

PROMOTING EUROPEAN STRATEGIC SOVEREIGNTY IN ASIA

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SUMMARY

- The continuing rise of China and the onset of the pandemic have made asserting European strategic sovereignty in Asia ever more complex and difficult. Both developments mean that economics, security, and technology issues in Asia are becoming ever more intertwined.
- On the one hand this leaves Europe exposed – its dependencies on China have grown, and the security framework that has enabled Europe’s burgeoning economic ties with the wider region is under strain.
- Yet as other Asian powers, and the United States under the new Biden administration, increasingly assess the emerging strategic competition through a geo-economic prism, Europe’s leverage and its opportunities for partnership have also grown.
- Europe should upgrade its security activities, and seize the moment to push multilateral institutions up the agenda. But it will be Europe’s connectivity agenda that provides the golden thread running through its foreign policy and its environmental, industrial, trade, development, values, and security objectives in the region.

INTRODUCTION

Enhancing Europe's capacity to act in Asia is critical to the future of the European economy. It is also critical to the long-term survival of a rules-based international order underpinned by the norms and values that Europe stands for.

The coronavirus crisis has reinforced a number of pre-existing trends, risks, dependencies, and opportunities in the region. Alongside north America, Asia is the region with which the European Union and its member states are most deeply economically intertwined – through not just basic trade but also supply chains, investment, financial flows, and mutual reliance on market demand. This will accelerate: Asian economies are among the first to recover from the crisis and, even before it struck, were projected to capture an increasing share of global GDP. Likely to reinforce this trend is the Regional Comprehensive Economic Partnership (RCEP), a recently signed, and relatively thin, free trade agreement fostering economic relations between south-east Asia, Australia, Japan, South Korea, and China

China is at the forefront of Asia's economic development. At the same time, recent years have shown that domestic policies pursued there – ranging from industrial subsidies to data localisation, health policy to press freedom – have a vital impact on Europe's own economic and political future. Equally, the Belt and Road Initiative has extended the reach of many of China's internal practices to a global scale. All this has now pushed the European Union to consider its relationship with Beijing from a more 'systemic' perspective – regionally and globally. European strategy needs to treat values, security, diplomacy, and economics in Asia in a far more integrated fashion. Logistical capacity constraints in south-east Asia; the risk of military conflict in the South China Sea and the East China Sea; digital infrastructure choices in India; economic dependence on China among states across the region – all these issues will have an increasing impact on European resilience, technological sovereignty, and economic growth, and on what the EU's and its member states' wider vision is of the preferred regional or global order. The advent of the Biden administration now bolsters the opportunities for partnership in the region on issues from multilateral architecture and green growth to connectivity and supply chains.

Like the United States and Japan, Europe is debating further diversifying its economic relationships beyond China as a result of the pandemic and a more hostile trading atmosphere created by the US-China trade war. While some re-shoring and near-shoring to Europe and its periphery is possible, many of the principal alternatives for the production of high- and low-value goods are in other parts

of Asia, including Vietnam, Indonesia, Malaysia, India, Taiwan, and South Korea. Several Association of Southeast Asian Nations (ASEAN) countries and India will be among the fastest-growing major economies in the world in the next decade.

Asian states and major outside actors, such as the US, are now also looking carefully at the intertwined nature of economic, security, and technological trends. This has direct implications for Europe: no longer are EU free-trade agreements ‘just’ about trade, development assistance ‘just’ about aid, European companies’ telecommunications gear ‘just’ about business, or the acceptance of European technical standards ‘just’ about regulation. Instead, all these examples provide opportunities for the EU and its member states to enhance their strategic interests and values.

The EU’s and its member states’ greatest strength in Asia is its economic sway. As the geopolitical environment changes, Asian countries are reassessing their economic options through a more strategic prism. This could move the discussion of European leverage in the region away from the narrower scope of presence operations by European navies or targeted arms sales. And, similarly, if Europe’s economic priorities in the region are growing more contingent on an increasingly complex overall political and security picture, it can strengthen its capacity to influence that picture through economic tools, and ensure these capacities are better appreciated by major powers and small regional states alike. This paper will explore how Europe can more effectively deploy them.

