourism, entertainment, and trade industries as well as the Lotte conglomerate (which was forced to close its entire network of department stores in China), all the while hampering Chinese tourism to Korea.
- From 2021 onwards, China resorted to multiple forms of coercion against **Australia**, including major tariffs on Australian wines and barley and informal boycotts affecting Australian coal, beef, lobster, copper, cotton, wool, and nickel.[37] These measures were prompted by issues such as the exclusion of Huawei from the Australian 5G market, the launch of an investigation into the origins of COVID-19, and declarations concerning respect for human rights.
- The case of **Lithuania** is emblematic in Europe. In 2020–2021, China halted imports from the country and targeted European companies using Lithuanian components following Lithuania's decision to allow a Taiwan Representative Office to be opened in Vilnius (as opposed to a "Taipei" office, the more common way of describing Taiwan's diplomatic missions).
- In retaliation for the EU's investigation into Chinese subsidies for the electric vehicle sector, the Chinese Ministry of Commerce announced the launch of an antidumping investigation into wine spirits imported from the EU in January 2024. **France** was the priority target of these announcements, given the importance of the Chinese market for

[37] *Roland Rajah, "The big bark but small bite of China's trade coercion", Lowy Institute, April 8, 2021, https://www.lowyinstitute.org/the-interpreter/big-bark-small-bite-china-s-trade-coercion.*

French cognac producers. Pernod generates 10 percent of its sales in China, and cognac accounts for over 50 percent of the company's sales there.

China's modus operandi for economic coercion exhibits two distinct characteristics. First, the objective almost always goes beyond economic and trade policy and instead concerns interests linked to Chinese national security, broadly defined (i.e., not just territorial sovereignty but also issues such as the origins of the COVID-19 virus and human rights). Second, to make it more difficult for the targeted state and its allies/partners to mount an organized and effective response, **China practices plausible deniability: it does not announce the measures and/or explicitly link cause and effect politically**.

Two lessons can be drawn from these cases. First, China's actions failed to achieve its goals. The THAAD radar is still on Korean soil. Europe has not abandoned its anti-subsidy investigation. Huawei is still excluded from the Australian 5G market. Despite this, **China's actions often succeed in creating divisions within democracies**, as was evident during the May 2024 elections in Lithuania, when changing the name of Taiwan's representative office became a campaign issue.[38] Moreover, China's use of economic coercion in these cases is likely to have a deterrent effect, leading some international players to self-censor out of fear of the economic costs inflicted by China. However, this aspect of the impact of economic coercion is impossible to measure precisely.

Second, these cases demonstrate that there are ways of responding effectively to Chinese coercion. By deepening its trade relations with South Korea, Japan, Taiwan, India, Singapore, and Vietnam, Australia has succeeded in **reducing its dependence on the Chinese market in several export sectors**.[39] In 2019, before China launched its coercive campaign,

[38] *"Taiwan stands firm on name of representative office in Lithuania", Focus Taiwan, May 9, 2024, https://focustaiwan.tw/politics/202405090006.*

Australia's exports to China were 81 percent higher than its sales to Japan and Korea, but by 2022, its combined exports to Japan and Korea were equivalent to its exports to China. In a case often mentioned in textbooks, Japan managed over just a few years to reduce China's share of its rare earth supplies from 90 percent to 60 percent.[40] The Japanese case shows that diversification of supply (via, for example, the acquisition of mining interests in Australia) is not everything; complementary measures such as stockpiling, investment in technological innovation for recycling, the search for alternatives to the use of rare earths, and concerted action with strategic partners (the EU and the US) at the WTO all contributed to reducing the effects of Chinese measures.

To neutralize the effects of Chinese economic coercion, it is necessary to take **a firm stance on the foreign policy positions targeted by these coercive measures**. Moreover, there must be a commitment to diversifying foreign economic exchanges to reduce the dependencies that coercive actions exploit. Against the backdrop of such attempts to reduce our sovereign foreign policy options or undermine our democratic freedoms, does it make sense to think in terms of the Indo-Pacific? The European Union has adopted an anti-economic coercion instrument, which came into force in December 2023. It provides for countermeasures ranging from denial of access to European markets or financing to restrictions on investment in Europe. The fight against economic coercion is now at the heart of the G7 agenda, which currently represents the main focus of European diplomatic efforts on this issue.[41] **Is it, however, useful to work beyond the G7?** The issue of economic coercion was raised

[39] *David Uren, "Why China's coercion of Australia failed", Australian Strategic Policy Institute (ASPI), April 27, 2023, https://www.aspistrategist.org.au/why-chinas-coercion-of-australia-failed/.*

[40] *Tatsuya Terazawa, "How Japan solved its rare earth minerals dependency issue", World Economic Forum, October 13, 2023, https://www.weforum.org/agenda/2023/10/japan-rare-earthminerals/.*

[41] *"G7 Leaders' Statement on Economic Resilience and Economic Security," May 20, 2023, https://www.consilium.europa.eu/media/64501/g7-statement-on-economic-resilience-and-economic-security.pdf.*

at the G20 meeting in Hiroshima in May 2023, when member countries pledged to work "together to ensure that attempts to weaponize economic dependencies by forcing G7 members and our partners, including small economies, to comply and conform will fail." However, given China's presence in this format, the G20 would have no role to play in the event of a crisis involving a confrontation with China.

