

## Key Takeaways

### Global Town Hall (GTH) Series #8 The US and European De-Risking Strategy

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#### Speaker:

- **Amb. Ted Osius**, President & CEO of the US-ASEAN Business Council
- **Dr. Alicia García-Herrero**, Chief Economist for Asia Pacific at NATIXIS, Senior Fellow at Bruegel
- **Xiaoxue Martin**, Research Fellow at the Clingendael China Centre

#### Moderator:

**Shahril Sufian Hamdan**, Managing Director at Watchtower Advisory, Host of Keluar Sekejap podcast

#### Key Takeaways:

1. De-risking focuses on reducing over-reliance on countries that may pose security risks by diversifying supply chains and strengthening economic ties with trusted nations. It is not the same as protectionism, or decoupling – which implies a complete separation from a specific country.
2. There is a contrast between the US and the EU's de-risking strategy. The US prioritizes national security concerns, while the EU emphasizes a balance between 3 p's, protecting, promoting, and partnering, in its economic policies.
3. The private sector is also an important actor in de-risking. Companies are making decisions based on good economic management rather than solely on political pressures. This includes diversifying investments and supply chains to reduce risks associated with over-reliance on any single country.
4. The EU faces challenges in harmonizing its de-risking strategies across member states, with varying levels of support towards de-risking. This necessitates a policy approach that can balance the need for protection with the promotion of internal industries and partnerships with other regions, such as ASEAN.
5. Countries, particularly including Southeast Asian countries, face challenges related to their significant dependence on Chinese intermediate goods, which are critical for their manufacturing sectors. This dependency makes them vulnerable to economic coercion and highlights the need for thoughtful management of their economic relationships.
6. Southeast Asia benefits from de-risking strategies employed by the West and China, as the region can strategically do balancing, capitalize on its potentials, and attract investments that are shifting away from China due to de-risking. The region is increasingly seen as alternative hubs for investment and supply chain diversification, particularly by the US, Europe, and China. ASEAN countries like Vietnam, Malaysia,

and Indonesia are actively diversifying their economic relationships to reduce dependency on any single power, including China. This includes strengthening ties with the US and integrating into high-tech supply chains, supported by initiatives like upskilling and education collaborations with US institutions.

7. Both the Democratic and Republican parties in the US maintain a tough stance on China, with the continuation of hardline policies. This includes preventing critical technologies from reaching China and pursuing industrial policies aimed at reducing dependency on China.
8. If Donald Trump returns to office, there could be a significant increase in tariffs on Chinese imports, which could also extend to ASEAN countries like Vietnam, Malaysia, and Thailand, which have large trade surpluses with the US. The emphasis on tariff increase could lead to a trade war and have far-reaching consequences not only for US-China relations but also for global trade dynamics. If Kamala Harris were to assume the presidency, her administration is expected to continue many of Biden's policies, particularly in the Indo-Pacific region, such as the Indo-Pacific Economic Framework (IPEF).

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## Discussion Summary

### Understanding the Concept of De-Risking

**Amb. Ted Osius** explained that de-risking means that there's an element of national concern, security considerations, that enter into the process of global trade. When a country seeks to de-risk, they're trying to manage supply chain vulnerabilities, safeguard national security, but still maintain economic ties. Very often, de-risking focuses on the diversification of supply chains, on ensuring access, for example, to critical minerals and critical technologies, and to strengthen economic ties with friendly countries. It's not the same as decoupling. The end state is not the separation, but a reduction in depending on a country that might not be friendly to the country's interests. It's not so much inward looking as it is concerned with, strengthening economic ties to trusted nations and strengthening supply chains. One thing that de-risking is not, it's not the same as protectionism.

Southeast Asia benefits from bifurcation and de-risking. It's one of the regions in the world where someone can take advantage of the relative strengths of the countries in this region, to see where the benefits are from the fact that countries like the United States and the nations of EU, have embarked on a de-risking strategy.

**Dr. Alicia Garcia-Herrero** agreed with Amb. Ted Osius that de-risking doesn't have to be protectionism. In the European context, they generally associate de-risking to diversifying the sources of inputs, so, imports as well and of course, exports. The idea is that they can't be extremely reliable on a single source and that does not have to be necessarily China, it could be any source. Of course, any economic relation where they depend 100% on a single source is a source of risk. Let alone if the country where they're importing from or exporting to is not aligned with them in a number of principles. So in other words, de-risking comes to the forefront, the more so the less the countries are aligned. Gas from Russia was supposedly not a big problem before the war. It becomes a big problem after the war. So you can call that protectionism. For her, it's actually good economic management. The concept of de-risking though has an additional angle, which she thinks the US is more focused on and increasingly, Europe.