THE CHANGING RELATIONSHIP WITH CHINA

The changing relationship with China is at the heart of Europe’s approach towards Asia. The interests of the EU and its member states in the region are deeply affected by the dynamics of this bilateral relationship – including how to deal with China in the economic bloc itself, as well as the wider issues of China’s role in Europe’s neighbourhood and its growing global presence in multilateral organisations. Last year saw a significant revision of the EU’s approach to China, pithily distilled in the March 2019 “strategic outlook” paper released by the European Commission and high representative. Much of the period since then has been devoted to intense debates about putting in place a more robust approach including a set of defensive economic instruments – from the International Procurement Instrument to the EU investment screening mechanism and the White Paper on Foreign Subsidies – while pushing for greater reciprocity in the economic relationship, including through ongoing negotiations on the Comprehensive Agreement on Investment .

Following the onset of the coronavirus pandemic, there is good reason to take another look at whether the balance of opportunities and challenges has shifted further. The crisis has exposed the risk of excessive dependence on China as a ‘single point of failure’, a chokepoint in the global trade system, not only for critical medical equipment and pharmaceuticals but for many other supply chains that could also be disrupted in a range of highly predictable scenarios. But there are also changing assessments in a number of other areas: the nature of Chinese information operations across the EU; the stakes over China’s role in and impact on multilateral institutions; Chinese investments in strategic infrastructure across the EU; and the implications of debt burdens in the developing world on China’s economic competition with Europe.

Firstly, in the political space, Europeans have tended to draw a sharp distinction with Russia when it comes to China’s attitude to the European project, its handling of global crises, its use of disinformation, and the nature of its efforts to advance authoritarianism. China’s behaviour during the coronavirus crisis calls those distinctions into question. From anti-EU social media activities to its willingness to use economic threats and apply political conditionality to its provision of medical supplies, China no longer looks like the cautious, status-quo actor that sees its interests bound up in maintaining the stability of the global economic system that was seen during the financial crisis and subsequent sovereign debt crises.

Insofar as the EU’s policy framework since 2019 already incorporated the concept of China as partner, competitor, and “systemic rival promoting alternative models of governance”, it is likely that the last category will take on more weight in a post-pandemic reality and after the US election. This could have particular implications for the EU and its member states’ handling of various political sensitive issues – so far, its approach to matters ranging from Hong Kong and Xinjiang to Taiwan’s international space have seen only limited policy shifts. But this seems to be changing incrementally: the EU’s pointed move to thank Taiwan for the latter’s donation of face masks, and its condemnation of the new National Security Law in Hong Kong and national-level suspensions of extradition treaties indicate the direction Europe can take if it chooses to. This would be a clear embodiment of a more geopolitical turn on the part of the European Commission. If Beijing is going to take a more unrestrained approach to its ideological agenda, there is significantly less reason for the European side to pull its punches – either rhetorically or through the use of practical instruments such as sanctions for large-scale human rights violations. A less dependent Europe can be more confident in defending its values.

Secondly, there is the question of Europe’s economic goals in its relationship with China. Many

negotiations between the two currently work on the premise that the main objective remains the deeper entanglement of their economies – more open markets in China, deeper mutual access to procurement contracts, and a strengthened albeit fairer and more reciprocal trade and investment relationship. While European negotiators are under no illusions about the likely outcome and have, in parallel, devoted significant energy to building up new enforcement instruments, this attitude may still have a distorting effect on European strategy, given that it is currently the single area where the EU channels almost all of its political leverage. EU member states still want to conduct more business with China, not less.

At the same time, China's market is not likely to become more open; its focus is on building up indigenous champions and enhancing resilience, which is embodied in what Xi Jinping has termed the “dual circulation” strategy to strengthen China's self-reliance. Investing in economic partnerships in Asia beyond China could help new markets to emerge, thus increasing the demand for European business in the broader Indo-Pacific region. The EU and its member states do not need to antagonise China or frame the approach as ‘decoupling’. Rather, the EU as a whole should clearly define its own policies and intensify cooperation with third countries in the Indo-Pacific on both a bilateral and a plurilateral basis and sound out cooperation potential with the new US administration. A coordinated version of the effort would help clear the path to reduce supply-side dependency in critical sectors. At the heart of this needs to be a comprehensive and holistic approach to the EU's connectivity strategy in the region, building networks and setting standards from infrastructure financing to green technology. Provided with the necessary financial heft and political momentum, it provides a solid basis for collaborating with partners in the region while achieving multiple policy goals.

EUROPE'S DEPENDENCIES AND VULNERABILITIES

Before outlining the trends that are unfolding in Asia across the political, economic, and security realms, it is important to map out the conditions that are beyond the EU's direct control and constrain its ability to act in Asia.

