



Fortifying Economic Security:

The EU's Response
to China's risk

Fortifying Economic Security: The EU's Response to China's Risk

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INTRODUCTION

This paper delves into the European Union's approach to safeguarding its economic security in relation to its principal trade partner, the People's Republic of China. Structured into four sections, the analysis begins by examining challenges and risks possessed by the PRC and offers an overview of **positions on de-risking from China and interests of various stakeholders**. The second chapter provides an overview of the current and future economic security instruments of the EU and selected EU member states. To broaden the horizon of existing policy frameworks, third chapter lists some of the lessons in de-risking policies from like-minded democracies Japan, the United States, and Taiwan. Finally, the paper concludes by presenting concrete policy recommendations for EU institutions, intended to fortify the economic resilience of the bloc.

CHAPTER 1: DE-RISKING FROM CHINA AS A POLICY FRAMEWORK

When assessing security risks concerning the People's Republic of China (PRC), it is crucial to consider that, for the Chinese government,

"the most fundamental is to safeguard the leadership and ruling position of the Communist Party of China and the socialist system with Chinese characteristics."
(政治安全的核心是政权安全和制度安全，最根本的就是维护中国共产党的领导和执政地位、维护中国特色社会主义制度。)¹

Security risks for the EU and its member states primarily stem from the openness of the EU market, naivety of different stakeholders (such as politicians, policymakers, businessmen, scholars, researchers etc.), and a deficiency in legislation and regulation. Consequently, there are compelling reasons to promptly address need to reduce the risks associated with the People's Republic of China (PRC) at the EU level and within individual member states. This constitutes a challenging yet essential task.

1.2 EU'S CHANGING PERCEPTION OF CHINA

The advent of the COVID-19 pandemic and Russia's aggression towards Ukraine marked the commencement of the end of the EU's naivety regarding China. This realisation stemmed from witnessing Beijing's neglect of the EU's deployment of a human rights 'sanctions' mechanism in 2021², its disregard for the UN Charter during Russia's invasion of Ukraine, economic coercion against Lithuania following the opening of a Taiwan Representative Office in Vilnius³, information manipulation, and crackdowns on foreign auditing and consulting companies in China⁴. The COVID-19 pandemic also highlighted vulnerabilities in global supply chains, prompting discussions about the need for increased resilience and diversification with regard to China.

The EU policy vis-à-vis China is primarily focused on addressing the trade imbalance, enhancing supply chain resilience, managing security and competition in technology and innovation, and addressing significant human rights violations. EU-China negotiations face complications due to the presence of bilateral agreements made by individual member states.

¹ Minister of State Security, Chen Yixin in Democracy and Legal System magazine 民主与法制 run by the China Law Society (July 12, 2023); available at http://www.hznews.com/sz/202307/t20230712_1527545.shtml (Chinese)

² China sanctioned 10 individuals and 4 entities in the EU in reaction to the EU sanctions imposed on a Chinese entity and individuals accused of human rights abuses in Xinjiang. See Chinese counter-sanctions on EU targets (EP) [https://www.europarl.europa.eu/RegData/etudes/ATAG/2021/690617/EPRS_ATA\(2021\)690617_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2021/690617/EPRS_ATA(2021)690617_EN.pdf)

³ Matthew Reynolds and Matthew P. Goodman; China's Economic Coercion: Lessons from Lithuania; Center for Strategic and International Studies (May 6, 2022); available at <https://www.csis.org/analysis/chinas-economic-coercion-lessons-lithuania>

⁴ Reuters; US companies in China struggle with raids, slow deal approvals, anti-espionage law (August 29, 2023), available at <https://www.reuters.com/business/raids-exit-bans-us-companies-face-growing-hurdles-china-2023-08-29/>

The EU has demonstrated a deliberate approach in the incorporation of **economic security measures**, which is a departure from its fundamental liberal tenets centred on the essence of free trade and an open single market. Yet, it has acknowledged substantial challenges when it comes to trade relations with China. The envisaged adoption of an economic security strategy is anticipated to confront obstacles and resistance across the EU landscape, as "*many will question the risk of excessive securitisation of economic activity*".⁵

The imbalance and trade deficit in the economic relations with China has been a worrying issue for Brussels. According to EU officials, the EU trade deficit with China has doubled in two years to a record €390 billion in 2022.⁶ China is criticised for banning foreign companies' fair access to its market, preferential treatment of Chinese domestic companies and overcapacities in Chinese production, which influence the global market.

*"We trade EUR 2.3 billion of goods every single day. This shows that our trade relationship with China is important. But we explained why we see that our trade is critically imbalanced. We do not want a decoupling from China. What we want is **de-risking**. De-risking is about managing the risks we see, addressing excessive dependencies through diversification of our supply chains – so strengthening our supply chain, have a more robust supply chain from several suppliers – and thus increasing our resilience. And this is not exclusive to China."*⁷ (Ursula von der Leyen)

Furthermore, the race for **technological leadership**, particularly in domains such as 5G and artificial intelligence (AI), has heightened, prompting countries and companies to diminish their reliance on Chinese technology. Recently, China has declared its Global AI Governance Initiative.⁸ Concerns have been raised about China's aspirations to assume a more influential role in the global oversight of AI, a matter that EU leaders should collectively address with their allies.⁹

EU is also seriously dependent on China in supplies of **critical raw materials** (CRMs), many of which are strategically important for the green and digital transition as well as defence and aerospace applications. Today, the list of strategically important CRM includes 16 strategic raw materials and China is the main global supplier of eight of them.¹⁰

⁵ Institut Montaigne; Economic Security: the Missing Link in EU-Japan Cooperation (2023), available at https://www.institutmontaigne.org/ressources/pdfs/publications/Institut_Montaigne_policy_paper_economic_security_the_missing_link_in_eu_japan_cooperation.pdf

⁶ Stuart Lau; China rejects EU's trade deficit complaint; Politico (December 6, 2023), available at <https://www.politico.eu/article/china-rejects-eus-trade-deficit-complaint/>

⁷ Statement by President von der Leyen at the joint press conference with President Michel following the EU-China Summit (December 7, 2023), available at https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_23_6409

⁸ Announced by Xi Jinping himself during the opening speech of the Belt and Road Forum in Beijing in October 2023.

⁹ Bill Drexel and Hannah Kelley; Behind China's Plans to Build AI for the World; Politico (November 30, 2023), available at <https://www.politico.com/news/magazine/2023/11/30/china-global-ai-plans-00129160>

¹⁰ Guillaume de Brier; The EU Critical Raw Materials Act: handshakes, extracting, processing, and recycling. Why not reducing and prioritizing? The International Peace Information Service (November 7, 2023), available at

The majority of CRMs are extracted and processed outside of the EU, as depicted in the graphics below. This frequently occurs in countries of the Global South, with processing operations commonly taking place in the PRC. For instance, 63% of the world's cobalt, utilised in batteries, is extracted in the Democratic Republic of Congo, with 60% of global cobalt subsequently refined in China. Furthermore, China serves as the source for 97% of the EU's magnesium supply. Additionally, 100% of the rare earths utilised for permanent magnets are refined in China.

Figure 1: Major global suppliers of critical raw materials in 2023.