She fully agrees with Amb. Ted Osius that Southeast Asia is to actually, to profit from this idea of de-risking. Not only because of European or American de-risking, but also because of Chinese de-risking. Because at the end of the day, China, to her, is the very first nation that started to de-risk many years ago, to engage in self-reliance. But increasingly, because of American and Europe's de-risking finding Southeast Asia as a way to reduce the impact of de-risking on China.

**Xiaoxue Martin** mentioned that the big mantra on de-risking is, "de-risking is not decoupling", and that's something they have to repeat every time because in China, it's often seen differently. De-risking is even defined within Europe in different ways, in different member states. So the EU first has to put a lot of effort in making sure that everybody understands it in the same way in the EU.

As Dr. Alicia García-Herrero already mentioned, there's also a little bit of difference between how the EU sees it and how the US sees it, with the US focusing a little bit more on the national security aspect. How the EU likes to look at policy is a lot through the framework of the three p's: protect, promote, and partner; aligning different policies along those three p's. For de-risking, what we see so far and the measures that have been taken so far, they focus quite a lot on the “protect” pillar. So you can think about measures like, foreign direct investment screening or export regulations.

That doesn't mean it's protectionism, but it's more focused on the protect side. What the EU should focus on a little bit more is on the “partner” and on the “promote” side. Partner as in partnering with other countries, like countries in ASEAN, to make sure that we manage and mitigate the risks better, and promote, meaning that we have to promote our own industries more as well. It's easy to say, of course: “oh, we don't want to be dependent on this country for resources or products”, but that means we have to invest in our own economies to build that up as well. We also asked, what's the endpoint of de-risking?

And that's another thing that the EU has to work on, that is in defining where exactly the red lines for them are. Very broadly for the EU, the end point is **open strategic autonomy**, meaning that they can act without having to be dependent on other countries. They don't have to fear, for example, retaliation by China if they want to do x or y. But that's still quite a broad view. China is much better in defining where exactly its red lines are, and the EU has to do that better.

## The Political Rationale vs Economic Rationale in De-Risking

**Amb. Ted Osius** explained that the very active American-based companies in the region are making economic decisions not based on politics, not based on what Washington or Brussels are telling them to do, but based on good economic management. They want to diversify their supply chains and their markets. A lot of companies learned during COVID-19 pandemic that this wasn't about politics. This was about the reaction of governments in the region and whether they allowed the companies to do their business even during a difficult time with COVID-19. And they found that some governments did not. Some governments made it very hard to do business in this region and weren't interested in the concerns of companies that are based in the region, investing heavily in the region, but said, “you play by our rules or you walk”.

He agrees that there has been a sense over the last decades that the overall rules set by the West were, “let's bring down barriers, let's open markets, let's find opportunities for free trade to flow”. But the truth is in democratic nations, they found that not everyone has benefited from globalization. So there's been a pressure from electorates in Europe and the United States and elsewhere, to make sure that they're also growing fairly, trading fairly, and treating people equally at home because the benefits of globalization haven't been equal. So in the United States, where I live, there have been efforts to boost research on semiconductor production. So not all of that activity will take place overseas. Their politics has entered into it, but it's the politics of a democratic society that's reacting to problems within that society as well as the problems of trade. And, there's been a lot of discussion between the United States and Europe about how they can deal with those democratic

pressures, still grow their economies, and how they can cooperate to tackle common problems, so that they're not always dependent on the whims of countries that aren't friendly to them.

**Dr. Alicia García-Herrero** stated that the case of the US is slightly different from Europe. The US has indeed set up a huge apparatus, IRA, Inflation Reduction Act, which does in a way, enhance economic rationality. She would not deny the economic rationality because, especially since COVID, but also after the war in Ukraine, companies are fully aware that decisions that may look reasonable because they're efficient, lower cost, etc., become very expensive, after a while. But, yes, there is some political economy angle. IRA is an example. But she would have to say that that's true on the other side of the equation. China uses industrial policy to attract companies like Tesla, like Volkswagen, basically, in the very same way as the US has done more recently with the IRA. So there's never anything but anything that is only economically rational. Economic rationale is mixed with policies, economic policies, sometimes political economy.

