

THE EUROPEAN UNION IS SET TO LAUNCH A COMPREHENSIVE STRATEGY FOR THE INDO-PACIFIC

— A MAJOR POINT OF INTEREST IS ON DEVELOPING THE REGION AS A PROMISING MARKET FOR GREEN BUSINESS EXPANSION —

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SUMMARY

- With international interest heightening over the past several years regarding the power balance shift in the Indo-Pacific, where China has been strengthening its hegemony through maritime and other activities, the EU is planning to announce its own comprehensive Indo-Pacific strategy by September 2021.
- The EU is trying to ensure free and fair competition and stability in the Indo-Pacific by safeguarding freedom of navigation in the region, and also leveraging the strength of its economic and rule-making capabilities.
- While the EU has focused on developing economic relations in the Indo-Pacific region primarily with China, it will aim to build multilateral economic ties, such as by boosting relations with India. The EU recognizes the importance of the region as a market for the development and expansion of green businesses. The German government and companies have already seized such business opportunities and are making strong inroads to the region.

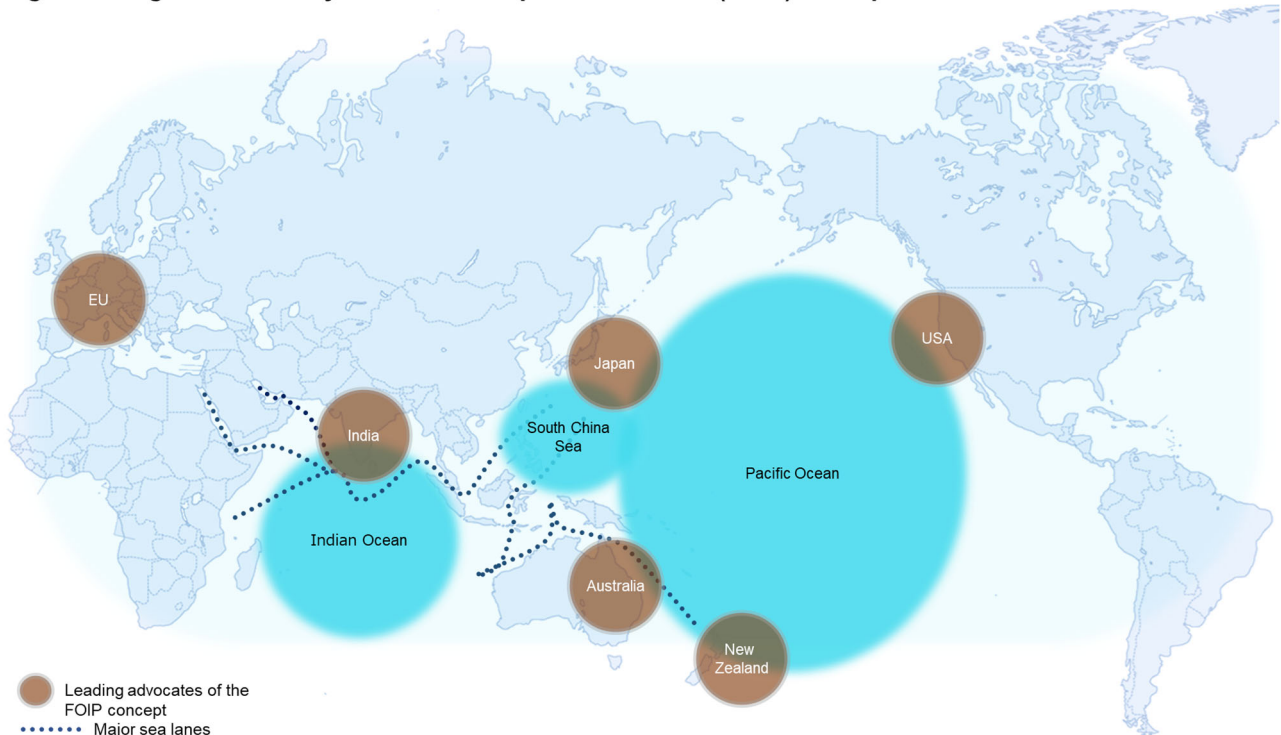
INTRODUCTION

The EU's interest in the Indo-Pacific region has been growing since 2017 when the US included the Free and Open Indo-Pacific (FOIP) concept, which was advocated in the previous year by then-Japanese Prime Minister Shinzo Abe, in its National Security Strategy (NSS) as part of policies regarding the future of Asia (Figure 1). The EU is scheduled to announce its own strategy for cooperation in the Indo-Pacific, which will be its first such policy, by September 2021. The FOIP concept encompasses the strong purpose of creating a strategic encirclement of China, which is trying to unilaterally change the status quo in the region that spans from the Asia-Pacific to the rim of the Indian Ocean. The EU recognizes China as a major power in the Indo-Pacific and also has a keen interest in the region's growth potential. This report provides an overview of the EU's strategy to expand its influence in the Indo-Pacific, along with illustrations of its proactive attitude toward the region, such as in exploring opportunities for green projects, using Germany as an example.

WHAT THE INDO-PACIFIC MEANS TO THE EU

The European External Action Service (EEAS), which is responsible for EU diplomacy, emphasizes the Indo-Pacific region's importance by describing it as representing "the world's economic and strategic centre of gravity". The concept of the FOIP initiative, which calls for compliance with the existing international order without excluding any country in the Indo-Pacific, is shared by the EU, which advocates the idea of an international order based on multilateralism and the free trade system. According to the Center for Strategic and International Studies (CSIS), approximately 10% of the EU's trade is transported through the South China Sea, and as such, ensuring freedom of navigation in the sea lanes and security in the Indo-Pacific are crucial concerns for the EU. However, the EU has limited ability to use military force in the geographically distant Indo-Pacific.