Material	Stage *	Main global supplier	Share	Material	Stage *	Main global supplier	Share
1 aluminium	E	Australia	28%	27 magnesium	P	China	91%
2 antimony	E	China	56%	28 manganese	E	S. Africa	29%
3 arsenic	P	China	44%	29 natural graphite	E	China	67%
4 baryte	E	China	32%	30 neodymium	P	China	85%
5 beryllium	E	USA	67%	31 niobium	P	Brazil	92%
6 bismuth	P	China	70%	32 nickel	P	China	33%
7 boron	E	Türkiye	48%	33 palladium	P	Russia	40%
8 cerium	P	China	85%	34 phosphate rock	E	China	48%
9 cobalt	E	DRC	63%	35 phosphorus	P	China	79%
10 coking coal	E	China	53%	36 platinum	P	S. Africa	71%
11 copper	E	Chile	28%	37 praseodymium	P	China	85%
12 dysprosium	P	China	100%	38 rhodium	P	S. Africa	81%
13 erbium	P	China	100%	39 ruthenium	P	S. Africa	94%
14 europium	P	China	100%	40 samarium	P	China	85%
15 feldspar	E	Türkiye	32%	41 scandium	P	China	67%
16 fluor spar	E	China	56%	42 silicon metal	P	China	76%
17 gadolinium	P	China	100%	43 strontium	E	Iran	37%
18 gallium	P	China	94%	44 tantalum	E	DRC	35%
19 germanium	P	China	83%	45 terbium	P	China	100%
20 hafnium	P	France	49%	46 thulium	P	China	100%
21 helium	P	USA	56%	47 titanium metal	P	China	43%
22 holmium	P	China	100%	48 tungsten	P	China	86%
23 iridium	P	S. Africa	93%	49 vanadium	E	China	62%
24 lanthanum	P	China	85%	50 ytterbium	P	China	100%
25 lithium	P	China	56%	51 yttrium	P	China	100%
26 lutetium	P	China	100%				
Grouped materials				Stage	Main global supplier	Share	
HREEs				P	China	100%	
LREEs				P	China	85%	
PGMs ⁶ (iridium, platinum, rhodium, ruthenium)				P	South Africa	75%	
PGMs (palladium)				P	Russia	40%	
Legend							
Stage	E = Extraction stage P = Processing stage						
HREEs	Dysprosium, erbium, europium, gadolinium, holmium, lutetium, terbium, thulium, ytterbium, yttrium						
LREEs	Cerium, lanthanum, neodymium, praseodymium and samarium						
PGMs	Iridium, palladium, platinum, rhodium, ruthenium						

Source: Study of the Critical Raw Materials for the EU 2023, European Commission¹¹

<https://ipisresearch.be/weekly-briefing/the-eu-critical-raw-materials-act-handshakes-extracting-processing-and-recycling-why-not-reducing-and-prioritizing/>

¹¹ European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs, Grohol, M., Veeh, C., Study on the critical raw materials for the EU 2023 – Final report, Publications Office of the European Union, 2023, <https://data.europa.eu/doi/10.2873/725585>

Last but not least, the EU is deeply concerned about **human rights violations** by the Chinese regime, encompassing the use of forced labour on Uyghurs, Kazakhs, and other Muslim ethnic groups in Xinjiang labour camps, as well as restrictions on freedoms of religion, expression, movement, and assembly in Tibet, ongoing crackdowns against pro-democracy activists and journalists in Hong Kong. Additionally, there is apprehension about the harassment, detention, and prosecution of human rights defenders as violations of freedom of expression and LGBT rights.

1.3 THE POLITICAL CONSENSUS

The shift in the perception of security threats vis-à-vis the PRC can be illustrated in various strategic documents. There has been a political consensus among most of the EU member states and their allies. Naturally, certain stakeholders are more articulate in describing specific challenges, while others are more general. However, there is unanimity among them in acknowledging the escalating influence of the PRC as a challenging force. Additionally, there is a shared recognition that addressing certain global challenges, such as climate change, necessitates collaboration with China.

The **NATO Strategic Concept** adopted at the NATO Summit in Madrid in June 2022 address the PRC as a "challenge" to the interests, security, and values of the alliance:

the "PRC seeks to control key technological and industrial sectors, critical infrastructure, and strategic materials and supply chains. It uses its economic leverage to create strategic dependencies and enhance its influence. It strives to subvert the rules-based international order, including in the space, cyber and maritime domains."¹²

The **United States**, the European Union's most significant ally, has been consistently outspoken in addressing the PRC for an extended period. The US National Security Strategy states:

"The People's Republic of China harbours the intention and, increasingly, the capacity to reshape the international order in favour of one that tilts the global playing field to its benefit, even as the United States remains committed to managing the competition between our countries responsibly. ... The most pressing strategic challenge facing our vision is from powers that layer authoritarian governance with a revisionist foreign policy."¹³

¹² NATO Strategic Concept (2022), available at <https://www.nato.int/strategic-concept/>

¹³ US National Security Strategy (2022), available at <https://www.whitehouse.gov/wp-content/uploads/2022/10/Biden-Harris-Administrations-National-Security-Strategy-10.2022.pdf>

1.4 EU MEMBER STATES

Examining various strategic documents of the EU member states reveals that, for the majority, **Russia is perceived as the foremost security concern** and a significant challenge to their national security. Nevertheless, China is progressively garnering increased attention. Despite this, individual EU member states persist in negotiating bilateral agreements with China, a phenomenon that may underscore diverse positions and interests. Scrutinising national strategy documents shows the diversity in stances among individual member states.

In its National Security Strategy, **Germany** defines China at the same time as a "*partner, competitor and systemic rival*".

"...We see that the elements of rivalry and competition have increased in recent years, but at the same time China remains a partner without whom many of the most pressing global challenges cannot be resolved."¹⁴

China's importance for Germany has grown significantly over the last thirty years, both as a supplier of intermediate inputs and as a sales market.¹⁵ Only four German companies (Mercedes-Benz, BMW, Volkswagen, and BASF) accounted for 34% of all European investment in China between 2018 and 2021.¹⁶ According to a survey conducted by the Ifo Institute, 46% of German companies in the manufacturing sector currently depend on important intermediate inputs from China.¹⁷

Given its extensive economic dependencies on China, Germany has been known for adopting a soft approach towards China among the EU member states. However, the COVID-19 pandemic has clearly exposed vulnerabilities in German (and European) supply chains. In July 2023, Germany published its China Strategy with the aim of diminishing strategic dependencies on China and encouraging businesses to "de-risk" from their reliance on China.¹⁸

¹⁴ Strategy on China of the Government of the Federal Republic of Germany (2023), available at <https://www.auswaertiges-amt.de/blob/2608580/49d50fecc479304c3da2e2079c55e106/china-strategie-en-data.pdf>

¹⁵ Andreas Baur and Lisandra Flach; German-Chinese Trade Relations: How Dependent is the German Economy on China? LMU Munich and Ifo Institute (June 2022), available at https://www.econpol.eu/sites/default/files/2022-06/EconPol-PolicyReport_38.pdf

¹⁶ Mark Leonard; The West's Chinese crossroads; European Council on Foreign Relations (July 28, 2023), available at <https://ecfr.eu/article/the-wests-chinese-crossroads/>

¹⁷ According to the same survey, almost half of the companies intend to reduce imports from China in order to decrease dependencies and increase diversification. They also concerned with increased freight costs and disruptions in transportation, as well as political uncertainty.

¹⁸ Strategy on China of the Government of the Federal Republic of Germany (2023), available at <https://www.auswaertiges-amt.de/blob/2608580/49d50fecc479304c3da2e2079c55e106/china-strategie-en-data.pdf>

In the new strategy, Germany has been more realistic in its assessment of China. Yet, the "ambivalent" language disappointed many observers who expected more "decoupling" rhetoric as the previous draft of the strategy suggested.¹⁹

According to the strategy:

- China is trying to **create economic and technological dependencies** in order to achieve political goals and interests;
- China is increasingly assertive in its attempts to **change the rules-based international order**, with consequences for global security;
- China is an indispensable **partner for global challenges** like climate change and pandemics;
- **China has changed**, requiring a change in Germany's way of dealing with China;
- China's actions have led to growing **international rivalry and competition**;
- Germany will show solidarity with EU member states facing **economic or other pressure**;
- Germany aims to relaunch **the dialogue on human rights and the rule of law** with China.