She thinks it would be wrong to argue that companies leave China just because the US forces them to do so or Europe, European institutions force them to do so. Because that would not explain the amount of foreign dollar investment that has left the mainland since 2021. In 2022, the process of "de-investment" basically started. Foreign companies decide not to invest in the mainland if they've never been there, so there's no newcomers. But most importantly, those who are there prefer to repatriate profits rather than reinvest those profits. There's no company that says, "there you go. I've invested billions. I'm leaving." That is not happening because the sunk cost is huge. But, if they have a new dollar from China and they can invest it in Malaysia, you may as well do so. So, is that explained by politics only? No. It's explained by the return on investment, which is increasingly low in China.

She doesn't deny the excessive concentration of risk and politics. But there is also the reality that the Chinese market and return on assets are growing well below ASEAN. So investors just prefer to go elsewhere. So she would not highlight too much the politics of it. She knows it sounds very important, but she thinks companies know better and are just taking decisions.

**Xiaoxue Martin** restated that containment isn't really the end goal for the EU, at least, in de-risking. It's more on managing the risks that there are in the relationship with China, but also with other countries. And one of the important pillars of de-risking that the Commissioner von der Leyen also announced in 2023 when she announced the term de-risking is that, de-risking for diplomacy remains one of the important things. That said, of course, there are interests and benefits in managing more strategic sectors within Europe.

The Netherlands has a very clear case that's in the media a lot as well, which is the semiconductor sector, with ASML. And the reasoning for the Netherlands to limit or restrict the export of some of the most advanced machines to China for chip making is protecting their own, economic competition, competition position, but also national security, in that it might actually be a security risks to export chip machines of that caliber to China, which doesn't mean they want to contain China, but it means they want to look after their own

national security. This frame is often used by the official Chinese side to criticize the idea of de-risking.

China is actually one of the first countries to de-risk, not a name maybe, but definitely in policies. China has actually been really smart in protecting its strategy in these industries, making lists, for example, of the things, where they want to focus their economy on, and what they do and do not want to export. And those in Europe are catching up on that. Europe should have started de-risking years ago. Europe started de-risking, of course, before 2023 under different names, but still, they have been a little bit naive in how they relate to China, but also to Russia, for example, with the energy dependence.

**Amb. Ted Osius**, in strong agreement with the other speakers, added the context of rational business decision making. The driver of global growth shifts between regions or countries and companies are also driven by where the growth opportunities are. Hence, de-risking may involve national security, but it is very much also involve rational business decision making

## **Prioritization of Friend-Shoring in Southeast Asian Countries**

**Amb. Ted Osius** explained that Friend-shoring means allies, friends, and partners get a little bit of favoritism. Now American companies have been investing in high-tech in Malaysia since the 1970s. Intel, Texas Instruments, and other companies, helped develop the ecosystem that is thriving in Malaysia today. The ecosystem in Vietnam is not as far advanced, but now there's an attempt by the United States and others to see if there is a way to take advantage also of the immense talent that exists in the country of 100 million that is Vietnam, and a country of 110 million that is the Philippines, and a country of 300 million that is Indonesia.

These are all major markets of great interest to American companies, European companies, companies from all over the world. There's an opportunity now to develop the semiconductor and critical minerals industries because you can find the necessary critical minerals for electric vehicles in Indonesia and in the Philippines. You can get rare earths from Vietnam. The telecommunication industry, which is of great interest and has a national security aspect. So the interest, particularly in the fast growing countries of Southeast Asia, but also in India, is intense on the part of the corporate world.

The US has two allies, Thailand and the Philippines. Singapore is a place where the US has a quasi alliance. It has very strong partnerships with Vietnam and Indonesia. Malaysia is certainly considered to be a friendly country and one where American companies have thrived and helped develop an ecosystem. So those countries are really at the top of the list for a lot of companies.

## Southeast Asia and the Sustainability of Balancing Economic Relations with the West and China

**Dr. Alicia García-Herrero** stated that the region attracts flows from China and from the West, but those flows don't interact. In other words, if there's a company, BYD, sets up a company in Southeast Asia, all of the supply chain, all of the value added is coming from China. If a company from the West, which is moving away from China, goes to Southeast Asia, maybe there are Chinese components. But if this company comes straight from the US or Europe, probably they aren't. Why? Because [the West] already has laws on supply chain resilience. They also need to know their end user for many of the supply chains to avoid human right violations, you name it. So they wouldn't just build the supply chain within Southeast Asia just because that's why they are there. They are trying to hedge against their investment in China if they have it, or they choose Southeast Asia just because they fear, hence the de-risking, and why would you then have components from China.