The region's high degree of economic integration and productivity is to a large degree dependent on a relatively stable security situation. The system of US alliance networks and intra-regional security cooperation has served the EU for the last seven decades – a sentiment not necessarily shared by all countries in the region. The EU and its member states have benefited from this low-risk and low-cost arrangement. European states have had little incentive to invest in independent military capabilities,

strong security relationships with countries in the region, or other meaningful security contributions towards the freedom of sea lines of communication, which are essential to member states' trade with the region.

With China's military build-up and growing assertiveness being a new dominant feature for regional security, EU member states need to assess their vulnerabilities in case of a deterioration of the existing security situation. A significant tilt towards greater instability and confrontation is detrimental to European interests.

The pandemic has further enhanced this trend. Over the course of the coronavirus crisis, there was a significant uptick in assertive behaviour by China in its maritime surroundings, and along the Sino-Indian border, a situation which in June 2020 escalated into a lethal confrontation between the militaries of both sides.

This is especially the case given that Europe has been dependent on the ability of Asian countries to settle existing disputes through non-military means. The underlying military balance of power has helped create the "East Asian Peace", but it is not the sole reason for the absence of major wars in the region. Peace is also based on successful conflict-management mechanisms among other states in the region, including those for border and territorial disputes among one another and with China. Regional states have often displayed a high degree of pragmatism and demonstrated restraint in times of potential escalation. But China's increasingly assertive stance represents a growing challenge to these established mechanisms. The way in which China is creating facts on the ground, especially through increased territorial claims in the South China Sea, will be increasingly difficult to stop, much less reverse. This creates challenges, but shifting priorities of the countries in the region, especially India, Australia, and Indonesia, will likely also increase their appetite for coalitions with other middle powers, including EU member states and the United Kingdom.

Capitalising on its relative economic advantage in the post-pandemic world, China will seize the opportunity to move towards achieving dominance in the region and beyond. Although there are already areas in which this process is well under way, such as in telecommunications and cloud technology, this process could expand further into trade and standards-setting. At home, Beijing's first massive stimulus measure to jumpstart the domestic economy is a massive investment in a domestic 5G rollout of 600,000 base stations by the end of the year and the spending of \$1.4 trillion over the next five years for the digitalisation agenda. This will not only strengthen Chinese vendors of telecommunications kit, it will also enhance China's overall capacity to capitalise on a first-mover advantage in large-scale commercial 5G availability, which could give it a headstart on broad access to

5G-enabled technologies. Additionally, tech exports to developing countries around the world, which are dealing with the fallout of the health crisis, have become a feature of China's coronavirus diplomacy, increasing China's market penetration.

EU member states are also dependent on access to the Asian data market to remain competitive in all artificial intelligence-enabled and emerging technologies. The enormous markets in China, India, and south-east Asia and their value for the new data economy make cooperation an imperative. Asia writ large, and several markets specifically, are already decisive for the overall capacity of European firms to compete globally – and could do so even more if India and ASEAN nations become increasingly central to global economic growth. This will be especially true for the growing data market. Asia has the largest population centres in the world and a rapidly growing middle-class consumer market. Chinese e-commerce is experiencing a coronavirus-induced boom, further solidifying the growing global market share of Chinese online giants such as Alibaba. While this undoubtedly holds true for both China and India, one should not ignore the potential of ASEAN states, which collectively have an economy roughly the size of India's and similarly significant internal growth drivers. The ability to remain part of the new digital economy will make European businesses even more dependent on demand from Asia and on cooperation with the region on innovation.

In the European business community, it has long been a commonplace to say that “there is no second China” as a reason for swallowing many of the unfavourable conditions facing European firms in their dealings with the country, including forced technology transfers, forced joint ventures, and market access restrictions. In terms of immediate economic opportunity and the size of China's domestic market, this is true. But there is significant untapped economic potential for European business in south Asia especially. For this to fully materialise, the EU and its member states are dependent on India to step up its game.

India plays a key role as a security provider in and beyond in south Asia – in the maritime space, and in its political handling of its smaller neighbours. India had already started to step up its regional aid before the pandemic hit: its crisis-response capabilities have been on show during the pandemic, as seen in its provision of medical supplies and military assistance to south Asian countries, as well as the assistance it has given their nationals. But India's relative absence until recently in regional trade or infrastructure development is one of the reasons why south Asia is so poorly integrated both internally and with the wider Asian region. For the EU to tap into a more integrated Indo-Pacific region, Indian leadership and vision is needed. Since the recent border clashes between China and India, the mood in India is quickly changing, providing an opportunity for the EU to re-energise and advance protracted conversations about enhancing economic cooperation. At the same time, India's

GDP is now facing huge losses due to the impact of covid-19 and it may be inclined to push for greater economic cooperation with the EU as a key economic player in supporting its recovery.