The **French** National Strategic Review (November 2022) is more articulate:

"In addition to staying in power, the goal of the Chinese Communist Party (CCP) and the 'People's Liberation Army (PLA) is still to supplant the United States as the 'world's leading power... beyond ideology and the war in Ukraine, China's challenge is permeating other areas, be they political (propaganda about the decline of the West), economic and technological (predation, trade war), military (growth of the nuclear arsenal, modernisation of the PLA, offering support abroad) or diplomatic (a more assertive attitude in international forums, use of bilateral balances of power or alternative multilateral formats, such as the 14+1 or the Forum on China-Africa Cooperation) in nature."²⁰

With the support of the European Commission,²¹ France prioritises the implementation of anti-dumping policies or the imposition of tariffs on the import of Chinese electric vehicles. This initiative aims to safeguard the interests of the French automotive industry. Currently, the customs tariff on vehicles exported by China to the US is 27.5%, compared to only 10% in the case of imports to the EU. In turn, cars imported to China from the EU are subject to a duty of

¹⁹ Mark Leonard; The West's Chinese crossroads; European Council on Foreign Relations (July 28, 2023), available at <https://ecfr.eu/article/the-wests-chinese-crossroads/>

²⁰ National Strategic Review (November 2022) <https://www.sgdsn.gouv.fr/files/files/rns-uk-20221202.pdf>

²¹ Ursula von der Leyen in the annual State of the Union speech announced an investigation into Chinese subsidies for electric vehicles (EVs).

15–25%.²² In his speech, French President Emmanuel Macron argued the EU should not allow China to win in the car sector in the same way that it did with solar panels.

*"We must not repeat in the electric car market the mistakes we made with photovoltaics, where we created a dependency on Chinese industry and made its manufacturers prosper."*²³

The **Czech Republic**, as a mid-sized European country with no significant direct dependence on China, has pursued a more direct policy. It also serves as an example of a nation advancing efforts to strengthen relations and openly supporting Taiwan. Its National Security Strategy (2023)²⁴ explicitly mentions China alongside with Russia as a threat undermining the international order and weakening the influence and unity of democratic countries. Even though it is a landlocked country, the Czech Republic acknowledges the importance of the Indo-Pacific and has published its own Indo-Pacific strategy (2022),²⁵ emphasising cooperation with democratic partners in the region.

The Netherlands has recently adopted a more assertive stance towards China. The Dutch intelligence agency AIVD, in its annual report, recognises China as an important trading partner but also identifies it as *"the greatest threat to Dutch economic security."* In June 2023, the Netherlands introduced its export control of microchip technology regulation to China, specifically targeting sales of the Dutch company ASML's microchip technology.²⁶ In its statement, the company confirms its compliance and the fact that the regulation will not affect its financial outlook.²⁷

Acknowledging risks for universities, the Netherlands is among the first to initiate screening of foreign students and has reduced the number of students and researchers from China.²⁸

*"The Dutch government is asking universities to take a more restrictive approach and look after their crown jewels better."*²⁹

²² Konrad Popławski; The Franco-German dispute over China's electric vehicle expansion in the EU; Centre for Eastern Studies (OSW) (June 22, 2023), available at <https://www.osw.waw.pl/en/publikacje/analyses/2023-06-22/franco-german-dispute-over-chinas-electric-vehicle-expansion-eu>

²³ Politico; France presses EU to threaten trade war against China (June 15, 2023), available at <https://www.politico.eu/article/french-urge-eu-declare-trade-war-against-china/>

²⁴ Security Strategy of the Czech Republic (2023), available at https://mzv.gov.cz/file/5161068/Security_Strategy_of_the_Czech_Republic_2023.pdf

²⁵ The Czech Republic's Strategy For Cooperation With The Indo-Pacific (2022), available at https://mzv.gov.cz/file/4922486/CZ_Strategy_Indo_Pacific_2022.pdf

²⁶ Pieter Haeck; Dutch slap new restrictions on chips exports to China; Politico (June 30, 2023), available at <https://www.politico.eu/article/dutch-impose-export-controls-on-chips-printing-equipment-to-china/>

²⁷ ASML; Statement Regarding Dutch Government's Export Control Regulations Announcement (June 30, 2023), available at <https://www.asml.com/en/news/press-releases/2023/statement-regarding-export-control-regulations-dutch-government>

²⁸ Financial Times; Dutch government to screen Chinese tech students on security risks <https://www.ft.com/content/8609b715-aa2b-41b3-a0db-d0269bb6bd25>

²⁹ Ibid.

Robert-Jan Smits, president of the Eindhoven University of Technology

Drawing on its historical experience with Russian occupation and encountering recent instances of "economic blackmail" by the People's Republic of China (PRC), **Lithuania** naturally adopts a hawkish and more assertive stance toward China. Lithuania's primary concern lies in Chinese support for Russia, a theme prominently featured in its Assessment of Threats to National Security.³⁰ The Assessment encompasses a dedicated chapter on China, delineating the consolidation of power by the Chinese paramount leader, Xi Jinping, Beijing's aspirations to shape the global security agenda, and addresses the security dynamics in the Taiwan Strait. Furthermore, the document includes a case study detailing Chinese endeavours in military technology acquisition. Notably, Lithuania is also one of the few EU countries to have recently introduced its Indo-Pacific strategy.

"China is prepared to utilise the economic, political, diplomatic, and other types of coercion to achieve its goals. Its attitude toward human rights, the rules-based international order, and the operation of international organisations poses a significant challenge to free and open democratic societies. Beijing's warming relationship with Moscow, illustrated by China's stance regarding Russia's aggression against Ukraine, is fuelling tensions between China and democratic states."³¹

Furthermore, Lithuania serves as a positive example when a relatively small democratic country resisted economic pressure and showed societal resilience with its reliable partners.

On the opposite end of the opinion spectrum is **Hungary**, one of China's staunchest allies in Europe. Hungary has been criticised for disrupting the EU's consensus in voting against any statements critical of China. Economic and political ties between Hungary and China have significantly strengthened under Prime Minister Viktor Orbán. In addition to endorsing the Huayou cathode factory, Hungary has also given the green light to the Chinese company CATL's proposal to construct the largest vehicle battery plant in Europe.³²

1.5 BUSINESS COMMUNITY

Regarding the European business community, opinions are not uniform, reflecting individual interests. Companies with operations in the PRC express apprehensions about Chinese regulations affecting foreign entities, such as **the anti-espionage law**. Even the **EU Chamber of Commerce in China**, dedicated to "*promoting constructive dialogue between Europe and*

³⁰ Assessment of Threats to National Security (2023), available at: <https://kam.lt/wp-content/uploads/2023/03/Assessment-of-Threats-to-National-Security-2022-published-2023.pdf>

³¹ For a Secure, Resilient and Prosperous Future: Lithuania's Indo-Pacific Strategy, available at <https://urm.lt/uploads/default/documents/ENG%20Strategy.pdf>

³² Reuters; China's CATL to build \$7.6 bn Hungary battery plant to supply Mercedes, BMW (August 12, 2022), available at <https://www.reuters.com/business/autos-transportation/chinas-catl-build-new-756-bln-battery-plant-hungary-2022-08-12/>

China at both the political and business levels,"³³ addresses the loss of confidence and trust among EU companies in its Position Paper 2023/2024. The President of the Chamber, Jens Eskelund, states:

*"Sentiment is spreading that, with China's economic growth slowing and its focus on self-reliance solidifying, only foreign companies in industries that are directly supportive of China's policy goals—or those that are temporarily needed due to a lack of local suppliers—will be able to prosper the way they did when China's growth was pushing double digits."*³⁴

Reactions from German businesses vary, and the discussion revolves around the potential backlash from China on German factories, a prospect that concerns many. Some express apprehension that imposing excessive limitations may adversely impact the market. The **Federation of German Industries (BDI)**, traditionally known for its China-friendly stances, has now recognised the escalating challenges presented by the state-dominated Chinese economy. The BDI cautions German companies against overreliance on the Chinese market.³⁵ However, in reaction to publication of the German strategy on China, BDI poses more distant approach saying that more discussion on the concrete design of some measures, such as instruments for controlling German investments abroad, was still needed.