Figure 1: Region covered by the Free and Open Indo-Pacific (FOIP) concept



Note: Japan's relevant ministries and agencies have not disclosed the number of countries targeted under the FOIP concept, and the same holds true for the EU. While the EU recognizes China, which is not in favor of the FOIP, as a major power in the Indo-Pacific region, in April 2021, an EU spokesperson sharply criticized China's actions in the South China Sea, voicing strong opposition to "any unilateral actions that could undermine regional stability and the international rules-based order." The communique of the G7 Foreign and Development Ministers' Meeting held in May of the same year adopted almost identical wording. There are various differing concepts of the Indo-Pacific, and one of them is that the Indo-Pacific is a so-called super region and is, hence, a geographically nested structure that includes various regions (subregions of the Indo-Pacific), and also involves many functional aspects, such as security, economies, and the environment. (Yoshinobu Yamamoto, "The Indo-Pacific and Maritime Silk Road — Competition of Political Symbolism and Shaping the International Order", PHP Special Report, May 2016, p. 61)

According to Mohammad Masudur Rahman, "Indo-Pacific cooperation: what do trade simulations indicate?" Journal of Economic Structures (2020), the GDP of the Indo-Pacific, which accounts for more than 60% of the world's population, represents 60% of the world's GDP, and it is estimated that 70% of global maritime energy transportation passes through this region. Commodity trade accounts for 60% of global trade, and approximately half of that volume is concentrated in the South China Sea, where China claims sovereignty and jurisdiction almost entirely. The same report states that "at least 38 countries" comprise the Indo-Pacific but does not specify the country names.

Source: Compiled by MGSSI with reference to the Japan Ministry of Defense website (<https://www.mod.go.jp/j/approach/exchange/>)

A look at the current state of the EU's economic partnerships with Indo-Pacific countries shows that, following the conclusion of the EU-Japan Economic Partnership Agreement (EPA) in 2018, the EU signed an FTA with Singapore in the same year, an FTA with Vietnam in 2019, and the EU-China Comprehensive Agreement on Investment in 2020. Moreover, amid the growing presence of activities pursued through Indo-Pacific economic partnerships, such as the Regional Comprehensive Economic Partnership (RCEP) agreement in East Asia, which has a membership of 15 countries (including Japan, China, South Korea, and the ASEAN member states), the conclusion of FTAs with ASEAN, Australia, New Zealand, and India have become an important issue. Many European think tanks and scholars have pointed out that the EU has so far failed to spell out its strategic interest in the Indo-Pacific region, including China, due to the restraint it has shown for China, which is its biggest trading partner.¹ However, in order to collaborate with the region, which is expected to reorganize and diversify its supply chain under the RCEP agreement, the EU is under pressure to expand its hitherto China-focused Asian diplomacy and economic interests to the region as a whole.