The value of working to anticipate responses to coercive crises with partners in the Indo-Pacific is obvious – either in coalitions that include some of them, or in broader, more inclusive formats. The EU's anti-economic coercion instrument would undoubtedly be insufficient to respond rapidly to an action against a European company or state. Past crises have shown that a more practical approach is for countries to form a coalition and promptly offer compensation to the targeted country, either in the form of access to alternative markets or by maintaining access to sources of supply or capital. Japan's decision to purchase pineapples produced in Taiwan after China denied it access to its market is an excellent example of an effective response.[42] Similarly, the offer by the United States to Lithuania of US$600 million in export credits largely offset the effects of China's actions.[43]

[42] *"Chinese ban on Taiwanese pineapples boosts sales in Japan", Kyodo News, May 14, 2021, https://english.kyodonews.net/news/2021/03/770c4f2aa955-focus-chinese-ban-on-taiwanese-pineapples-boosts-sales-in-japan.html#google_vignette.*

[43] *"US Counters China's 'Economic Coercion' Against Lithuania in Taiwan Dispute", Voice of America, February 4, 2022, https://www.voanews.com/a/us-counters-china-s-economic-coercion-against-lithuania-in-taiwan-dispute-/6425655.html.*

Recommendations for Europe

To effectively respond to possible crises involving China, the focus must be on diplomatic alignment that goes beyond inclusive multilateralism to include thinking in terms of coalitions. Therefore, the following recommendations for responding to economic coercion by China are offered:

- **Include economic coercion on the agenda of the Ministerial Forum for Cooperation in the Indo-Pacific**. The subject was mentioned in the final communiqué of the Forum's second edition, which stresses the importance of prior coordination for the European countries and their twenty-six partners in the zone who were present at the meeting in Stockholm.[44] While it may be unrealistic to expect to achieve diplomatic alignment with all participants in a crisis scenario, efforts within this framework can complement bilateral diplomatic channels.
- **Complement this multilateral approach with specific initiatives aimed at countries that have experienced Chinese coercion**. Apart from Japan, with whom exchanges on this theme are already well established within the G7, the Philippines, Australia, and Vietnam are likely to become partners in anticipating how to respond to economic coercion by China. Playing out possible scenarios in a Track 1.5 format can help identify common responses to future crises. Enriching the toolbox with practical ideas will facilitate implementation via human links between official stakeholders, enabling states to respond effectively to crises.

[44] *European External Action Service, "EU Indo-Pacific Ministerial Forum: Co-chairs' Press Release," May 13, 2023, https://www.eeas.europa.eu/eeas/eu-indo-pacific-ministerial-forum-co-chairs%E2%80%99-press-release_en.*

- **Identify the contours of a possible coalition of countries that could respond rapidly to a crisis**. A recent example of this approach is the June 2023 joint declaration by the governments of the US, Australia, the UK, Canada, Japan, and New Zealand.[45] While meeting in Paris during an OECD Council of Ministers meeting, the trade ministers of these countries emphasized their determination to fight against economic coercion in this declaration.

4 Supply Chain Resilience: Assuming a Vision of Strategic Diversification

The European Union and its Member States have instruments that enable them to respond to each of the three main categories of risk listed by the Commission as part of its economic security vision, even if there is room for improvement of these instruments. However, **this is not yet the case for supply chain risks**. EU policies in the making (the *Critical Raw Materials Act, the Net-Zero Industry Act*) set quantified targets to reduce external dependence and increase production on European soil, but without providing incentives or funding. The European Chips Act is likely to achieve a certain level of Europeanization of supply chains in the semiconductor sector through exemptions from competition law that make large-scale state aid for plant projects possible. However, it is unlikely to

[45] *"Joint Declaration Against Trade-Related Economic Coercion and Non-Market Policies and Practices", Office of the United States Trade Representative, June 9, 2023, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2023/june/joint-declaration-against-trade-related-economic-coercion-and-non-market-policies-and-practices.*

fundamentally change the international balance of power in the semiconductor sector or significantly reduce exposure to the risk of a major crisis occurring in East Asia. Furthermore, the third pillar of the Chips Act, which institutes coordination between the Commission, Member States, and the private sector to anticipate supply crises, is not yet operational. On the whole, the European Commission is struggling to establish itself as a central player on this issue, while companies are on the front line and European states are acting within national frameworks.[46] At this stage, a comprehensive policy for supply chain resilience has yet to be developed.

On this almost blank page, there is an urgent need to facilitate efforts by France and the EU to establish diversification partnerships with Indo-Pacific countries. Today, **Europe is well aware of the vulnerabilities caused by its excessive economic dependence on China**. According to a 2022 report by the European Commission, China's dominance of European supplies exceeds 90 percent for rare earths used in permanent magnets and magnesium and 60 percent for tungsten and scandium.[47] The tools for reducing these dependencies are well known: diversification of supply sources, production in Europe, recycling, and innovation in the search for reduced consumption and technological alternatives to products under stress. **Depending on their specific strengths, Indo-Pacific countries can be important diversification partners in these three dimensions:** as sources of supply, sources of investment in Europe, and allies in research and innovation.

There have been attempts in Europe to make the case for economic diversification. The importance of diversification is articulated in the Indo-Pacific strategies of European players (i.e., both the EU and its Member States) and feeds into companies' considerations of economic security, which

[46] *Mathieu Duchâtel, "Xi's Europe visit shows the EU needs an economic intelligence service", Euractiv, May 3, 2024, https://www.euractiv.com/section/china/opinion/xis-europe-visit-shows-the-eu-needs-an-economic-intelligence-service/.*

[47] *European Commission, "Critical Raw Materials for Strategic Technologies and Sectors in the EU: A Foresight Study," September 2, 2020, https://ec.europa.eu/docsroom/documents/42882.*

are embodied in their choices of investment destinations. However, the importance of diversification has not been strongly advocated politically, and both governments and private entities are hesitant to openly highlight the geopolitical risks associated with China, as doing so is seen as potentially creating another irritant in their interactions with China.