Finally, the EU's key policy goal of combatting climate change is highly dependent on all Asian economies to deliver on emissions reductions. China has long been regarded as a partner for the EU to address the issue of climate change on a multilateral level. But as China's economy is under significant pressure, the Chinese government is focusing heavily on raising domestic consumption and creating jobs. One core feature of this approach is its increased reliance on fossil energy, which conflicts with the country's long-term climate change policies. The contradictory approach became highly visible in recent months: in May, the term "climate change" was missing entirely from premier Li Keqiang's work report delivered at the 13th National People's Congress; in September, Xi made headlines at the UN General Assembly by pledging to achieve carbon neutrality for China's economy by 2060. The EU and its member states will thus have to adjust to the reality of a more complex Chinese approach on emissions reductions. They will also have to contend with a much fiercer competition with Chinese companies for leadership in green technologies, as the Chinese state is massively investing in these areas by creating incentives and advantages for its domestic industry

MAJOR TRENDS

The most important underlying trend in Asia remains the ongoing regional power struggle between the US and China, which has immense global repercussions and has been further accelerated by the covid-19 pandemic. The strengthening of the Chinese economic and military position continues, enhanced by a decline in the US trade and economic role. At the same time, it is also catalysing significant increases in military budgets across the region and is exerting constant pressure on other major regional actors, such as Japan and India, to take on greater strategic responsibilities.

Power shift

If one accepts the emerging power shift as a reality – one that makes China the dominant player in Asia – what would this mean for Europe? Does this change anything about the EU's capacity to act and make choices according to its interests? In other words, would a Pax Sinica have the same stabilising benefits for the EU and its member states as the Pax Americana did? Stability on Chinese terms would create new dependencies, as China would set norms and standards. A unipolar moment in a Sino-centric Asia would constrain other countries' capacities to make political, economic, and

security decisions. A taste of this has been the Belt and Road Initiative – which, according to a recent study by the European Chamber of Commerce in Beijing, has largely worked to the disadvantage of European companies in crucial third markets in Asia and beyond.

China could increasingly weaponise market access in the region, and access to specific technologies or raw materials, as well as sanctions and export controls. This would force European companies and governments to cater to Beijing's preferred outcomes and demands. The Hong Kong National Security Law (especially Articles 29 and 38) and Beijing's new Export Control Law are very clear in their decisiveness in using extraterritorial measures to exert pressure on companies and individuals to meet Beijing's preferences and interests.

Trade in the region involves varying degrees of dependency on the multilateral framework – largely the World Trade Organization (WTO). The EU and its member states have limited agreements in place with certain countries (notably, China and India) and free trade agreements with others (South Korea, Japan, and Vietnam) that are more robust when it comes to tariffs, standards, and mechanisms that can address disputes effectively beyond the WTO dispute settlement framework

Today, the US has overwhelming military supremacy in Asia in terms of equipment and numbers. However, China is heavily investing in asymmetric capabilities, especially in the space and cyber domains, as well as hypersonic missiles. The erosion of US military supremacy would redraw the power map of Asia. Parallel to this indisputable relative decline in US power, one can also observe an increasing lack of trust across the globe in the US commitment to its allies over the course of the Trump administration. This is certainly more pronounced in Europe and the Middle East, as in Asia there has been no significant drawdown in troop numbers or joint exercises to ensure military readiness. But the Trump administration's transactional approach to partnerships has placed significant pressure on Asian countries, especially Japan and South Korea.

Even if a US military drawdown in the region is unlikely, failure to address the perceived lack of US leadership and failure to decisively signal resolve has the potential to weaken alliances and erode deterrence capabilities among states in the region which are essentially built on trust. This could have a knock-on effect on proliferation and lead Japan and South Korea to acquire independent nuclear capabilities. Subregional conflicts could flare up, and China could take unilateral action in Taiwan or proceed to even greater demonstrations of power in the South China Sea. Newly elected President Biden has vowed to change course in terms of the importance he places on alliance commitments and has already demonstrated this with calls to the key democratic leaders of the region and a reinforcement of US alliance commitments, especially vis-à-vis Japan .