So what I'm trying to say is that what you fear [the need to choose a side] is already happening. So far, you don't need to choose because each of these two supply chains does its bit, and you don't need to care. But the question is for how long can you do that? Well, maybe for a long time, if your plans are for China to only sell [its products] domestically [to Southeast Asia] or back to China. [Selling] back to China is not happening. She mentioned that the largest export market of ASEAN this year, 2024, is the US, not China. The largest export market of Japan is US. The same with Taiwan, it used to be China. It is also the same with South Korea. This is because China is not important. Its self-reliance just means China is just producing for itself.

So the plants from China will produce for Southeast Asia. The plants from Europe and the US might produce for the rest of the world, including US and Europe. So the question is, if push comes to the shelf, which supply chains will Southeast Asia keep? The region can do both. But if push comes to the shelf and you can't, you probably might prefer the market you can export to.

## Differing Stances on De-Risking among European Countries

**Xiaoxue Martin** mentioned that they have just published a big research report on the topic. It's called "[National Perspectives on Europe's De-risking from China](#)". What they can really see from those 20+ countries in the report is that you can divide perspectives on de-risking in four categories:

1. On the one hand of the spectrum, we have the opponents, like Hungary, which has a very clear position where it is actually against de-risking measures, it's for as much engagement with China as possible as we've seen with the visit to China recently.
2. The second category is the ones that are cautiously adopting, de-risking measures. So they're not necessarily on the forefront, but they are following along a little bit, such as Austria, Ireland, and Portugal. A country like Portugal has various reasons to not be as enthusiastic about de-risking. When it comes to China, Portugal really seeks to keep relations with China friendly. Another country like Slovakia might not

even be that exposed to China in their opinion, so then they don't feel the need as much to go for de-risking.

3. The third category is the endorsers or the followers of de-risking policies, like Belgium, Finland, Latvia, Poland, are countries that you can put in this category.
4. And then we have, of course, at the forefront, the early advocates of de-risking. So that means countries that have already adopted policies that can be put under this label of de-risking, right at the beginning or before we started using the term in 2023. The Netherlands is one of the countries that belongs there, but also Lithuania, Italy, France, and Denmark. Countries that are in this position, for example, have FDI screening mechanisms in place already for many years or in the case of the Netherlands, we published a China policy note in 2019, which was not necessarily a China strategy, but a document outlining how the Netherlands wishes to relate to China, wishes to view China. And the tendency of the documents, the one line to summarize it all was "open where possible, but protect where necessary". And that is basically de-risking, but then just in different terms.

You can really see the EU has a lot of work to get everybody on the same side. The good news is that the EU has a lot of experience in managing these types of differences. For the EU, this can be a frustration sometimes. One of the policies that they're pushing for from the EU perspective is, for example, outbound investment screening. Every time they have an ambitious proposal like this, the EU has to water it down a little bit to get all the member states to agree and to join. It's their job to make sure that it's not watered down too much to make sure that they actually still have use in the policies that they make.

One of the de-risking type policies that the EU has is the FDI screening regulation. The EU noticed that the policy wasn't strong enough because it didn't require all of the EU member states to have FDI screening mechanisms. There are still a few countries like Greece that don't have FDI screening yet, and the EU is now working on making sure that every country has to have a screening mechanism to make sure that they protect our industries.

## Prevalence of US Investment in Southeast Asia

**Amb. Ted Osius** stated that the reality is that investment flows are way bigger than the resources that can be mobilized, at least by the US government. The United States is the number one investor in Singapore by a long shot and China is number four. US companies' investment in ASEAN is massive.

His institution has a publication called "[ASEAN matters for America, America matters for ASEAN](#)". US companies invest more in ASEAN than they do in China, plus India, Japan, South Korea, and Taiwan combined. US companies have been very present in ASEAN for over a hundred years.

He doesn't think we're suddenly going to see an uprooting or a lack of interest in engagement with the United States. One company has been in Singapore since before it was Singapore, since it was part of Malaysia, ultimately for 130 years in this spot. Another



company has been in the country for 110 years. He worries, however, about things like a bifurcated Internet. That would be very damaging to the economies of this region. An out-and-out trade war would be harmful. Most ASEAN countries would like to be able to trade with the United States, China, nations of Northeast Asia, and, of course, with Europe and not be blocked from any of that. He does worry about the effects of tensions in the region on the free flow of trade and on the continued prosperity of the region.