Furthermore, the EU has come to perceive a major threat from China's Belt and Road Initiative (BRI), which connects China with Europe through land and sea networks. It is concerned about the possible formation of a new international order over a broad area under China's leadership, due to the widespread use of China's technology standards and opaque requirements for the procurement of parts and materials in BRI participating countries, and the imposition of excessive debt risk on countries that borrow development funds from China to build infrastructure. There is speculation that the EU will seek to compete with the BRI on the strength of its own

¹ For example, the European Parliamentary Research Service states the EU "looks at China as an economic competitor and a systemic rival, but also as a partner for negotiation and cooperation on key issues (including climate change)" and "this could explain past reluctance to use the term" free and open Indo-Pacific. (D'Ambrogio, E. (3/2021). The Quad: An emerging multilateral security framework of democracies in the Indo-Pacific region. European Parliamentary Research Service (EPRS) Briefing, p.10)

economic capabilities and rule-making influence through active involvement in the region. To begin with, the win-win relationships that China promised to Central and Eastern European countries through its BRI have not yet materialized, and disappointment is spreading. Except for the construction of the Budapest-Belgrade railway connecting Hungary and Serbia, investment and financing of more than 10 billion euros promised to Central and Eastern European countries in 2016 have not been realized, either. The EU also harbors strong expectations that bolstering relations with the Indo-Pacific region will create new business opportunities to replace the BRI.

CHARACTERISTICS AND POSITIONING OF THE EU'S COMPREHENSIVE INDO-PACIFIC STRATEGY

Under these circumstances, the EU has decided to announce its own comprehensive Indo-Pacific strategy (Figure 2). In April 2021, the EU's Foreign Affairs Council adopted an outline of the EU's Indo-Pacific strategy called the "Council Conclusions on an EU Strategy for Cooperation in the Indo-Pacific" (hereinafter referred to as the "general framework", Figure 3), and tasked the European Commission with issuing a joint communication on cooperation in the region by September 2021. Among the EU member states, France, Germany, and the Netherlands have already announced their own Indo-Pacific strategies. This general framework reflects their respective positions. In announcing the general framework, the EEAS emphasized building cooperation in areas where "partners can find common ground based on shared principles, values or mutual interest" and also hinted of the desire to keep China in check. However, it also placed emphasis on economic issues.

Figure 2: Actions by the EU and other major countries on strategies for the Indo-Pacific