Transformation of Japan's and India's roles

Japan has been a provider of economic public goods for decades, especially in south-east and central Asia – and, increasingly, in south Asia too. Japan has stepped up its investment in the last few years, especially in response to the absence of US leadership. Japan has moved forward with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) after the Trump administration walked away from the original version of this agreement, the Trans-Pacific Partnership Agreement, which had been intended to shape the multilateral trading order in the region. Japan has also massively contributed to sustainable infrastructure financing in Asia, by teaming up with the World Bank for the Quality Infrastructure Initiative (QII), and the sustainable development agenda through Official Development Assistance via its International Cooperation Agency. It has also contributed through responsible lending via the Asian Development Bank, in which it remains the top shareholder together with the US (both of which had a 15.6 per cent share in the institution in 2018).

Japan and India are undergoing a massive transformation in their position in Asia. Japan is taking on a greater role in shaping the region's trade and technology architecture, while simultaneously undergoing a steady shift away from its pacifist constitutional limitations. India, in addition to the long-term expansion of its own geopolitical position, is also increasing its economic and military commitments in its immediate neighbourhood. Both powers are seeking enhanced partnerships with other actors beyond the region to augment their positions. The two states also bookend a broader reconceptualisation of the economic and security geography of the region. Japan, India, Australia, ASEAN states, and the US have all adopted the “Indo-Pacific” terminology as a reflection of the move beyond thinking about east and south Asia as discrete regions. Other regional players, especially those

in south-east Asia, and Indonesia in particular, will also become important powers in the longer term. Their economies are growing at a steady rate and they are populous states with huge potential, meaning that south-east Asian countries could eventually play a significant role in tilting the regional balance.

India is engaged in a significant reckoning in its relationship with China, starting with the question of Chinese investments, market penetration, fair competition, and reciprocity. The recent border clashes massively reinforced this trend. India's decision this summer to ban more than 220 Chinese apps, including TikTok and WeChat, is highly significant in this regard. India was the only significant non-Chinese market in which Chinese market penetration in the app sector was already very successful. With this move India has not just halted this trend, but reversed it, significantly constraining Chinese access to India's huge market for digital services. And, in Japan, the coronavirus crisis is alerting policymakers to the need to rebalance the relationship with China. With Shinzo Abe, Japan's longest-serving prime minister, stepping down from his position, Tokyo's future course will, however, potentially be less straightforward. His successor, Yoshihide Suga, has significantly less experience. He will likely strive for continuity, but he will not have the same political weight for some time to come, and will probably be open to forming new and close partnerships. These trends create space for enhanced dialogue with the EU beyond the already close partnership with Japan – especially in the case of India, which has a heightened interest from a strategic and regulatory perspective in how other actors respond to the challenges posed by Beijing's state-capitalist economy and market-distorting behaviour.

Domestic vulnerabilities make policy options less predictable

Especially in China, but also in India, massive domestic vulnerabilities – from debt to governance to succession questions to ethnic conflicts – can create significant volatility. This affects the overall risk assessment for the region.

China's economy is now so powerful that even major domestic turmoil is unlikely to derail the overall trend towards greater growth. Halting the economy for months during the pandemic led to a massive contraction of the economy, but the projections for the rest of this year and 2021 look more promising. Local debt will remain a topic of great concern, as it has the potential to harm the Chinese economy in a substantial way by increasing the debt burden of local governments at the expense of longer-term financial sustainability.

Although countries across Asia, including China, have proven highly capable of managing the coronavirus crisis and controlling the spread of the virus, many of the significant domestic economic and structural challenges have yet to be addressed. Mapping out the potential domestic scenarios can help European policymakers prepare for plausible developments that could affect their decisions. Such developments could mean taking new decisions around progressing further supply-chain diversification; they could also impact on European businesses' investment decisions and lead Europeans to be more aware of potential disruptions rather than any linear progression of developments across Asia. The coronavirus crisis has demonstrated just how quickly things can change and the immense impact that domestic governance issues can have not only on global health but on the global economy. European policymakers do not currently take the inherent fragility of domestic governance in Asia into account sufficiently, which can lead to distorted assessments that ignore major, predictable risks.

Predictable contingencies: The Taiwan escalation

Far from being a 'black swan' event, the recent pandemic had been predicted and – in many cases – planned for in many places. Given this, the European Commission should lead a review of the European playbook for a number of other highly predictable crises, such as an invasion of Taiwan, a conflict in the South China Sea, a political transition in China itself, or a major natural disaster that might affect EU members states' interests in Asia.