"Engaging with Indo-Pacific partners to build more resilient and sustainable global value chains by diversifying trade and economic relations (...)" is mentioned as the second-most important action the EU will need to pursue in order to implement its 2021 *Strategy for Cooperation in the Indo-Pacific*.[48] Sustainable and inclusive prosperity, one of the seven pillars of Europe's Indo-Pacific vision – along with ecological transition, ocean governance, digital governance and partnerships, connectivity, security and defense, and human security – is itself based on **resilient, diversified supply chains incorporating environmental sustainability criteria** and the **conclusion of trade agreements**.

At the national level, the Indo-Pacific strategies of the EU Member States that have adopted them each mention the need for diversification and the importance of trade policy to this end:

- "Ensuring the diversification of supplies of strategic goods and reducing dependencies" is the first point of the second pillar of France's Indo-Pacific strategy, "Economy, Connectivity, Research, and Innovation."[49] The **French** approach does not emphasize the links between trade policy and supply risk reduction.
- **Lithuania**'s Indo-Pacific strategy includes among its three pillars the mutually beneficial development of economic cooperation with countries in the region in order to "achieve strategic diversification objectives," with an emphasis on diversifying supply chains.[50]

[48] European Commission, "Questions and Answers: EU strategy for Cooperation in the Indo-Pacific region," September 16, 2021, https://ec.europa.eu/commission/presscorner/detail/fr/qanda_21_4709.

[49] French Government, "La stratégie de la France dans l'Indopacifique," February 2022, diplomatie.gouv.fr/IMG/pdf/fr_a4_indopacifique_022022_dcp_v1-10-web_cle017d22.pdf.

- The **Dutch** strategy, published in the form of guidelines, emphasizes the need to reduce one-way strategic dependencies and secure value chains in a sustainable way "by exploring the scope for diversifying suppliers from the Indo-Pacific region."[51] It stresses the importance of acting without eroding free trade – in fact, it highlights how the growth of foreign trade can be an opportunity for risk reduction.
- **Germany's** strategy, also embodied in the form of guidelines, puts the diversification and deepening of relations with the Indo-Pacific second only to peace and security as the interests guiding Germany's policy toward the region.[52] The diversification of supply chains is described as a means of combating the temptation of deglobalization.
- The **Czech** strategy stresses the need to engage in discussions with countries in the region to "reduce unilateral economic dependence and improve the resilience of value chains."[53] It highlights the need for an efficient multilateral trading system and the expansion of the network of bilateral trade and investment agreements "to include additional Indo-Pacific partners."

Is Europe already on the road to diversifying its trade and investment relations? An examination of the **foreign direct investment (FDI) stocks of the twenty-seven-member European Union** between 2015 and 2022 by country of destination highlights the emergence of **a trend toward diversification away from China, although this is not absolute or durable**.[54]

[50] *Ministry of Foreign Affairs of the Republic of Lithuania, "For a Secure, Resilient and Prosperous Future – Lithuania's Indo-Pacific Strategy," https://urm.lt/uploads/default/documents/ENG%20Strategy.pdf.*

[51] *Government of the Kingdom of the Netherlands, "Indo-Pacific: Guidelines for Strengthening Dutch and EU Cooperation with Partners in Asia," November 13, 2020, https://www.government.nl/documents/publications/2020/11/13/indo-pacific-guidelines.*

[52] *German Government, Policy Guidelines for the Indo-Pacific – Germany – Europe – Asia, Shaping the 21st Century Together, 2020, https://www.auswaertiges-amt.de/blob/2380514/f9784f7e3b3fa1bd7c5446d274a4169e/200901-indo-pazifik-leitlinien--1--data.pdf.*

[53] *Czech Ministry of Foreign Affairs, The Czech Republic's Strategy for Cooperation with the Indo-Pacific, October 2022, https://mzv.gov.cz/file/4922486/CZ_Strategy_Indo_Pacific_2022.pdf.*

- FDI stocks from the twenty-seven EU Member States to China (excluding Hong Kong) have increased by **52.7 percent** between 2015 and 2022 – there is, thus, no tangible disengagement of European companies from the country. However, in 2023, the EU Chamber of Commerce in China reported a notable decline in European companies' confidence in their future prospects in China. This is attributed to unpredictable policy changes that have eroded China's reputation for reliability and predictability in the market.[55] At the same time, as Chamber of Commerce President Jens Eskelund put it, "We are beginning to see other countries emerging as a serious competitor to China" in terms of FDI attractiveness.[56]
- This increase in European FDI in China outpaced growth in the stock of European FDI in **Vietnam (+34.8%)**, **Australia (+23%)**, **Japan (+15%)**, and **Indonesia (–24.4%)** between 2015 and 2022.
- By contrast, FDI stocks from the twenty-seven EU Member States in India between 2015 and 2022 **rose by 96.3 percent**; in **Taiwan**, by 93.2 percent; in **Malaysia**, by 61.9 percent; and in **Singapore**, by 60 percent.
- Some shorter-term trends are worth noting, such as Hong Kong's loss of attractiveness. Between 2015 and 2019, FDI stocks from the twenty-seven EU Member States in Hong Kong rose by 140.4 percent, with a jump of **111 percent** between 2018 and 2019. However, by 2020, against the backdrop of the PRC's imposition of a new authoritarian order in Hong Kong, the value of these stocks **was down 37.3 percent** from the previous year. In total, the rate of change obtained for 2015–2022 was a mere +37.45 percent.