*"There is a danger that entrepreneurial dynamism will be restricted too much."*³⁶
BDI president Siegfried Russwurm

Karl Haeusgen, President of Verband Deutscher Maschinen und Anlagenbau (VDMA), opposed "decoupling" strategy saying that:

*"Decoupling from China is not in the interests of German enterprises, and 'de-risking' should be assessed independently by enterprises ... There must be no intervention in the export business or isolation from China."*³⁷

Regarding the Brussels proposed **outbound investment screening** mechanism, businesses are rather sceptical: *"Any initiative on outbound investment needs to be carefully assessed and, in*

³³ European Business in China Position Paper 2023/2024, available at https://www.europeanchamber.com.cn/en/press-releases/3560/european_chamber_calls_for_urgent_action_to_restore_business_confidence

³⁴ Ibid.

³⁵ BDI; China – Partner and Systemic Competitor (January 10, 2019), available at <https://english.bdi.eu/media/publications/?publicationtype=Positions#/publication/news/china-partner-and-systemic-competitor>

³⁶ German business associations widely welcome China strategy; Reuters (July 13, 2023), available at <https://www.reuters.com/markets/german-business-associations-widely-welcome-china-strategy-2023-07-13/>

³⁷ Tao Mingyang; MOFCOM Minister meets German business leaders, reaches consensus on opposing 'decoupling'; Global Times (July 12, 2023), available at <https://www.globaltimes.cn/page/202307/1294238.shtml>

our view, should be well-targeted and used only as last resort when serious security concerns are effectively proven," said industry organisation Business Europe.³⁸

³⁸ Jakob Hanke Vela and Barbara Moens; EU looks to ban companies from making sensitive tech in China, Politico (June 20, 2023), available at <https://www.politico.eu/article/eu-ban-companies-make-sensitive-tech-china/>

CHAPTER 2: CURRENT AND FUTURE ECONOMIC SECURITY INSTRUMENTS OF THE EU

In June 2023, the European Commission launched its *“Joint Communication on a European Economic Security Strategy”*³⁹ which has decided on four key areas of risks for the EU in economic security realm:

- *“risks to the resilience of supply chains, including energy security;*
- *risks to physical and cyber security of critical infrastructure;*
- *risks related to technology security and technology leakage;*
- *risks of weaponization of economic dependencies or economic coercion”.*

The Commission-proposed economic security policy approaches are divided into three streams:

- *“promoting the EU's competitiveness, by strengthening the Single Market, supporting a strong and resilient economy, investing in skills, and fostering the EU's research, technological, and industrial base;*
- *protecting the EU's economic security through a range of existing policies and tools, and consideration of new ones to address possible gaps. This would be done in a proportionate and precise way that limits any negative unintended spill-over effects on the European and global economy;*
- *partnering with the broadest possible range of partners to strengthen economic security, including through furthering and finalising trade agreements, reinforcing other partnerships, strengthening the international rules-based economic order and multilateral institutions, such as the World Trade Organization, and investing in sustainable development through Global Gateway”.*

This *“European Economic Security Strategy”* (2023)⁴⁰ announces the following new actions:

- *“develop with Member States a framework for assessing risks affecting the EU's economic security; this includes establishing a list of technologies which are critical to economic security and assess their risks with a view to devising appropriate mitigating measures;*
- *engage in a structured dialogue with the private sector to develop a collective understanding of economic security and encourage them to conduct due diligence and risk management in light of economic security concerns;*
- *further support EU technological sovereignty and resilience of EU value chains, including by developing critical technologies through Strategic Technologies for Europe Platform (STEP);*
- *review the Foreign Direct Investment Screening Regulation.*

³⁹ European Commission, “An EU approach to enhance economic security”, 20.6.2023 (accessed 4.3.2024), available at: https://ec.europa.eu/commission/presscorner/detail/en/IP_23_3358

⁴⁰ European Commission, “An EU approach to enhance economic security”, 20.6.2023 (accessed 4.3.2024), available at: https://ec.europa.eu/commission/presscorner/detail/en/IP_23_3358

- *explore options to ensure adequate targeted support for research and development of dual-use technologies;*
- *fully implement the EU's export control regulation on dual use items and make a proposal to ensure its effectiveness and efficiency;*
- *examine, together with Member States, what security risks can result from outbound investments and on this basis propose an initiative by the end of the year;*
- *propose measures to improve research security ensuring a systematic and rigorous enforcement of the existing tools and identifying and addressing any remaining gaps;*
- *explore the targeted use of the Common Foreign and Security Policy (CFSP) instruments to enhance EU economic security including Hybrid and Cyber Diplomacy toolboxes and foreign information manipulation and interference (FIMI) toolbox”;*
- *instruct the EU Single Intelligence Analysis Capacity (SIAC) to work specifically on the detection of possible threats to EU economic security;*
- *ensure that the protection and promotion of EU economic security is fully integrated in European Union's external action and intensify the cooperation with third countries on economic security issues”.*

As a follow-up, in January 2024 launched five new Economic Security Initiatives:⁴¹

- *“further strengthening the protection of EU security and public order by proposing improved screening of foreign investment into the EU*
- *stimulating discussions and action for more European coordination in the area of export controls, in full respect of existing multilateral regimes and Member States' prerogatives;*
- *consulting Member States and stakeholders to identify potential risks stemming from outbound investments in a narrow set of technologies;*
- *promoting further discussions on how to better support research and development involving technologies with dual-use potential;*
- *proposing that the Council recommends measures aimed at enhancing research security at national and sector level”.*

During research interviews with selected policy-developers at the level of Cabinet of an issue-related Commissioner, the penholder explained that

“There is a high level of concern among some member states how China will react to the set of trade defence investigations launched by DG Trade, mainly the one focused on Chinese electric vehicles. The silent expectation is that China might retaliate against a different sector, such as the French cosmetics industry to punish France for de facto politically initiating the EU push-back against Chinese unfair practices related to electric cars”⁴².

⁴¹ European Commission, “Commission proposes new initiatives to strengthen economic security”, 24.1.2024 (accessed 4.3.2024), available at: https://ec.europa.eu/commission/presscorner/detail/en/IP_24_363

⁴² Research interview with Member of Cabinet of issue-focused European Commissioner, held in Brussels in November 2023.

In conclusion, the sheer volume of initiatives launched by the European Commission in this politically volatile policy area indicates pressing urgency of this issue. Some of the initiatives follow-up on existing mechanisms – such as strengthening FDI screening mechanism and their coordination or similar enhancing of dual use export mechanism. Politically sensitive issues are considered to be in the areas of export screening – which would ban EU companies to invest in key areas in China, a similar measure which is currently being launched by the U. S. government. Still, there is no consensus on this particular tool, so the outgoing Von Leyen Commission is only consulting on the development of outbound investment screening tool, not initiating new regulation yet.

CHAPTER 3: LESSONS IN DE-RISKING POLICIES FROM LIKE-MINDED DEMOCRACIES

This chapter introduces three case studies of democratic countries and their de-risking policies.