The most plausible high-risk, low-probability scenario would be an escalation over Taiwan. Especially in light of the People's Liberation Army's enhanced activities around the island – even at the height of the health emergency in China – one should not underestimate Beijing's determination to fulfil its ultimate aim of bringing Taiwan back under its effective control. The fact that Taiwan's coronavirus response has been publicly lauded around the world and that it has also engaged in active support by providing medical kit to EU member states has only reinforced the ongoing tensions between Beijing and Taipei. Taiwan is a tech hub in the region; its local champion, TSMC, is a key producer of advanced semiconductors and is a global market-leader. European companies are also dependent on continued supply from Taiwan. And, beyond the economic impact, the Taiwan case would present the EU and its member states with uncomfortable choices regarding the defence of democracy, alliances, multilateral structures, and the rule of law. Regional states could rightly assume that – if the defence of a vibrant, economically and politically successful democracy in the region is not worth the EU's utmost attention – Europe's commitment to a rules-based order and the defence of its values must be

of lower importance than its rhetoric suggests. The consequences of an escalation in the Taiwan Strait for EU member states and the UK would be real and they would be well advised to have agreed on potential responses beforehand.

RECOMMENDATIONS: ENHANCING EUROPE'S CAPACITY TO ACT IN AND WITH ASIA

Given the dependencies listed above and the trends that are unfolding largely beyond Europe's direct influence, it is essential to examine which policies would best enhance the EU's capacity to act in Asia and, therefore, contribute to an increase in European strategic sovereignty.

The international architecture dimension

The pandemic was a pivotal moment for global concerns about China's hollowing-out and politicisation of multilateral organisations. The question of whether the World Health Organization (WHO) made mistakes in the early stages of the pandemic is less important than many countries' and populations' loss of confidence in multilateral institutions – a loss created by the perception that adherence to Chinese political interests has changed their priorities. From food security to international crime, Chinese candidates have assumed leadership positions in critical institutions, and taken advantage of the lack of US engagement to push their agenda on issues ranging from human rights to technical standards. The WHO crisis is both an opportunity and a cause for a stock-taking exercise. Even before the crisis began, European diplomats were on the front line of the battle with China in many of these institutions. With the US under Biden now likely to be back on the multilateral track, this will contribute to the credibility of transatlantic leadership in these areas. **The current situation gives the EU and its member states an opportunity to push multilateral institutions up the agendas of both other major powers and small states** that may be inclined to see supporting Chinese candidates as an affordable 'gift' to Beijing.

The multilateral system is one of continuous evolution. It has never been stagnant, but always able to accommodate new issue areas and new dynamics especially after significant crises – the G20/G7 being a prominent example of this process. China has created the embryo of an alternative global architecture – involving everything from the Shanghai Cooperation Organisation to various Belt and Road Initiative bodies – while pushing its agenda harder through existing ones. The construction or enhancement of a new and strong architecture in various areas is a way to both hedge against the

continued decline in the capacity of global institutions and send clear signals that the politicisation of these institutions will ultimately cost them their voice, as key countries will redirect their resources and expertise away from the bodies.

The coronavirus pandemic is a crisis of epic proportions; it would be unrealistic to imagine that there will be no alterations to multilateral dynamics as a response. In parallel with the renewed push for better functioning of existing multilateral institutions, there is thus also the question of whether new structures need to be built or strengthened alongside them. Just as the failures of the Doha round led the EU reluctantly to embrace the plurilateral trade agenda – while still championing the WTO itself – **there is a case for the EU to review the entire multilateral landscape, to see where it can reinvigorate existing, and create new, trusted, institutions among like-minded partners**. This may involve stronger institutionalisation around coalitions such as the “Alliance for Multilateralism” and the creation of new bodies around the concept of the Indo-Pacific. In this context, Germany’s new Indo-Pacific guidelines set the stage for stronger Franco-German cooperation and a wider embrace not only of the term as a regional definition, but also the agenda behind it. The new strategy document, launched during the German EU Council presidency, marks the start of a pan-European debate about the EU’s role in the Indo-Pacific, across a comprehensive set of challenges from security and free trade, to digitalisation and climate change.