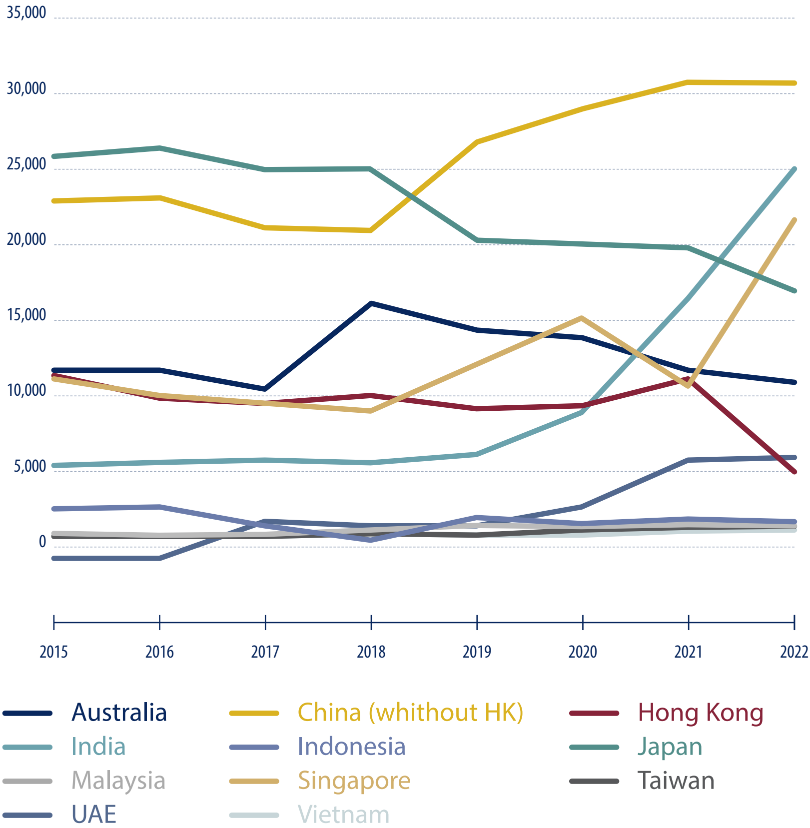
[54] *Eurostat, "EU direct investment positions, flows and income, by countries (BPM6)", https://ec.europa.eu/eurostat/databrowser/product/page/BOP_FDI6_GEO; the raw data thus compared in the following paragraphs are expressed in millions of euros in the sources used.*

[55] *European Chamber of Commerce, European Business in China Position Paper 2023/2024, https://www.europeanchamber.com.cn/en/publications-position-paper#download-table-404.*

[56] *"European companies are less upbeat about China's vast market as its economy slows", Associated Press, May 10, 2024, https://apnews.com/article/china-foreign-business-european-chamber-d0f2df56553e4aa41af65171bb84f8b8.*

Graph #2 • FDI stocks from France

(in millions of euros)



Source: Eurostat, "EU direct investment positions, flows and income, by countries", https://doi.org/10.2908/BOP_FDI6_GEO.

French FDI stocks in these same countries differed in their trajectories from the European average (consolidated figures for the twenty-seven EU Member States). French FDI stocks remained stable in Australia, fell by around half in Hong Kong, declined in Japan but **soared in India, with a +372.3 percent increase in stocks** between 2015 and 2022 – and a strong acceleration in momentum from 2021 onwards. French FDI stocks in China, on the other hand, followed a similar trend to that observed for the twenty-seven EU Member States, with an increase of around 50 percent between 2015 and 2022.

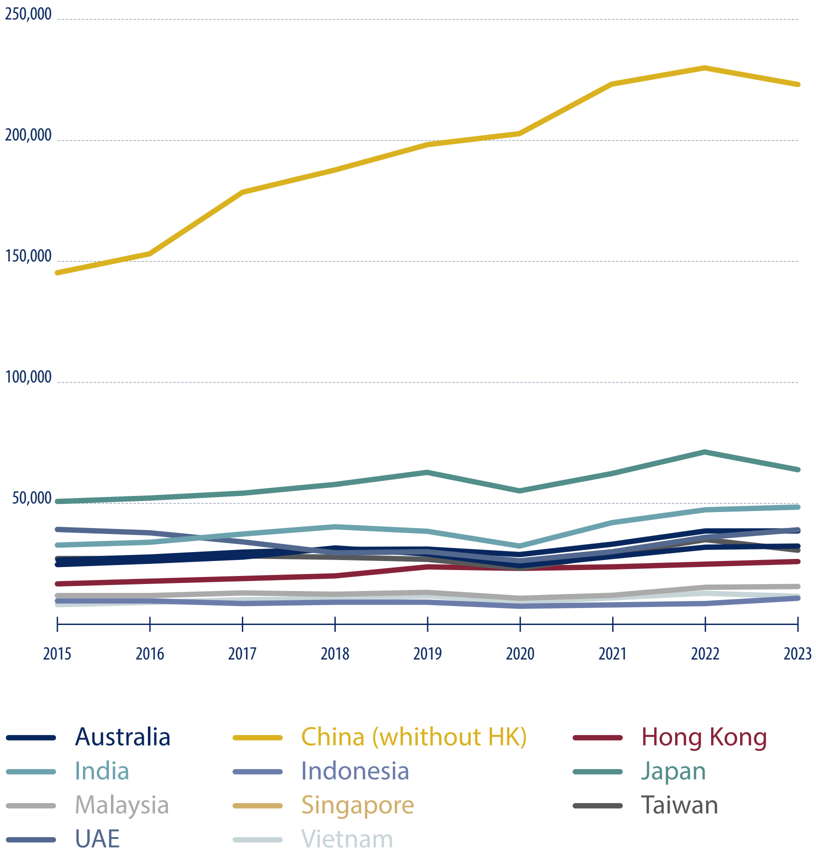
An observation of EU trade with these countries highlights a similar trend of timid diversification:[57]