## Impact of a More Assertive China Towards Southeast Asia's Supply Chain

**Dr. Alicia García-Herrero** emphasized that China's upper hand now is clearly on exports to the rest of the world, meaning Southeast Asian imports, European imports. In the case of the US, it is increasingly less because the US has been de-risking for the whole of the Biden administration like with the IRA and at the end of Trump's administration with the trade war.

Europe has [strategic] dependency on Chinese imports in green tech, pandemic-related issues, and ICT, and the two offer each other intermediate goods like machinery, chemicals, etc. They might be more expensive, but the EU doesn't import too much from China yet.

But for Southeast Asia, intermediate goods imported from China are massive. Bear in mind that China's global market share of intermediate goods is 30%. It's much bigger than overall manufactured goods. So, for the whole of the emerging world, China is dominant in machinery, in everything that they need to basically become to run your manufacturing sector.

For Dr. Alicia García-Herrero, Southeast Asia's challenge is not so much to choose between the best export market because the choice is clear, China will not import. Its imports have been plummeting since COVID-19, and it's going to continue because it is substituting imports. The only thing they can sell to China is commodities, which it can't produce. This is the key. Can they live without those imports? Can they import from elsewhere? This is the case in India today.

It's too expensive [not to diversify imports], their trade deficit [will] balloons. So that dependence becomes entrenched to the point China doesn't even need to retaliate or take severe actions. You may argue this is what they will do with Europe or with Southeast Asia, the whole idea is you're already so dependent on China's intermediate goods that China doesn't need to retaliate. This something that Southeast Asia needs to start thinking about? Can they do it slowly so that there is no retaliation? She thinks that's the way to go. China has never been dependent on a single country for a single good ever ever in history. So why should others do that?

**Xiaoxue Martin** sees that when she engages with the Chinese Ambassador in the Netherlands or with Chinese stakeholders in China, the Chinese side is really warning against de-risking and in making the assumption that de-risking is the same as decoupling or "de-Sino-ization" when it is, of course, not the same. That's an assignment for the EU to explain what it means with de-risking. Another thing that's often said in the view of the official

Chinese government or by Chinese academics, is that it's a risk in itself to de-risk from China because engaging with China can prevent risks. Of course, the answer to that is yes. So that's why the EU is not decoupling, but de-risking.

What they see in the reaction of China against de-risking is maybe not necessarily even a reaction, but something that China has been doing for years is, economic coercion, using the threat of economic coercion. They had a research a while ago about types of economic coercion from Russia, China, and the United States against OECD countries. And they looked at the last 10 years to see what cases can they find that are at least publicly known. Half of them are from China and not from the US or from Russia. Many of the cases of economic coercion for geopolitical ends are threats. It's not even outright putting a sanction on or an indirect measure like import restrictions, or import stop, but just even threatening that there might be countermeasures.

This is something that China can do because they have allowed themselves to become dependent for so many things on China for critical raw materials. Now, they have the battle of electric vehicles that's being fought out in the EU, which means that China doesn't even have to say it might react to something. It just has to hint at it. Next to hinting, of course, there have been issues or cases of China actually taking action.

A really interesting one is the cases of Gallium and Germanium where China announced that they would restrict the export of those two materials. Not saying that they would restrict it and not allow it to go out into the world fully, but saying that local governments or companies would have to first get permission to then export it abroad. These materials are used pretty widely from military applications to very broadly used applications, so not necessarily so advanced.

But why choose these two materials, gallium and germanium? Of course, it's a warning to gallium and germanium, Germany, and France in showing that China doesn't agree with the direction that the European Union is going in, and these countries are going and wants to move against it. It's the EU's job to make sure that the EU doesn't let that deter it in de-risking.

## Scenarios on the Next US President towards US' De-Risking

**Amb. Ted Osius** stated that trade policies with regard to China are basically bipartisan. Recalling the statement by previous speakers, Amb. Ted Osius mentioned that Biden didn't really ease up on the kind of hard line policies with regard to China. In fact, there's been a very, very concerted effort to put forward an industrial policy and to make sure that critical communication equipment, critical technologies, didn't flow accidentally to China.

What they've heard from Trump and from his party is that tariffs would be increased on imports from China, maybe to a very high level. He has heard 60%, as a possible level of tariffs on China or even higher. And there would be declining imports from China and rising imports from other countries in that scenario. The other thing that could happen under a Trump administration is that some ASEAN nations with high trade surpluses with the United

States like Vietnam, Malaysia, and Thailand, could become the targets of tariffs or retaliatory measures.