3.1 UNITED STATES

The U.S. is the world's largest economy and a global superpower, but its dominant position is challenged by the rise of China, especially in the Indo-Pacific, to which the U.S. responded with the Obama administration's **Pivot to Asia**⁴³. One of the turning points was the 2010 Senkaku/Diaoyu Islands incident, when Japan detained a Chinese fishing trawler captain in the vicinity of the islands, which are claimed by China but controlled by Japan, and the U.S. fully supported Japan.^{44, 45} Tensions intensified in 2018 with the beginning of the **U.S.-China trade war** when the Trump administration accused China of unfair trade practices and forced intellectual property transfer.⁴⁶

In 2018, the Foreign Investment Risk Review Modernization Act (FIRRMA) was enacted to improve the process of foreign investment screening. FIRRMA strengthened and expanded the jurisdiction of the Committee on Foreign Investment in the United States (CFIUS), a committee reviewing foreign investment and real estate transactions, especially those nearby military and other government facilities, airports, or maritime ports. The Committee is chaired by the Treasury Department, but includes representatives of other agencies as well, such as the Department of State, Commerce or Defence. If a transaction is identified as risky, the Committee may impose conditions to mitigate such risks or refer the case to the President to decide.^{47,48}

⁴³ A term commonly used to describe a shift in the U.S. foreign policy from Europe and Middle East toward East and Southeast Asia to counter China's growing influence.

⁴⁴ Kenneth G. Lieberthal; The American Pivot to Asia; Brookings (December 21, 2011), available at: <https://www.brookings.edu/articles/the-american-pivot-to-asia/>

⁴⁵ Keith Bradsher; Amid Tension, China Blocks Vital Exports to Japan; The New York Times (September 22, 2010), available at: <https://www.nytimes.com/2010/09/23/business/global/23rare.html>

⁴⁶ Trump White House; President Donald J. Trump is Confronting China's Unfair Trade Policies (May 29, 2018), available at: <https://trumpwhitehouse.archives.gov/briefings-statements/president-donald-j-trump-confronting-chinas-unfair-trade-policies/>

⁴⁷ U.S. Department of the Treasury; The Committee on Foreign Investment in the United States (CFIUS) (2023), available at: <https://home.treasury.gov/policy-issues/international/the-committee-on-foreign-investment-in-the-united-states-cfius>

⁴⁸ Jan Famfollet; Shielding Open Markets from Corrosive Capital; European Values (July 26, 2022), available at: https://europeanvalues.cz/wp-content/uploads/2022/07/REPORT_en_FDI_screening_Shielding_Open_Markets_from_Corrosive_Capital_2022.pdf

FIRRMA also reformed the export control process to protect strategic technologies.⁴⁹ Additionally, in 2022, the CHIPS and Science Act was signed into law, purpose of which has been to increase investment in cutting-edge technologies including semiconductors and move their manufacturing back to the U.S. to improve national competitiveness, strengthen supply chains and win the technological race with China.⁵⁰ There is also a proposed legislation mitigating forced technology transfer from academia called Stop Higher Education Espionage and Theft Act.⁵¹

The U.S. has also been bolstering its economic security and supply chain resilience by offshoring and diversification within like-minded circles of countries, which is commonly known as “friend-shoring”. One example of friend-shoring could be the proposed Chip 4 Alliance, a supply-chain coalition of the leading chipmaking countries, the U.S., Japan, the Republic of Korea (South Korea) and the Republic of China (Taiwan), however, the establishment of this alliance still faces challenges, such as the reluctance of South Korea to commit to the alliance.^{52,53}

Another example of the U.S. effort to improve its economic position in the region is the Indo-Pacific Economic Framework (IPEF) launched in 2022 in Tokyo, consisting of 14 countries. In 2023, a Supply Chain Agreement within IPEF was signed and went into force in February 2024.^{54,55}

⁴⁹ Congress; H.R.5841 - Foreign Investment Risk Review Modernization Act of 2018 (2018), available at: <https://www.congress.gov/bill/115th-congress/house-bill/5841/text#toc-HEEDA6B189D6F4C0EB2966F9722AEBF68>

⁵⁰ The White House; FACT SHEET: CHIPS and Science Act Will Lower Costs, Create Jobs, Strengthen Supply Chains, and Counter China; (August 09, 2022), available at: <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/09/fact-sheet-chips-and-science-act-will-lower-costs-create-jobs-strengthen-supply-chains-and-counter-china/>

⁵¹ Jan Famfollet, David Toman; Protecting Universities and Research from Foreign Interference and Illicit Technology Transfer; European Values (November 23, 2022), available at: https://europeanvalues.cz/wp-content/uploads/2022/11/REPORT_en_-_Protecting_Universities_-_from_Foreign_Interference-2022.pdf

⁵² Jan Famfollet, David Toman; Shedding a New Light on the Global Trade & Investment Regime; European Values (February 27, 2023), available at https://europeanvalues.cz/wp-content/uploads/2023/02/REPORT_en_Adapting_Global_Trade_and_Investment_to_Economic_Warfare_and_Coercion_2023.pdf

⁵³ Eric Jung; The “Chip 4 Alliance” and Taiwan–South Korea Relations; Global Taiwan Institute (September 20, 2023), available at: <https://globaltaiwan.org/2023/09/the-chip-4-alliance-and-taiwansouth-korea-relations/>

⁵⁴ The White House; Leaders’ Statement on Indo-Pacific Economic Framework for Prosperity (November 16, 2023), available at: <https://www.whitehouse.gov/briefing-room/statements-releases/2023/11/16/leaders-statement-on-indo-pacific-economic-framework-for-prosperity/>

⁵⁵ U.S. Department of Commerce; U.S. Department of Commerce Announces Upcoming Entry into Force of the IPEF Supply Chain Agreement (January 31, 2024), available at: <https://www.commerce.gov/news/press-releases/2024/01/us-department-commerce-announces-upcoming-entry-force-ipef-supply-chain>

3.2 JAPAN

From 2010, Japan had been the **world's third-largest economy**, until it was replaced by Germany in 2024.⁵⁶ Given Japan's robust economy, the country is also one of the leaders in the field of economic security. Japan's biggest trading partner is China⁵⁷, which turned out to be potentially risky after the incident involving the Senkaku/Diaoyu Islands. China reacted by imposing a trade embargo on rare earth exports to Japan and this weaponization of trade was one of the key factors motivating Japan to strengthen its resilience.⁵⁸

In 2013, Japan established the **National Security Council (NSC)** to address newly emerging security challenges. The NSC is supported by the **National Security Secretariat (NSS)** which is taking care of matters related to national security in foreign and defence policies. In 2020, an **Economy Group** was established within the NSC to cover economic and technology areas as well.^{59, 60} In 2021, a position of **Economic Security Minister** was established as well to ensure that Japan meets its goals in the sphere of economic security.