- **European exports to China – excluding Hong Kong – increased** by +53.6 percent over the long term (2015–2023). **European imports from China, meanwhile, jumped 74.2 percent between 2015 and 2023** and increased constantly, with the exception of 2023 (−17.8 percent).
- Between 2015 and 2023, EU imports from virtually all the other countries analyzed (Australia, India, Indonesia, Japan, Malaysia, Singapore, Taiwan, and Vietnam) rose, and for most of them, the value of imports declined slightly between 2022 and 2023. European imports have decreased only from Hong Kong. Notable increases include **imports from Taiwan** (+122.8%), **India** (105.6%), and **Malaysia** (65.4%).
- EU exports to all the partners studied (with the exception of Hong Kong) are increasing. The most impressive increases concern **Taiwan** (+81% between 2015 and 2023), **India** (47.3%), **Australia** (45.5%), and **Vietnam** (44.6%).

[57] *Eurostat: "Extra-EU trade by partner", https://doi.org/10.2908/EXT_LT_MAINEU; the raw data thus compared in the following paragraphs are expressed in millions of euros in the sources used.*

Graph #3 • Exports from the European Union

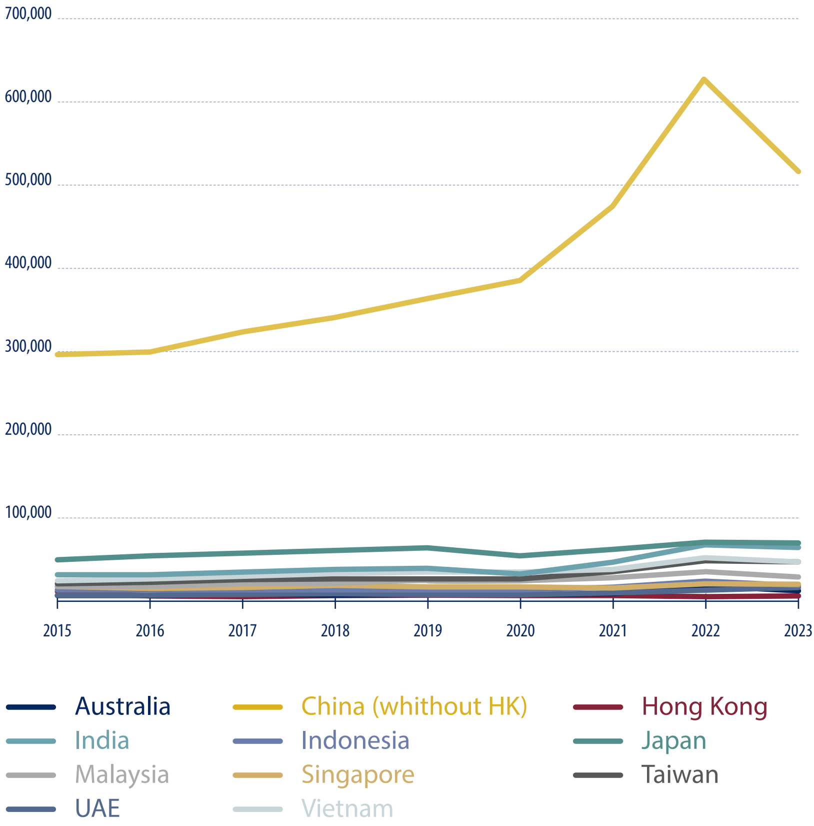
(from the twenty-seven Member States, in millions of euros)



Source: Eurostat, "Extra-EU trade by partner", https://doi.org/10.2908/EXT_LT_MAINEU.

Graph #4 • Imports by the European Union

(by the twenty-seven Member States, in millions of euros)



Source: Eurostat, “Extra-EU trade by partner”, https://doi.org/10.2908/EXT_LT_MAINEU.

At the macro level, the degree of dependence on China has not yet fundamentally changed. At the more specific level of investment by European companies in China, an EU Chamber of Commerce survey carried out in June 2023 showed that:

- 18 percent of European companies surveyed have already transferred their investments out of China or are preparing to do so.
- 22 percent are considering other countries as destinations for investments they initially planned to make in China (here, the Indo-Pacific holds great promise, as 27 percent of these companies are considering ASEAN countries and 15 percent India, compared with 21 percent for Europe).
- On the other hand, 20 percent of the companies contacted were planning to develop their network of suppliers in China, and 4 percent had already done so. This trend is particularly evident for the German automotive sector and for companies such as Airbus, which announced the construction of a new assembly line in China in 2023.