But he saw there also has been talk about 10% tariffs across the board, which he thinks could result in a trade war. For Harris' administration, it's a little too early to tell exactly what her trade policy would be, but Amb. Ted Osius thinks there would be more continuity with what there's been under the Biden administration. Biden administration, launched the Indo-Pacific Economic Framework (IPEF) and has been pursuing under that, a number of initiatives such as a clean economy, fair economy, supply chain resilience, and then hasn't taken to the final degree, a trade agreement that is supposed to be one of the pillars of the IPEF. He imagined negotiations would resume very seriously on the trade pillar of IPEF, and implementation would continue on the clean energy pillar, the fair trade pillar, and supply chain resilience, if they're under a Harris administration. He can imagine Kamala Harris running with a moderate governor from perhaps, even from a swing state, who's used to negotiating with Republicans. And they could go back to a position that they used to have, which was an affirmative positive trade agenda, especially with the Indo-Pacific, while also making sure that the relationship with China remains on an even footing.

## China and US' Coexistence in the Next Decades

**Dr. Alicia García-Herrero** stated that there have been a lot of periods in history of coexistence, of empires. She is 100% sure the two countries can coexist. But the question really is, what are the conditions? She would read it this way:

What does each of the two major competitors, China and the US, want? That's the question. So if the US wants to keep hegemony as it was, that's gonna be very difficult because China is already very big. No matter what happens to China in the future, her humble opinion is that China will never reach the US GDP size, frankly, and it's not too difficult to make that calculation because China has started to diverge in nominal terms, GDP terms, since 2022, and it's very hard to imagine unless China really changes dramatically with big reforms that its GDP growth will be higher than the US and this is because of deflationary pressures. But it doesn't really matter. Both will be about the same, very similar. And maybe, yes, over time, the population of China will be increasingly smaller, but the point is, it will remain a huge economy. So coexistence is absolutely necessary.

But then the question is, will China accept to be a regional power? As it looks, not really. China is everywhere. She doesn't think China is there for the game of regional power. It's there for the game of global power. So that means something different from the US. It's not sharing power. It's actually about ultimate hegemony, changing the world, changing the rules of the game.

In a way, it's not only about the US and China. It's about everybody's perception of how the world would look like were China to dominate, were the US to continue to dominate. And that's when she thinks the frictions become insurmountable, and coexistence becomes harder because everybody is betting. It's like elections. Betting on who will be better for yourself. And it will only be possible to coexist if, in a way, China were to accept regional hegemony and the US were to give up on Asia's hegemony. Even this is very unlikely. So,

we will see coexistence, but it won't be peaceful. It won't be fully peaceful. We will see proxy wars here and there, and and and this is the history of humankind, so we shouldn't be surprised about it.

**Amb. Ted Osius** said that the world really does need the United States and China to work together on critical issues. Both countries need to be able to come together and develop the rules of the road together. It was the United States that invited China into the WTO and it seemed like a very sensible decision at the time, and he argued that it was the right thing to do because they would rather have a world where they're coming together and coming up with common rules and then following them together.

That's the world that was created after World War II. Why can't they do it again now? It does require wisdom both in Beijing and in Washington, and we haven't always seen wisdom in either of those capitals. So they need to find a way if they're gonna deal with global challenges, to make sure that there's more wisdom, and less jingoism in the mix.

## The Push from Great Powers on Cooperation in Key Areas

**Xiaoxue Martin** explained that in theory, there is a push from both sides to cooperate on key areas, pertaining to existential questions to human kinds, like climate emergency. But in practice, what they see recently is that both China and also the United States are using cooperation on global issues like that as chips for bargaining, with, for example, China using, cooperation on climate change as something it can give or take away based on how happy it is with the United States' engagement with Taiwan, where we saw after Nancy Pelosi's visit to Taiwan that, when, of course, cooperating on this crucial issue is something that should be so clear that it's in the benefit for everybody, and that we should continue the dialogue. They haven't seen the relationship go fully off the rails yet, so that's the positive note. But we have to make sure that every side sees the benefits of cooperating on these issues. The dialogue that on climate between US and China has been restarted again, so it's not all bad news