The security dimension

Intuitively, security policy is the area in which the EU is least likely to have a meaningful impact on the power shift in Asia. But member states could, at least, improve their leverage in this realm and tilt the power balance to a degree. Almost one-quarter of global arms sales issue from Europe’s top five arms-exporting countries. For example, during 2014-2018 Germany exported more defence equipment to Asia than to any other region in the world, including Europe.

The Asia-Pacific region is now the world’s largest market for arms. For EU member states and the UK, sales to Asia are essential from a commercial perspective. But, as observers have argued for years, EU member states in particular make little to no strategic use of these partnerships. EU member states need to rework their arms export strategies and tie them closely to diplomatic and security goals. A more unified arms-export policy could greatly enhance Europe’s limited potential to influence security dynamics in the region. **EU member states can build a denser web of European relationships through defence-industrial partnerships but by also defining a common arms export control policy** – especially for dual-use equipment, which has become inherently

entangled in the broader debates about technological sovereignty and the US-China strategic and economic confrontation. The revised dual-use regulation is an important step in this direction. It was agreed under the German Council presidency and, among other things, addresses the challenges of surveillance technology and its role in human rights violations.

Freedom of Navigation Operations (FONOPS) are an often-cited tool of how European countries could demonstrate their willingness to defend the rule of international law in the region. The potential of FONOPS is limited, especially if not conducted on a regular basis and on a relatively large scale. The failure to provide continued presence within the 12-mile zone around territories claimed by China in the South China Sea that are not in accordance with international legal provisions could create the impression that the EU and the UK are only marginally interested in the gradual increase of Chinese control there. European navies, especially from France and the UK, can and should invest in maritime operations that emphasise respect for international law and safety of sea lines of communication – but they will only have a meaningful effect if they are substantial, continuous, and if they are further Europeanised in their set-up, carrying sailors from various EU member states on French or potentially even German vessels. These operations would have limited deterrence potential in relation to Chinese claims in disputed waters, but **the EU and its member states jointly with the UK could use FONOPS to signal resolve to regional partners – especially those within the Indo-Pacific framework**. Initial new commitments by Germany to a security role in the region signals an important shift.

EU member states and the EU itself could also invest development assistance in targeted capacity building in areas such as coastguards and non-traditional security partnerships – especially those for cooperation on cyber security, which is of great concern to most Asian states. Closer coordination and cooperation with Japan in this area would not only support the EU's regional efforts but also improve security relations with one of its foremost economic partners in the region.

China's role in Asian cyber space should be a key element of a strategic dialogue with Indo-Pacific partners – especially Japan, South Korea, India, and Australia, but also ASEAN countries. Cyber security dialogues should pivot towards conversations with the democracies of the region, as both sides could benefit from a concerted cyber security exchange, potentially at ministerial level, including intensified conversations and knowledge-sharing about countering the growing cyber threat emanating from both China and North Korea in the region. Europeans should invest heavily in cyber defence capabilities to demonstrate to Washington their ability to contribute to global security. This will be an important signal to the incoming Biden administration.

The technology dimension

Europe is often quickly discounted as being far behind in the race for global technological leadership. But that is a premature conclusion. One persistent myth is that EU member states do not have what it takes to prevail in the tech world of the twenty-first century and, therefore, must only choose which masters they will serve – those in Silicon Valley or those in Shenzhen.

No EU member state currently fields a competitor to the big tech companies in the US such as Amazon, Facebook, and Google, or their Chinese equivalents such as Alibaba, Tencent, and Baidu. But that does not mean that EU member states lack what it takes to be a force to reckon with in the tech space. Europe is home to 6.1 million software developers (compared to 4.3 million in the US) and multiple tech hubs – from the classic top three of London, Berlin, and Paris to the less high-profile but vibrant centres in Stockholm, Amsterdam, Barcelona, Dublin, Helsinki, and Madrid. EU countries have a huge advantage in the freedom of movement of people and capital, common regulation, and an increasingly engaging climate for venture capital investors. The European Commission has set ambitious targets for making Europe not only a great market but also a leading innovator in emerging technologies, not least 5G.