These statistics reveal two diametrically opposed approaches among companies present in China: on the one hand, **investing more to manage geopolitical risk** and, on the other hand, **giving priority to *friendshoring*** (i.e., transferring investments to countries deemed less risky). This wait-and-see attitude is a reminder that it often takes companies some time to assess the sustainability of a shock or new situation before redeploying their activities or capital.[58]

Data from the European Chamber of Commerce is corroborated by several significant examples by way of illustration. Over the past two years, Nokia has significantly reduced its supply chain exposure to Chinese suppliers.[59] For Nokia, as for Ericsson, such a reduction began as early

[58] *French Treasury, "Quels facteurs de reconfiguration des chaînes de valeur mondiales?," Trésor-Eco No. 329, July 2023, https://www.tresor.economie.gouv.fr/Articles/10b15671-f665-448d-8a3e-070b5696fb69/files/d008115f-8432-41b8-8089-bf684ef47c83.*

[59] *"Nokia Cuts Orders with China-Listed Supplier as U.S. Pushes 'Clean Network,'" Nikkei Asia, April 18, 2024, https://asia.nikkei.com/Spotlight/Supply-Chain/Nokia-cuts-orders-with-China-listed-supplier-as-U.S.-pushes-clean-network.*

as 2019 in response to measures by the Trump administration against Huawei. The aim, then, was to secure their supply chain against the risks associated with the Chinese company.[60] Nokia has made India an area of focus for supply chain diversification and has become the main supplier of 5G infrastructure there, meaning that "every call made in India touches a Nokia element."[61] In the aerospace sector, Safran has been strengthening its industrial footprint in India in recent years, while the share of Chinese suppliers in its supply chain has been declining.[62] Last October, the French company signed an MoU with India's aviation leader, Hindustan Aeronautics Limited (HAL), with the aim of establishing a joint industrial program for forging parts for civil engines.[63]

However, European companies have not yet launched major initiatives comparable to those of American IT giants Apple, Dell, and HP, which are now building alternative supply chains in Asia to reduce their exposure to China. Similarly, the **subject of suppliers to the European arms industry has not yet been considered in the context of the Indo-Pacific, which could create diversification opportunities for increased resilience**.

In terms of economic security, concluding trade agreements would not only enable diversification of European foreign trade but also improve European access to critical raw materials. The EU's trade agreements

[60] *"Report: Nokia and Ericsson Look to Shift Supply Chains away from China," Supply Chain Dive, June 11, 2019, https://www.supplychaindive.com/news/nokia-ericsson-shift-supply-chain-china/556617/.*

[61] *"How Nokia Became the Invisible Force of Indian Telecom," Forbes India, July 8, 2022, https://www.forbesindia.com/article/take-one-big-story-of-the-day/how-nokia-became-the-invisible-force-of-indian-telecom/77833/1.*

[62] *Safran, "Safran Intensifies Its Presence and Industrial Footprint in India," July 6, 2022, https://www.safran-group.com/fr/espace-presse/safran-intensifie-sa-presence-son-empreinte-industrielle-inde-2022-07-06.*

[63] *Safran, "Safran and HAL Sign an Agreement to Develop Industrial Cooperation in the Manufacture of Parts for Civil Engines," October 26, 2023, https://www.safran-group.com/fr/espace-presse/safran-hal-signent-accord-developper-cooperation-industrielle-fabrication-pieces-moteurs-civils-2023-10-26.*

with Chile and New Zealand already include specific chapters on critical materials. In the Indo-Pacific, ongoing negotiations with Australia, India, and Indonesia could, if successful, bring supply chain benefits to Europe. However, **each of these negotiations is fraught with difficulties**. The two parties to the EU-Australia trade agreement jointly decided to suspend trade negotiations in October 2023.[64] These negotiations could have led to the elimination of European customs duties on Australian metals and minerals, which are currently taxed at 12 percent.[65]

Negotiations with India began in 2007, were interrupted in 2013, and resumed in 2022. Optimism on the European side remains contained, as positions on the concrete sticking points have evolved little. The conclusion of an agreement can only come from a strategic decision that would make it possible to address persistent differences on public procurement, market access, and the EU's normative approach to environmental issues. However, India has interests in certain sectors (5G/6G, space, mining, and green energy) that could benefit from an agreement with the EU. Today, India is only the EU's tenth-largest trading partner, accounting for 2.1 percent of European exports of goods – a rank that does not reflect India's global strategic significance.[66]

Seventeen rounds of negotiations have been conducted with Indonesia since September 2016. European deforestation standards are currently a major stumbling block.[67] At the same time, the EU and Indonesia are at

[64] *European Commission, "EU-Australia Agreement: Factsheets and Guides," June 2023, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/australia/eu-australia-agreement/factsheets-and-guides_en.*

[65] *Australian Government, Department of Foreign Affairs and Trade, "Australia-European Union Free Trade Agreement fact sheet," https://www.dfat.gov.au/trade/agreements/negotiations/aeufta/australia-european-union-fta-fact-sheet.*

[66] *European Commission, "EU-India Free Trade Agreement, Investment Protection Agreement and Geographical Indications Agreement," https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/india/eu-india-agreement_en.*

[67] *Fanny Sauvignon, "It's Time for the EU to Make a (Bilateral) Move on Indonesia," CEPS, March 1, 2024, https://www.ceps.eu/its-time-for-the-eu-to-make-a-bilateral-move-on-indonesia/.*

odds at the WTO over nickel. After the EU filed a complaint, the WTO ruled that Indonesia's export ban and domestic processing requirements for nickel ore were contrary to its rules – a decision Indonesia has appealed.[68] Access to nickel, a strategically important economic security issue for the EU, has now become a stumbling block in this negotiation.

Recommendations for Europe

- Embrace **a clear and positive political discourse** at the **EU and EU Member State levels on the benefits and opportunities of strategic diversification in the Indo-Pacific region**.
- **Address the obstacles in trade policy negotiations** with Australia, India, Indonesia, the Philippines, Singapore, and Thailand, both internal (due to public reticence toward free trade in Europe) and external. Consider pursuing less ambitious agreements that focus more on economic security considerations, such as facilitating the diversification of supply chains in key sectors, as an alternative method.
- **Accelerate the creation of a Critical Raw Materials Club under the Critical Raw Materials Act** and make it a priority for Indo-Pacific diplomacy.
- **Evaluate the creation of a certification system for suppliers to the European defense industry**, which could facilitate the inclusion of alternative suppliers in the arms industry supply chain and increase supply chain resilience during periods of supply tensions.