## Individual ASEAN Country De-Risking and Building Strategic Supply Chain

**Amb. Ted Osius** said that a number of ASEAN countries are taking steps to diversify, for example, the moves by Singapore and Malaysia to screen investments, similar to the way that Europe and the United States. And you can see [de-risking in the] decisions by countries like Vietnam, which maintains a very good strong relationship with China to also develop a strong economic relationship with the United States and to benefit from opportunities for upskilling, for increasing Vietnam's involvement in high-tech supply chains. The United States welcomes that. In fact, [US] is putting money behind it. US universities are involved in that effort. Same goes for Indonesia, where you see innovative US universities like Arizona State, contributing to the upskilling of engineers, including those who will be involved in high-tech. The same goes for the Philippines. Countries are acting in their own interest. They realize that they're going to be looking at a multipolar world going forward, and they want to find whatever advantages they can and use their comparative advantages, to make their people more prosperous and to move up value chains, make their merit, make

sure that their workforce is better skilled, better educated, more able to innovate, open to flows of information from around the world so that they can prosper in the long term.

## Impact of De-Risking Towards EU-China and Bilateral Relations Between EU Member States, and China

**Xiaoxue Martin** confirmed that de-risking is causing quite some tensions between different EU countries. The disagreements on de-risking and how to relate to China related to recent event that happened. Hungary is now president of the council, but recently went to visit both Russia and China to kind of present themselves as a peacemaker in the relationship in the war without the approval of the other EU member states. The EU reacted quite strongly to that and said, “okay, we really do not agree with this. We forbid any civil servant or any officials to come to meetings in Budapest”. So this is one of the ways you can see where the tensions on the different relationships with China really come to the fore. And it's important to note that these tensions have always been there. It doesn't mean that de-risking is failing or that it's not happening at all, but it is a risk that they have to manage.

## De-Risking in the Context of Climate Change

**Dr. Alicia García-Herrero** thinks it is clear that climate-change-related disruptions of supply chains' call for diversification. You want to have different options. Yes. It's more expensive, but we all know that some critical supply of products is needed in times of difficulties. So in other words, the more we see disruptions in supply chains, the more there will be de-risking. And we shouldn't understand this as China related de-risking. It's just about risk, whatever that risk is about. It could be the climate. It could be China. It could be anything else. So it's just a consequence of a very naive idea of the world that economists thought, that efficiency was everything we should care about, that we maximize profit. And we now know that that was a wrong strategy.

Sometimes, big events can make the whole thing more costly. Resilience of supply chains may eventually make things cheaper than just focusing on efficiency. So climate-change-related issues will make this point loud and clear, and we might even forget about China by then because it will be so huge, and we will all need to find other ways to do things that simply de-risking will become the norm.

## Europe-US Alignment in Relation to China

**Xiaoxue Martin** agreed that the world does need both the United States and China. On the question of the EU and its position between the United States and China, we do have different priorities and different views than both the United States and China.

Of course, the EU is more closely aligned with the United States. But the EU has to make it clear that it is not the same as the United States. When Xiaoxue Martin talks to Chinese counterparts, often, researchers or from the government, the EU and the US are really put in the same category.

It's the rule of the EU to make sure that it can still manage these tensions between the US and China. And it can also play a role in Southeast Asia and ASEAN in providing an alternative to these two poles of hegemony, between the United States and China to make sure that there's a different presence there as well, economically, but also diplomatically, and politically. One of the ways that the Netherlands, for example, has really shown its commitment to the Indo-Pacific is, first, to publish the document, policy document to say, "okay, we want to engage more with the Indo-Pacific". That's the easy part, of course. But one of the very concrete things that came out of that is that, the Netherlands committed to sending a ship to the Indo-Pacific every two years, to dock at several ASEAN countries and cooperate and really show, "okay, we're not just here in words, but we're here also in physical presence, with the military". Next to the military side, of course, there's also the wish for more engagement with the Indo-Pacific, which she can only support.

**Amb. Ted Osius** stated that it's highly unlikely that the United States would dictate how the European acts. There was a time when the United States operated on the basis of, well, "we're the big ally, and we'll give instructions to a smaller ally wherever it is in the world". That era ended a long time ago. It's been for decades, the United States has been learning how to be a part, how to be a good partner. And he cited Indonesia and India as two examples. Indonesia and India aren't likely to become US allies. They're not gonna take constructions from the United States. It's just not gonna happen. But we have learned to respect one another. The US has learned. He has seen growth on the part of his country in terms of understanding of how to be a good partner, how to listen to Delhi or listen to Jakarta or listen to Brasilia, or other major countries where they're not going to agree with the US, but the US will find areas of commonality.