In terms of economic security, one of the most important documents is the **Economic Security Promotion Act (ESPA)** approved in 2022, which is based on **four pillars**:

1. Resilience of supply chains;
2. Security of critical infrastructure;
3. Development of cutting-edge technologies, and
4. Non-disclosure of selected patents.⁶¹

Important decisions are made by the **Council of Experts on Economic Security Legislation**, consisting of members recruited from think tanks, universities, business associations and big companies.⁶²

A vital component of economic security is **foreign direct investment (FDI) screening**, which is addressed especially by the **Foreign Exchange and Foreign Trade Act (FEFTA)**. The screening

⁵⁶ Seb Starcevic; Germany now world's third-largest economy, as Japan slips into recession; Politico (February 15, 2024), available at: <https://www.politico.eu/article/germany-now-world-third-largest-economy-japan-recession/>

⁵⁷ JETRO; Japanese Trade and Investment Statistics; Jetro (March 8, 2024), available at: <https://www.jetro.go.jp/en/reports/statistics.html>

⁵⁸ Jan Famfollet, David Toman; Shedding a New Light on the Global Trade & Investment Regime; European Values (February 27, 2023), available at: https://europeanvalues.cz/wp-content/uploads/2023/02/REPORT_en_Adapting_Global_Trade_and_Investment_to_Economic_Warfare_and_Coercion_2023.pdf

⁵⁹ Defense of Japan, Organizations Responsible for Japan's Security and Defense (2020); available at: https://www.mod.go.jp/en/publ/w_paper/wp2020/pdf/R02020201.pdf

⁶⁰ Japan's Security Policy (April 5, 2023), available at: https://www.mofa.go.jp/fp/nsp/page1we_000080.html

⁶¹ Jan Famfollet; A Free Market at All Costs? European Values (May 24, 2022), available at: https://europeanvalues.cz/wp-content/uploads/2022/05/REPORT_en_A_FREE_MARKET_AT_ALL_COSTS_The_renaissance_of_economic_security_and_its_application_in_Japan.pdf

⁶² Ulrich Jochheim; Japan's economic security legislation; At a Glance (July 12, 2023), available at: [https://www.europarl.europa.eu/RegData/etudes/ATAG/2023/751417/EPRS_ATA\(2023\)751417_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2023/751417/EPRS_ATA(2023)751417_EN.pdf)

mechanism, enforcement system and post-transaction monitoring have been recently strengthened under FEFTA, core sectors (e.g., nuclear power, dual-use technologies, critical minerals etc.) have been identified, and the threshold for which prior approval must be sought for foreign investments in selected sectors was lowered from 10 % to 1%.^{63,64} The screening is first done by the Ministry of Finance and the Ministry of the Economy, Trade and Industry (METI) based upon investor's notification through the Bank of Japan. In case of doubts, it can then be referred to the Council on Customs, Tariff, Foreign Exchange, and other Transactions.⁶⁵

Academia is another sensitive area because it is often a source of **technology outflow**.⁶⁶ Therefore, METI published a **Guidance for the Control of Sensitive Technologies for Security Export for Academic and Research Institutions** to provide guidelines for verification procedures regarding the transfer of technologies, administration of international students and researchers or overseas trips.⁶⁷ Those who wish to apply for government research grants also need to declare all their research-related funds, including those from abroad.⁶⁸

Since 2013, Japan's Ministry of Defence has been reviewing **land ownership** due to an increasing property acquisition by China and North Korea near strategic areas. Therefore, the **Important Land Survey Act** was passed in 2021, which requires prior notification, including the buyer's nationality and purpose of the purchase, if the land is located "*within one kilometre of installations of critical infrastructure belonging to the US and Japanese militaries or the coast guard, areas bordering or facing international waters, and uninhabited or remote islands.*"⁶⁹

Finally, Japan has been trying to return the production of **high-value-added goods** from China through **reshoring** while **diversifying** its economic network through economic partnership

⁶³ Jan Famfollet; A Free Market at All Costs? European Values (May 24, 2022), available at: https://europeanvalues.cz/wp-content/uploads/2022/05/REPORT_en_A_FREE_MARKET_AT_ALL_COSTS_The_renaissance_of_economic_security_and_its_application_in_Japan.pdf

⁶⁴ Jan Famfollet; Shielding Open Markets from Corrosive Capital; European Values (July 26, 2022), available at:

https://europeanvalues.cz/wp-content/uploads/2022/07/REPORT_en_FDI_screening_Shielding_Open_Markets_from_Corrosive_Capital_2022.pdf

⁶⁵ Ibid

⁶⁶ This issue was covered by an investigative report "Visualizing the Unseen Chinese Invasion", unravelling the state-sponsored Chinese influence in Japan's higher educational institutions, see: 読売新聞取材班; 中国「見えない侵略」を可視化する; Yomiuri Shimbun (2021). ISBN 978-4106109195.

⁶⁷ METI; Guidance for the Control of Sensitive Technologies for Security Export for Academic and Research Institutions; Ministry of Economy, Trade, and Industry: Trade Control Department (February, 2022), available at: https://www.meti.go.jp/policy/anpo/law_document/tutatu/t07sonota/t07sonota_jishukanri03_eng.pdf

⁶⁸ Jan Famfollet, David Toman; Protecting Universities and Research from Foreign Interference and Illicit Technology Transfer; European Values (November 23, 2022), available at:

https://europeanvalues.cz/wp-content/uploads/2022/11/REPORT_en_-Protecting_Universities_-from_Foreign_Interference-2022.pdf

⁶⁹ Jan Famfollet; A Free Market at All Costs? European Values (May 24, 2022), available at: https://europeanvalues.cz/wp-content/uploads/2022/05/REPORT_en_A_FREE_MARKET_AT_ALL_COSTS_The_renaissance_of_economic_security_and_its_application_in_Japan.pdf

agreements (EPAs) and free trade agreements (FTAs).⁷⁰ These efforts include, e.g., the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (**CPTPP**),⁷¹ the Japan-US Commercial and Industrial Partnership (**JUCIP**), the **Competitiveness and Resilience Partnership** with the U.S., the Indo-Pacific Economic Framework (**IPEF**), the EU-Japan Strategic Partnership Agreement (**SPA**), or the Quadrilateral Security Dialogue (**QUAD**).^{72,73}

3.3 TAIWAN

Taiwan's challenges necessitating a de-risking strategy stem primarily from its **complex relationship with the People's Republic of China**. The ruling Chinese Communist party views Taiwan as part of its territory, despite never having controlled it, and has refused to renounce the use of force to annex Taiwan.

At the same time, the economies of Taiwan and China remain **closely intertwined**. Since the mid-1980s, **Taiwanese businesspeople** (台商, *taishang*) have played an instrumental role in **linking up China with global markets** by exporting capital, managerial know-how, and capitalist ideology of efficiency across the Taiwan Strait.⁷⁴ This nexus of economic and people-to-people cross-strait exchange **turned China into Taiwan's major trade and investment partner**.

The resulting growth of economic dependency on China generated **political externalities**. Arguably, they can be illustrated most clearly by examining the **2014 Sunflower Movement**, a bottom-up mobilization of Taiwanese citizens concerned about the political effects of the proposed **Cross-Strait Service Trade Agreement** and the lack of transparency in the negotiation process for the agreement.⁷⁵ The movement paved the way for the historic victory of the pro-sovereignty Democratic Progressive Party in 2016⁷⁶, which implemented measures to manage risks associated with excessive economic dependence on China, including

⁷⁰ Jan Famfollet; Protection of Strategic and Dual-Use Technologies, European Values (August 17, 2022), available at: https://europeanvalues.cz/wp-content/uploads/2022/08/REPORT_en_Protection_of_Strategic_and_Dual-Use_Technologies-2022.pdf

⁷¹ Member states: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam

⁷² Jan Famfollet; A Free Market at All Costs? European Values (May 24, 2022), available at: https://europeanvalues.cz/wp-content/uploads/2022/05/REPORT_en_A_FREE_MARKET_AT_ALL_COSTS_The_renaissance_of_economic_security_and_its_application_in_Japan.pdf

⁷³ Jan Famfollet, David Toman; Shedding a new light on the global trade & investment regime; European Values (February 27, 2023), available at: https://europeanvalues.cz/wp-content/uploads/2023/02/REPORT_en_Adapting_Global_Trade_and_Investment_to_Economic_Warfare_and_Coercion_2023.pdf

⁷⁴ Shelley Rigger, *The Tiger Leading the Dragon: How Taiwan Propelled China's Economic Rise* (London: Rowman & Littlefield, 2021).