[68] *World Trade Organization, Dispute Settlement, Indonesia – Raw Materials Measures, https://www.wto.org/french/tratop_f/dispu_f/cases_f/ds592_f.htm#bkmk592r.*

- Drawing on current discussions in Japan, **assess the relevance for the defense industry of adopting specific public policy tools** (e.g., inventories, critical material stockpiling) to improve resilience.

5 Structuring the Indo-Pacific through Economic Security Policies: Jumping on the Bandwagon

"The Indo-Pacific" is gradually replacing "the Asia-Pacific" as the preferred term in the language of international relations. In purely geographical terms, the Indo-Pacific covers a much larger region area and holds greater global economic significance. However, the fact that the term "Indo-Pacific" has now supplanted its predecessor means more than a simple change of scale. The emergence of the term Asia-Pacific was intimately linked to ideas of globalization and free trade. The countries of the Asia-Pacific based their economic development on **capturing the flows of globalization** by welcoming FDI or positioning themselves in specific niches in global value chains – often by cutting costs. The success of globalization is at the root of the Asia-Pacific's emergence as an economic region with global clout. The economic successes, first of the four Asian dragons, then of ASEAN, and more recently of India, can be attributed to their embrace of globalization and the globalized organization of value chains, which have sought to optimize costs and profits.

Initially, the concept of "the Indo-Pacific" was born of considerations of maritime security and shifting balances of military power in the region, driven in particular by China's air force and naval modernization and its implications for the regional order. However, the concept quickly incorporated an economic dimension that emphasized the importance of regional economic integration. This shift was not about opening markets but rather about state intervention to address distortions created by Chinese-style state capitalism, which shaped the formation of the Indo-Pacific as an economic region. Such an approach is central to the Indo-Pacific perspectives of the zone's powers: **Japan** (with its emphasis on the notion of a "Free and Open Indo-Pacific," expressed by Prime Minister Shinzo Abe as early as 2016), the **United States** (the Department of Defense Indo-Pacific Strategy Report in 2019, then the Biden administration's *Indo-Pacific Strategy* in 2022), **Australia** (which introduced the Indo-Pacific as an official definition of its strategic environment as early as 2013),[69] **India** (clarification of the Indian vision of the Indo-Pacific by the Indian Prime Minister at the 2018 Shangri-La Dialogue), and **South Korea**, at the end of 2022. In 2019, **ASEAN** in turn published an Outlook on the Indo-Pacific (AOIP).[70] The text aims to position ASEAN at the center of the region and calls for regional construction based on inclusive dialogue, not Sino-American strategic rivalry.

The new orientations of US international economic policy have proven to be a powerful driving force for this new regional development. On the one hand, American public and private decisions have the most immediate impact on the reorganization of supply chains. For example, all Taiwanese suppliers to Apple, Dell, and HP are adjusting to the need to reduce Chinese risk in the global production organization of these three companies and are investing in India and Southeast Asia. On the other hand, the United States' abandonment of an international economic policy based on free trade agreements automatically made it impossible to build a free trade framework structuring the Indo-Pacific. The American withdrawal from the Trans-Pacific Partnership (TPP),

[69] *Rory Medcalf, "An Australian Vision of the Indo-Pacific and What It Means for Southeast Asia," Southeast Asian Affairs, 2019, pp. 53–60, https://www.jstor.org/stable/26939686.*

[70] *ASEAN, "ASEAN Outlook on the Indopacific", 2019, https://asean.org/wp-content/uploads/2019/06/ASEAN-Outlook-on-the-Indo-Pacific_FINAL_22062019.pdf.*

subsequently ratified without the US under the name of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), did not prevent eleven signatory countries (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam) from saving the agreement, but it did usher in a new era for American economic diplomacy in the region, which no longer takes the form of a quest for market openings. The conclusion of a competing and parallel agreement, the Regional Comprehensive Economic Partnership (RCEP, signed in November 2020), sometimes seen as China's rejoinder to the CPTPP, is more the result of the commercial ambitions of the ASEAN countries. These two agreements illustrate the persistence of the logic of globalization in the Asia-Pacific region, alongside the construction of the Indo-Pacific region according to a more security-driven logic.

The **Indo-Pacific Economic Framework for Prosperity (IPEF)** is an American initiative to build a new format for international economic cooperation with thirteen partners (Australia, Brunei, Fiji, India, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, and Vietnam). Together, they account for 40 percent of global GDP and 28 percent of world trade in goods and services.[71] The format reflects the Biden administration's ambition to build a "new economic order," to quote United States Trade Representative Katherine Tai. According to Ms. Tai, free trade has reduced production costs at the expense of American workers and has offered options to hostile states to exploit interdependencies.[72] To deepen America's footprint in the region and nurture strategic partnerships with partners who are almost all (with the exception of India) rather eager to sign free trade agreements, the Biden administration is proposing a new type of multilateral economic cooperation through the IPEF. This initiative will focus on the digital economy,

[71] *Office of the United States Trade Representative, Executive Office of the President, "Indo-Pacific Economic Framework for Prosperity (IPEF)," https://ustr.gov/trade-agreements/agreements-under-negotiation/indo-pacific-economic-framework-prosperity-ipef.*

[72] *"Biden's Trade Experiment is Ticking People Off. His Trade Rep is on the Receiving end," Politico, March 7, 2023, https://www.politico.com/news/2023/07/03/katherine-tai-free-trade-00104483.*

resilience issues, clean technologies, and the promotion of equity standards.

