

## **Club of Three Webinar 24 March 2021**

### **Promising horizons for Europe? Trade and investment prospects - and geopolitics - in the Indo-Pacific region**

#### **Meeting summary**

In March, the Club of Three held a webinar on the issue of trade in the Indo-Pacific, with Rebecca Harding (CEO of Coriolis Technologies and author of “The Weaponization of Trade”), Stefan Mair (Executive Chair, German Institute for International and Security Affairs – SWP), and Frédéric Grare (Non-resident Senior Fellow, Carnegie’s South Asia Programme) as main speakers.

This event was made possible thanks to the UK’s Foreign, Commonwealth and Development Office (FCDO). It involved some 30 senior figures from business, the policy field and academia in France, Germany and the UK. The session was chaired by Club of Three Chairman Michael Maclay.

During the discussion, participants explored how Europe’s economic footprint in the Indo-Pacific could be leveraged to strengthen its strategic influence in the region. It assessed the geo-strategic importance of trade, from regional blocs such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to the partnerships that European countries are building with Japan, Australia, New Zealand, Republic of Korea and India.

The changing nature of international trade had been one of the most striking developments of the past few years. Globalisation had been to some extent in retreat with the policies of the Trump administration, trade wars and now the protectionist tendencies since the start of the Covid-19 pandemic. There had been a striking erosion of trust between major trading partners, and consequently the geopolitical dimension of trade had become increasingly important. In this complicated political context, exploiting trade opportunities that the Indo-Pacific offered required a delicate balancing act on the part of Europeans.

The UK’s Integrated Review of Security, Defence, Development and Foreign Policy released in mid-March reflected the new competitive landscape in which trade was evolving. Post-Brexit, the UK was resolutely turning to the Indo-Pacific for trade opportunities. Moving away from a large trading bloc like the EU carried certain risks. Moving closer to one of the most dynamic trading blocs, maybe as a member, would be advantageous given the high growth rates of its members in recent years. Although the Indo-Pacific currently represented a small proportion of UK trade activities, there were real opportunities for Britain, notably in the sustainability field.

In order to succeed in its bid to join the CPTPP framework, Britain was advised first to agree arrangements with individual members of the CPTPP – starting with Japan.

Could the bid be concluded within a reasonable period of time? One British participant believed that accession talks could take 12 to 18 months although this might seem optimistic. Various kinds of arrangements had already been agreed with four individual CPTPP members. However, as in the EU-UK Brexit negotiations, difficulties could be expected on issues such as level-playing field and state aid.

The UK also needed to trade more with China, not less. On its own, it had limited power vis-à-vis China, one participant noted. It is not a major trading partner and imported nearly four times the amount of goods it exported to China. And as with other European countries, it had to carefully balance moral concerns about human rights in Xinjiang with the economic reality that China is a major, indispensable market. Britain therefore had to be pragmatic and also to maximise the influence it had through its membership of Western alliances with interests in the region.

Although European countries had similar goals, the German perspective on this region was somewhat different. While the European Commission's Trade Policy Review of February 2021 looked at trade from a geopolitical point of view and in terms of strategic autonomy objectives, the German relationship with China and other Indo-Pacific countries remained very much commercially-driven. This was mainly due to the huge importance of Germany's trade with China. The share of trade with China was larger than with all other countries in the Indo-Pacific. Trade with Japan for instance represented a fifth of trade with China. Germany's strategy was therefore to diversify its trade relationships in the region, and in this respect a German participant noted that EU efforts to sign Free Trade Agreements (FTAs) with Indo-Pacific countries had not been very convincing so far.

As far as France was concerned, no specific trade policy had yet been enunciated vis-à-vis the Indo-Pacific. The debate in France centered on two main arguments: those who believed that trade is a global issue that should be addressed globally through a reform of the World Trade Organization, and those who support FTAs as the preferential tool to deal with the reality Europeans face in the Indo-Pacific. But trade was first and foremost an EU prerogative and the French position would ultimately be reflected in the outcome of European FTAs, one participant said. Perhaps more than trade opportunities, France saw the Indo-Pacific as a means to rebalance peacefully the relationship with China and make current asymmetries more manageable. Its significant investments and close relationship with India were a good example of what France aimed to achieve. A strong India – both economically and militarily – was in the French interest and this was reflected in France's 'Made in India' policy.

Could France develop a relationship with the CPTPP? This would again eventually depend on the EU's future policy towards the region. However, France was following with interest the UK's bid to join the CPTPP and there was a feeling in the country that it had a stronger case due to the vast French territories in the Indo-Pacific and the fact that over 90% of France's Exclusive Economic Zone is located in this part of the world. A number of CPTPP members were also France's strategic partners, such as Australia and Japan, and France had strong economic relations with the ASEAN

region. This did not mean that the CPTPP would necessarily be the ultimate destination for France but the country was likely to seek trade arrangements within a similar framework.

Given Europe's new strategic autonomy imperatives, one participant asked whether increased trade relations with the Indo-Pacific were the way to go. In the UK, 75% of exports came from foreign companies that had invested in the country. Import substitution through investments by domestic foreign companies within Europe might seem a better solution to trade imbalances. However, another participant argued that reshoring economic activities was not a solution from a German business point of view. The strategy had to be diversification through trade.

Going back to Britain, despite the emphasis on sovereignty in its Integrated Review which had become a rhetorical requirement post-Brexit, it was clear that it would have to operate within broader frameworks through which it could hope to exercise real influence, which is why its future CPTPP membership was so important. Ultimately, UK and EU actions in the region would to a large extent depend on US policy. The Indo-Pacific strategies of France, Germany and the UK were essentially a way of realigning themselves with America's tilt to the region.