⁷⁵ For a comprehensive study of the Sunflower Movement, see: Ming-sho Ho, *Challenging Beijing's Mandate of Heaven: Taiwan's Sunflower Movement and Hong Kong's Umbrella Movement* (Philadelphia: Temple University Press, 2019).

⁷⁶ Ming-sho Ho and Thung-hong Lin, "The Power of Sunflower: The Origin and the Impact of Taiwan's Protest against Free Trade with China," in *The Umbrella Movement: Civil Resistance and Contentious Space in Hong Kong*, ed. by Ngok Ma and Edmund W. Cheng, 279-310 (Amsterdam: Amsterdam University Press, 2019).

diversification of economic relations, reshoring, and limiting the leakage of strategic technologies. While these measures precede the advent of the term “de-risking,” they effectively constitute a set of de-risking measures.

Diversification of Taiwan’s economic relations has played an instrumental role in the nation’s approach to de-risking. One of the most critical tools in this endeavour has been the **New Southbound Policy** (NSP), President Tsai Ing-wen’s flagship foreign policy instrument. Targeting 18 countries⁷⁷ in South and South-East Asia and Oceania, the NSP aims to promote economic and people-to-people exchanges by cultivating a “sense of economic community” and forming “a consensus for cooperation.”⁷⁸ Pragmatically, the policy facilitates production relocation and enhances competitiveness for Taiwanese companies in emerging markets.⁷⁹

In terms of investment diversification, the NSP has borne fruit. Since the launch of the NSP, Taiwan signed renewed **bilateral investment agreements** (BIA) with the Philippines, India, and Vietnam to better **protect the rights and interests of Taiwanese companies** operating in these NSP target countries and encourage Taiwanese businesspeople to diminish their excessive reliance on the Chinese market. According to Taiwan’s Economic Minister Wang Mei-hua (王美花), Taiwanese investment in South and South-East Asian countries in 2022 amounted to 4.8 billion EUR, surpassing the 4.62 billion EUR invested in China during the same period. This trend has become more pronounced in 2023, with investments in South and Southeast Asian countries reaching 3.97 billion EUR in the initial nine months of the year, compared to a mere 1.16 billion EUR invested in China.⁸⁰ The NSP thus facilitates “**friend-shoring**”—pursuing operations in a low-risk, low-cost environment away from China.⁸¹

In the course of the restructuring of global supply chains, the NSP facilitated Taiwan’s reduction in dependence on a single market—China. This trend reduces Taiwan’s susceptibility to China’s sustained economic coercion and enhances the country’s economic resilience.

⁷⁷ New Southbound Policy target countries include the 10 ASEAN member states (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam), 6 countries in South Asia (Bangladesh, Bhutan, India, Nepal, Pakistan, and Sri Lanka), Australia, and Aotearoa New Zealand.

⁷⁸ Plessis, Cobus du: The New Southbound Policy - Introductory; Office Of Trade negotiations, Executive Yuan and Bureau of Foreign Trade, Ministry of Economic Affairs (2017), available at: <https://newsouthboundpolicy.trade.gov.tw/Content/upload/editor/otherfiles/INTRODUCTORY.pdf>

⁷⁹ Shih-chung Liu, "The U.S.-China Trade Confrontation and Taiwan's New Southbound Policy: An Economic Security Perspective," *Taiwan Strategists* 4 (2019), 1-19.

⁸⁰ Central News Agency, "王美花：南亞東南亞投資額首超中國 新南向里程碑" (Wang Meihua: Nanya Dongnanya Touzi E Shou Chao Zhongguo Xinnanxiang Lichenbei), accessed at <https://www.cna.com.tw/news/aipl/202311290399.aspx> on April 8, 2024.

⁸¹ Zoë Weaver-Lee, "Taiwan’s Companies Look beyond China, But Key Challenges Remain," *Global Taiwan Brief* 8, 18 (2023), accessed at <https://globaltaiwan.org/2023/09/taiwans-companies-look-beyond-china-but-key-challenges-remain/> on April 8, 2024.

While the New Southbound Policy facilitates the “**friend-shoring**” of Taiwanese capital, there are also measures facilitating **reshoring** to Taiwan. To encourage Taiwanese entrepreneurs to relocate their capital back to Taiwan, the Executive Yuan launched the “**Action Plan for Welcoming Overseas Taiwanese Businesses to Return to Invest in Taiwan**” in 2019, directly targeting overseas Taiwanese businesses. The program, which is now in its third iteration, offers support related to land acquisition, talent acquisition, ensuring a stable supply of water and electricity, tax consulting, and low-interest financing from the National Development Fund. Notably, the third iteration of the program (2022-2024) introduced additional incentives specifically for SMEs, lowering the interest rate for government loans from 1.5 per cent to 0.7 per cent. Additional incentives exist for companies whose economic activities positively contribute to realizing Taiwan’s net-zero goals. As of March 15, 2024, the **reshoring initiative** attracted 305 enterprises and over 1.2 trillion NTD in investment (35.663 billion EUR).⁸²

Beyond its efforts to diversify its investment relations, Taiwan’s approach to de-risking also includes measures to **prevent the leakage of national core key technologies** (NCKT) to foreign adversaries. These measures can be divided into two categories: **technology protection**, regulated by **the National Security Act** (NSA), and **talent control**, governed primarily by **the Act Governing Relations between the People of the Taiwan Area and the Mainland Area** (AGRPTAMA).

Amendments to the NSA, which came into effect in December 2023, impose criminal liability for “economic espionage” and “extraterritorial use of NCKT’s trade secrets.”⁸³ The list of NCKT encompasses five major fields: **national defence technology, space technology, agriculture, semiconductors** (including processing technology for advanced chips 14nm and below), and **information and communication security**, comprising 22 technology items.⁸⁴ The amendments to the NSA thus penalize infringements of NCKT trade secrets, which have a high impact on Taiwan’s economic development and industrial competitiveness.

Talent control measures were strengthened by the 2022 amendments to the AGRPTAMA, which established a **review mechanism for travel to China** by personnel engaged in NCKT projects commissioned by the government or supported by a government grant.⁸⁵ The

⁸² InvestTaiwan, “Three Major Programs for Investing in Taiwan,” accessed at <https://investtaiwan.nat.gov.tw/showPageeng1135?lang=eng&search=1135> on April 8, 2024.

⁸³ Chung Li-hua, “Economic spies may face up to 12 years in prison,” *Taipei Times* (12 December 2023), available at <https://www.taipetimes.com/News/front/archives/2023/12/12/2003810499> on 8 April 2024.

⁸⁴ Aaron Chen and Sean Tang, “Geopolitics and Legal Risks – Legal Framework of the National Core Key Technologies (Taiwan),” accessed at <https://www.leetsai.com/trade-secret/geopolitics-and-legal-risks-introduction-to-the-legal-framework-of-the-national-core-key-technologies> on 8 April 2024.

⁸⁵ Mainland Affairs Council, Republic of China (Taiwan), Executive Yuan Approves the “Draft Amendments to Part of the Provisions of the Act Governing Relations between the People of the Taiwan Area and the Mainland Area,” accessed at https://www.mac.gov.tw/EN/News_Content.aspx?n=2BA0753CBE348412&sms=E828F60C4AFBAF90&s=6A543758F2225F94 on 8 April 2024.

Ministry of Justice Investigation Bureau considers the poaching of talent from Taiwanese semiconductor and high-tech sectors a significant threat to Taiwan's international competitiveness and national security.⁸⁶

In summary, Taiwan's approach to de-risking is characterized by a balance of **incentive** and **punitive measures** to protect the country's national and industrial interests. Incentive measures focus on enhancing supply chain resilience through diversification from China, while punitive measures penalise economic espionage and limit the outflow of strategic technologies, which lie at the nexus of Taiwan's national and economic security.