In November 2023 in San Francisco, the members of IPEF signed **an agreement on supply chain resilience**.[73] The text organizes information sharing for the early detection of supply chain disruption alerts. It seeks to create a favorable environment for companies in their efforts to diversify outside China. In practice, the November 2023 agreement establishes a Supply Chain Council. Each country appoints a representative whose role is twofold: to oversee cooperation between members and to present the supply risk reduction policies adopted at the national level on an annual basis. The Council also draws up joint sector action plans, which IPEF members implement on the national level but in coordination with their partners. In parallel, the IPEF is creating a Supply Chain Crisis Response Network, which not only functions as an emergency communication channel in times of crisis but also serves to prepare responses to future crises. Organizing cooperation on supply chains in the Indo-Pacific is **therefore not initially a matter of funding projects or reducing tariffs, but of building an institutional umbrella to facilitate convergence and joint initiatives and to send signals to businesses regarding the desirability of diversifying their supply chains**.

Europe has thus far been cautious about the IPEF for three main reasons. First, there is a reluctance to join an organization considered too American and too anti-Chinese. This argument is very weak, if only because there are several members of the IPEF who have traditionally been extremely cautious in their economic policy toward China (Indonesia, Singapore, and Thailand, to name but three). Second, there is a legitimate question mark over the viability of this initiative should there be a new Republican administration in the United States in January 2025. Finally, Europe's DNA is a preference for trade policy, despite the significant challenges in

[73] *Ministry of Foreign Affairs, Japan, "Indo-Pacific Economic Framework for Prosperity Agreement Relating to Supply Chain Resilience," https://www.mofa.go.jp/mofaj/files/100581548.pdf.*

negotiating new agreements and resistance from European public opinion. These factors explain why France and Europe have so far held back from a mechanism that could contribute to the European risk reduction project.

The IPEF is criticized today across most signatory countries, primarily because it offers limited substantial benefits. It is often viewed as a framework that allows the United States to push its normative standards agenda rather than offering increased market access, technology transfers, or financial backing. Several countries regard it primarily as a platform for dialogue that falls short in technological vision.

The IPEF supply chain agreement is, however, quite tangible, despite its ambitions remaining fairly modest. It expands on the economic diplomacy efforts of Australia, the US, India, and Japan within the framework of the Quad, the multilateral cooperation format that originated in 2007 from a Japanese initiative. It was suspended in 2008 due to Australian concerns about being pulled into an antagonistic policy toward China, but was revived in 2017, with a renewed focus on the Indo-Pacific as the right scale to balance China's growing influence. Today, the Biden administration describes it as "a premier regional grouping on issues that matter to the Indo-Pacific."[74] The Quad organizes economic cooperation on supply chains for COVID-19 vaccines and emerging technologies (with a focus on norms and standards to ensure convergence, particularly for 6G infrastructure, and with the ambition of promoting private transactions between companies in the semiconductor and biotechnology sectors). The Quad, like the IPEF, seeks to anticipate future supply crises by exchanging information and scenarios in advance of its members' possible responses.

[74] *Druva Jaishankar, Tanvi Madan, "The Quad Needs a Harder Edge," Foreign Affairs, May 19, 2022, https://www.foreignaffairs.com/articles/world/2022-05-19/quad-needs-harder-edge.*

Recommendations for Europe

- **Sectoral minilateral formats**, where several countries work on establishing a unified approach to technologies for which they hold comparative advantages and mutual complementarities, may not align with the European multilateralist dogma, but they do deserve to be considered as potential ways of making progress.
- **The EU, or EU Member States willing to take the initiative, should consider joining the IPEF** and acceding to its supply chain agreement as long as its existence remains stable after the US election in November 2024. This move can enhance the quality of strategic information available to European governments.

Conclusion

In the coming years, the Indo-Pacific of economic security is likely to coexist with the Asia-Pacific of globalization. Meanwhile, economic security is being advanced in the form of a set of exceptional measures to address significant market distortions and the manipulation of interdependencies. An economic security perspective will continue to be a driving force for states to organize a new architecture of alternative partnerships. This architecture will include elements of free trade. For Europe, from the point of view of strategic diversification and supply chain risk reduction, trade agreements with Australia and India would be very positive outcomes.

Xi Jinping's strategic orientations create a Chinese risk for foreign companies. Although radical measures are not yet necessary, careful management of this risk is essential. Anticipating crises does not mean that the logic of interdependence optimizing global production costs will disappear. Despite the growing risk, this has not yet happened. This is made evident in the strong EU–China trade relationship and the fact that European companies have not clearly chosen regional competitors over China, although this trend is starting to emerge.

Considering our economic security instruments on an Indo-Pacific scale often results in highlighting key strategic bilateral relationships within this region. The Indo-Pacific can thus be seen as a "mental map" that makes visible a positive growth horizon by clarifying and concretizing the logic of diversification partnerships.

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Economic security policies and strategies focused on the Indo-Pacific region are gaining increasing attention among policymakers across Europe. However, the potential link between these two emerging areas of public policy remains largely underexplored, despite the tangible opportunities the Indo-Pacific framework presents for enhancing economic security. This policy paper addresses each of the four pillars central to the European economic security agenda, offering tailored recommendations to enhance their effectiveness and identifying key partners European states can engage with.

The authors advocate for viewing the Indo-Pacific not only as a geographical concept but also as a strategic horizon for building new partnerships of diversification. By integrating economic security with the Indo-Pacific, the logic of diversification partnerships can gain greater traction and offer tangible opportunities to European actors, public and private, contributing to the construction of a European economic foreign policy.

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