But the EU and its member states will need to work closely with their partners in Asia to continue to play a role in the tech world. An important first step in this was the agreement on free data flows the EU concluded with Japan in 2019. Under the deal, Japan and the EU created the world's largest area of safe data flows. Cyber partnerships and cyber diplomacy with Asian democracies are key to building a high-trust, high-standards, more open framework among like-minded partners. India is especially relevant in the technology space, given the EU's and its member states' interest in facilitating access to information on topics such as internet governance, ICT research and innovation,

and network and information security. **The EU in a ‘whole of organisation approach’ should pay particular attention to strengthening cooperation on ICT standardisation.**

There is significant potential for coordinated industrial policy and tech regulation between the EU and Asian tech powerhouses, especially Japan, South Korea, and Taiwan. **The EU and these countries could find new institutionalised forms of exchange between those under pressure from China’s state capitalism.** In democratic countries in Asia, key allies share Europe’s preference for an open and inclusive technology space. Europe’s interests will not always coincide with those of its Asian partners such as Japan, but they will often be complementary. **As they have no interest in the weaponisation of access to technologies of the future, the EU and its member states should more aggressively seek partnerships with Asian countries that share this goal.** Cost-benefit analyses across the region will vary; choices will differ. A case in point is Japan’s embrace of US cloud technology while EU member states debate indigenous options on a national level. But, ultimately, coordination could hedge against some of the power games in play. **European countries should engage with Taiwan as one of the key tech players in the region, through high-level diplomatic exchanges on digital governance and lessons learned in, for example, effective mitigation measures against disinformation through social media.**

The trade dimension

The EU-Japan Economic Partnership Agreement (EPA), which entered into force in early 2019, is the EU’s most recent diplomatic success story in Asia. The agreement’s economic usefulness is yet to be thoroughly tested – particularly against the background of the global economic downturn induced by the pandemic – but bilateral trade between the parties grew by more than 6 per cent in its first year. The EPA aspires to be the antidote to unilateral US action and to enshrine both sides’ commitment to their common values, enhanced labour rights, social responsibilities, and the goals of the Paris climate accord.

Facing global trade uncertainty, the EU and Japan have enhanced their leverage through cooperation. The EPA underlines Brussels’ ability to act and serves as an example for ambitious trade agreements that could help maintain and enhance a rules-based multilateral trading order. Modelled on the EU-Japan EPA, deeper trade and investment agreements across Asia – especially with India and ASEAN states – could reduce dependency on China, enhance the EU’s capacity to set standards, and complement more ambitious agreements as the WTO framework weakens. **There is potential for an EU-CPTPP agreement, which would cover nations that account for 35 per cent of world GDP**

. This is not a far-fetched idea, as the EU has negotiated – or is in the process of negotiating – free trade agreements with every CPTPP member nation except Brunei. Europe’s agreements go far beyond the highly limited regulatory framework that RCEP sets and can add benefit for regional players, especially in the realm of data and technology governance

But, even in the absence of formal trade agreements – which, especially in the case of India, likely remain a more long-term project – **an EU-led process could make a deeper integration offer to Asian democracies and enhance cooperation with them in the EU technology, research, data, and even industrial policy framework.**

The EU needs to reconsider its current approach of focusing on comprehensive agreements. Initial sectoral agreements, which cover those areas currently unregulated by WTO rules, could help hedge against economic dependency and be of mutual benefit, while not precluding more comprehensive agreements in the future – especially in regard to India. Deals on the free flow of data could be a useful start in this, especially given the tech rethink that is under way due to the changing US-China dynamics. The geopolitical changes brought about by the coronavirus crisis will alter Europe’s cost-benefit analysis on various forms of engagement with Asian countries other than China. These countries generally welcome European investment, which will likely improve conditions on the ground. For example, India has announced that it will designate land for business development, which is one of the factors that hampered investment in the past.

The EU is already moving to deal with the potential implications of the economic collapse brought about by the pandemic – in terms of corporate valuations and vulnerability to Chinese acquisitions of strategic infrastructure and sensitive technologies. But the crisis will also magnify the existing competitive challenges that the Belt and Road Initiative poses in Asia and across much of the rest of the world. While China has agreed to a degree of freeze on debt payments for developing countries, an even more ambitious package would be desirable. Beijing will almost certainly seek to use renegotiations over debt financing to foster its economic, political, and security goals.

The EU’s connectivity strategy had been partially abandoned by the new European Commission, as the issue receives less strategic focus than priorities such as the European Green Deal, the new industrial strategy, and the digital agenda. Success in each of these areas will be considerably harder to achieve if countries adhere to Belt and Road Initiative energy practices, buy Chinese digital infrastructure, and make decisions that favour Chinese companies. In light of the pandemic, there is a strong case for **Europe to refocus on the connectivity agenda as the golden thread between its own foreign policy and environmental, industrial, trade, development, values, and security objectives in several regions**

– all the more so when this is coupled with the “diversification” agenda.

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