⁸⁶ Jason Pan, "Authorities raid 10 Chinese firms over recruitment," *Taipei Times* (27 May 2022).

CHAPTER 4: CONCLUSION AND POLICY RECOMMENDATION

Based on the case studies research and consultations with insiders and topical experts, the following policy recommendations to the EU and its specific bodies are proposed:

4.1 RECOMMENDATIONS FOR THE NEW EUROPEAN COMMISSION (EC)

1. EC should **establish Economic Security Portfolio dedicated to one Commissioner**, under the guidance of the Vice-President for Trade or Economic Issues.

Given the organic tensions between geopolitical, security, and trade interests and the politically powerful stakeholders behind each of them, a one-stop policy shop is needed to streamline policy development efforts. Relevant inspiration can be gathered in the office of the Japanese Economic Security Minister. The Vice-President for Trade or Economic Issues should lead a team of several Commissioners, such as: Commissioner on Economic Security, Commissioner on Economic Affairs, Commissioner on Internal Market, Commissioner on International Trade. The Vice-President would serve as the judge of often conflicting interests between these portfolios. The Vice-President (and occasionally the Economic Security Commissioner) should be also invited as a regular guest to the Foreign Affairs Council (FAC) and the Economic and Financial Affairs Council (ECOFIN) to provide expert-level inputs and data to relevant foreign policy discussions.

2. Build on the pilot version of the (IDEA) China Fellowships under the guidance of the President of the EC and expand it into a fully-fledged internal Commission think-tank body horizontally covering all key strategic policy areas in EU relationship to China and the wider Indo-Pacific. Such a body should have at least 10 full-time specialists. Such a body should offer visiting fellowships to experts from think tanks and academia within EU member states and like-minded allies and partners in order to develop a well-interconnected network and community of interest in China policy portfolios with the Commission as the core.

3. The economic-security-focused think-tank body of the Commission should be organizing monthly online check-ins for the wider European expert community to keep the information and knowledge flowing. Similar networks and initiatives today exist, but not on such a scale, and the Commission is not in the middle of it. Therefore, it is missing out and not driving the policy discourse. If the EU wants to be a geopolitical driver, the Commission must become an economic security data and policy powerhouse with respectable and sizeable manpower, using access and influence over most of the relevant expert and topical governance bodies in the Euro-Atlantic and like-minded spaces. Similarly, an internal Commission network should be set up for informal exchange and building of a community of interest.

4. To ensure the effectiveness of the policy and respective political inputs, the Commissioner for Economic Security should be put in charge of specific parts of the

Commission covering these areas. Separation of specific units from DG Trade should be considered so that the Economic Security Commissioner can be a counterpart to the Commissioner for Trade.

5. The Vice-President for Trade or Economic Issues and the Commissioner for Economic Security should host the annual “EU Economic Security Week”, a **series of conferences and policy consultations** for the EU internal discussions and for engaging its allies and partners on sharing best practices, discussing joint initiatives and general positioning of the EU as the economic security superpower. During this “EU Economic Security Week”, closed-door simulations of how EU economic defence strategies could and should respond to expectable global events (such as a Chinese blockade or attack on Taiwan or other major escalations with geopolitical impact on European trade) so that the political and expert establishment is well-versed in possible scenarios in a similar way how any militaries conduct regular war-games and table-top-exercises in the military domain.

6. Internally, the Commission should prepare a response toolkit – meaning a trade defence escalation ladder with detailed economic, security and political analysis included, pre-tailored to expectable scenarios against the most hostile foreign actors who endanger EU interests. In practice, such a toolkit should involve drafting possible sectoral sanctions which would be ready for implementation but also serve as a possible pre-deterrence communications tool.

7. The Commission should conduct **“Annual Assessment of Strategic Dependencies of the EU”** and its member economies on its adversaries and competitors. The current reviews of interlinkages in specific technological sectors are a good first start, but they don’t respond to the main policy question – how is the EU vulnerable to the pressure of specific adversaries? The robust methodology should use a strategic-level framework which can provide inputs for EU leadership discussions and decisions. The Commission should also conduct simulations of crisis scenarios which would display potential actions and needed EU responses. The primary focus should be on EU dependencies on Russia, China, Iran, and North Korea. Non-public part of the Annual Assessment report should involve possible scenarios for deployment of the EU Anti-Coercion Instrument, which would be regularly discussed with the EU member states to make sure there is broad consensus on the expected situations and when it occurs, such pre-discussion and agreed-upon deep analysis would lead to quick strategic decisions, similarly as the EU prepared well for sectoral sanctions on Russia in the run-up to full-scale Russian invasion to Ukraine in February 2022.

8. Make geo-strategic decisions which align with overall global trends and declared interests of the EU. The EU-China Comprehensive Agreement on Investment (CAI) should be officially cancelled as if it would enter into force, it would deepen European strategic

dependencies on the PRC. Alternatively, the Commission should proactively find options for trade and investment cooperation agreements with like-minded democratic countries in the Indo-Pacific, including the Philippines or Taiwan and progress in the FTA with Australia.

9. The Commission should set up a formal standardized platform for EU businesses that seek an understanding of risks in volatile and politically unreliable foreign markets. Such a platform should provide a non-public safe space where EU companies and business associations would receive selective intelligence and lessons from specialists to make their trade decisions in the most informed way. Similarly, DG Trade should consider addressing the issue of investment insurance in risky and hostile foreign markets so that the insurance companies can assess the contingencies in markets with limited or corrupted rule of law in a realistic way.

4.2 RECOMMENDATIONS FOR THE EEAS AND DG TRADE

10. An expert team focusing on sharing lessons in economic security policies should be established with experts from allied and like-minded countries to position the EU as the central source of knowledge and practical experience in the agenda of economic security that can be seen as a positive area for cooperation. Such a team should consist of topical experts from specific DGs and from contracted external experts. The team should be part of the DG Trade since it already works on trade defence issues and anti-coercion issues and has the chief economist unit available.

11. Quarterly **experience-sharing meetings in economic security policies should be established with the most relevant non-EU allies and partners to ensure the lessons and updates are not only being received by the Commission and EEAS insiders** but also that the foreign partners understand the relevance of the EU in this agenda. Using the tool of secondments to EU Delegations around the world, the EEAS should put at least one subject-matter expert in its missions in Japan, Taiwan, Singapore, Australia, South Korea, the Philippines, the U.K., Canada, and the United States. Based on their regular inputs, EEAS Intelligence Cell should produce regular analytical products that offer lessons for the EU.

12. Based on the gathered information and inputs from its foreign allies and partners and its in-house and contracted or networked experts, the EEAS in coordination with the Economic Security Commissioner should publicize most relevant cases of hostile economic coercion for illegitimate purposes conducted by the adversaries and competitors globally. Such a practice would serve as good tool for positioning of the EU as the global leader supporting fair trade rules and empowering the victims of hostile economic blackmail. Public **Annual report** published by the EEAS and the Commission on “Annual Report on Global Illegitimate Economic Coercion Practices” should be conducted.

4.3 RECOMMENDATIONS FOR THE NEW EUROPEAN PARLIAMENT

13. The Economic Security Commissioner should be invited to introduce the “Annual Assessment of Strategic Dependencies of the EU”. The High Representative, together with the Economic Security Commissioner, should present the “Annual Report on Global Illegitimate Economic Coercion Practices” to the European Parliament Plenary and relevant Committees. Such reports would likely trigger policy development discussions of the Members of the European Parliament to respond to what the EU needs to do or develop in the increasingly hostile geo-economic global environment.

14. The European Parliament Groups should **appoint political spokespersons on economic security and have appropriate expert-level staff to provide relevant input** and policy proposals.

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