## The West's Stance on Global Conflicts and Southeast Asia's Changing Perspective

**Amb. Ted Osius** stated that the huge Indonesian population, and large Malaysian population, isn't happy with what's happening in the Middle East and isn't happy with America's role. And so he thinks that had a big impact on the survey the moderator cited (ISEAS' [The State of Southeast Asia](#)). Underneath if you look beyond the kind of numbers that might be influenced by what's happening in Gaza, he doesn't think the overall attitudes have changed all that dramatically. The views of the United States are mostly still that the US is in Southeast Asia to stay. Companies are here to stay. They're committed to Southeast Asian prosperity and for 75 years, they've been committed to peace and stability in the Indo-Pacific. And he thinks for the most part, with the Gaza exception, those views of a friendly United States that's a Pacific power, still remain.

**Dr. Alicia García-Herrero** mentioned that the Philippines stands out as the one and only where the US is, and then Vietnam and then all of the others clearly tilt towards China. So it sounds very clear to her that Gaza [issue] is related. Also, because in the previous surveys, actually, if she recalls correctly, it was the other way around. China was losing acceptance.

Dr. Alicia Garcia-Herrero mentioned one of her research reports, "[Global Trends in Countries' Perceptions of the Belt and Road Initiative](#)", which looks at the image of China

and the Belt and Road initiative across the globe. Interestingly, up to 2021, the image of China globally was worsening. In some cases, worse than others, Europe and the US, of course. But interestingly, since then, especially 2022, so it's not only Gaza, it might even be Ukraine, the image of China has kind of taken two different routes. The emerging world has improved the image of China since mid-2022, and the developed world has worsened the image of China.

She thinks two things are happening, Ukraine and the West, and especially Europe. Ukraine is extremely important to understand what's happening with China's image in Europe. And second, Gaza, in the opposite direction, the whole Global South, to some extent Ukraine because I think if you recall G20 in Indonesia, this idea that the communique has to suffer because of Ukraine. This idea that everybody else is in a way suffering because of this situation clearly has been a little bit heavy on the Global South. So Ukraine and Gaza have clearly created this, the results that you referred to, this gap. But in the West, for sure, in Europe, the direction is exactly what Xiaoxue Martin mentioned. It's increasingly negative.

**Amb. Ted Osius** highlighted that what happened at the G20 was really interesting because Indonesia took an extraordinary leadership position. President Jokowi went to Zelensky before he went to Putin, invited them both, and he kept the G20 alive. So it was an instance of multipolarity working for the benefit of the globe, and Indonesia was in the lead.

## Closing Remarks

**Xiaoxue Martin's** hopes for the future is to continue the path of de-risking and make sure we're not deterred by any worries about China's reaction. The other thing to close off with is that we still see that we're not really aware of the costs of de-risking as much, in the European public. Speaking specifically about Dutch people, in the opinion surveys that we did, we saw a lot of people were very positive about the impact of reducing unwanted dependencies where it was listed even, I think, as the sixth most positive impactful development in the future that could happen.

But then when we were asked about the negative side of, do you think that there might be some negative impacts to prosperity due to reducing economic ties with China? Only 36% believe that this would happen, and the impact of this development was also rated very low at number 50 when I think it would actually have quite a big impact, an important impact. So this is something, for the governments to educate their populations and to also warn them that, "okay, if we want to be more strategically autonomous, if we want to de-risk, if we want to be less dependent, that also means that prosperity might be effective even just a little bit".

**Dr. Alicia García-Herrero** said that, yes, de-risking shouldn't be seen as a protectionist measure against China. It's a broader concept, and it can be applied across the board, and, frankly, even for Southeast Asia because in some cases, the region might be too dependent, maybe not on China, maybe not on the US, maybe on a specific provider. And we just need to accept that this concept is not evil. Let's treat this with a little bit more of a respect to the concept itself. It's about diversifying, reducing risk. It should be positive in essence. She

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would try to mitigate the political understanding of this concept and try to put it very simply, very rationally, very naturally. She thinks that's where we should be going.

**Amb. Ted Osius** said that de-risking will continue, for the reasons that have been mentioned. But as an American, at least after the silly the hundred days silly season that we're now in, he is hoping for a positive proactive trade agenda because he thinks that's what the people in this part of the world want and the Indo-Pacific want. He thinks that's what their friends in Europe want. He thinks that's what their friends in other parts of the world want. And so he'd like to see the United States return to the field with a positive proactive trade agenda.