2016	<ul style="list-style-type: none"> ▶ Japanese Prime Minister Abe proposes the idea of a "Free and Open Indo-Pacific" at the 6th Tokyo International Conference on African Development.
2017	<ul style="list-style-type: none"> ▶ At a meeting related to the APEC summit, US President Trump issues a comprehensive statement on his administration's Asian policy for the first time, stating that he will share the vision of a free and open Indo-Pacific. ▶ The US includes the basic principles of a free and open Indo-Pacific in its National Security Strategy.
2018	<ul style="list-style-type: none"> ▶ At the Asia Security Summit (Shangri-La Dialogue), Indian Prime Minister Modi emphasizes "ASEAN-centrality" with respect to the concept of a free and open Indo-Pacific region. ▶ The French Ministry of Armed Forces announces "France and Security in the Indo-Pacific", a revised edition of the strategic document "France and Security in the Asia-Pacific" that was published in 2016 by the then-French Ministry of Defense (which was renamed the Ministry of Armed Forces in 2017). ▶ At the Japan-US bilateral summit held in the US, the leaders of the two countries affirm their commitment to promote a shared vision to maintain and promote a free and open Indo-Pacific.
2019	<ul style="list-style-type: none"> ▶ The US Department of Defense publishes the "Indo-Pacific Strategy Report". The report places emphasis on the importance of building networks within the region and focuses on collaboration with the UK, France, Canada, and others. ▶ At the ASEAN Summit, the group adopts its own vision for the Indo-Pacific, the "ASEAN Outlook on the Indo-Pacific". ▶ The US Department of State publishes a report entitled, "A Free and Open Indo-Pacific: Advancing a Shared Vision".
2020	<ul style="list-style-type: none"> ▶ Germany publishes its "Policy Guidelines for the Indo-Pacific Region". Balanced diplomacy with Asia as a whole, including China, is set as a strategic policy goal. ▶ The Ministry of Foreign Affairs of the Netherlands publishes "Indo-Pacific: Guidelines for Strengthening Dutch and EU cooperation with partners in Asia".
2021	<ul style="list-style-type: none"> ▶ The UK publishes "Global Britain in a Competitive Age", a comprehensive review of security, defense, and diplomacy. The report emphasizes the need for "tilt to the Indo-Pacific" and the need for international cooperation in the region in the interests of the UK's economy and security. ▶ The EU Foreign Affairs Council adopts a general framework for the EU's Indo-Pacific strategy called the "Council Conclusions on an EU Strategy for Cooperation in the Indo-Pacific". ▶ US President Biden and Japanese Prime Minister Suga issue a joint statement, "US-Japan Global Partnership for a New Era", and reaffirm their collaboration with allies, centered on the Japan-US-Australia-India alliance (the Quad), toward the realization of a free and open Indo-Pacific. ▶ A communique from the G7 Foreign and Development Ministers' Meeting confirms the importance of a free and open Indo-Pacific. (The statement adopts the same wording as the abovementioned EU Foreign Affairs Council's general framework with respect to the G20 Principles for Quality Infrastructure Investment, strengthening connectivity, and the transition to greening.) ▶ The EU is scheduled to announce its first policy statement on the Indo-Pacific.

Source: Compiled by MGSSI

Figure 3: Key points of the EU Foreign Affairs Council's Conclusions on an EU Strategy for Cooperation in the Indo-Pacific (Note 1)

Area	Main objectives
(1) Working with partners in the Indo-Pacific region (Note 2)	<ul style="list-style-type: none"> Promotion of multilateralism through strengthened cooperation with ASEAN and the Asia-Europe Meeting (ASEM) Realization of the EU-ASEAN Strategic Partnership Modernization of Partnership and Cooperation Agreements (PCAs) with Malaysia and Thailand Conclusion of a new PCA with the Maldives Collaboration with the Indian Ocean Rim Association (IORA) to ensure the safety and security of maritime and aviation routes, and the conservation and sustainable management of natural resources
(2) Supporting the international community's global agenda	<ul style="list-style-type: none"> Protection and promotion of human rights Formation of cooperative initiatives such as green alliances and partnerships in support of the Paris Agreement and the Convention on Biological Diversity (CBD) Moving to a carbon neutral society Realization of circular economies Ensure safe and diverse pharmaceutical and health-related industrial supply chains
(3) Expanding global supply chains	<ul style="list-style-type: none"> Conclusion of FTAs with Australia, New Zealand, and Indonesia Ratification of the Comprehensive Agreement on Investment (CAI) with China (Note 3) Deepening of economic relations with India
(4) Security and defense	<ul style="list-style-type: none"> Under the framework of the EU Common Security and Defense Policy (CSDP), ensuring maritime security, countering cyberattacks, and preventing the spread of disinformation Implementation of joint exercises (participation of EU member states is "voluntary")
(5) Ensuring high-quality connectivity	<ul style="list-style-type: none"> Strengthening of connectivity, in terms of both software and hardware, through the promotion of projects consistent with the G20 Principles for Quality Infrastructure Investment (Note 4) Promotion of digitalization, transportation, energy supply, etc. under the transition to greening that is paired with digitalization
(6) Collaboration in the fields of research, innovation, and digitalization	<ul style="list-style-type: none"> Promotion of green growth through Horizon Europe, the EU's R&D and innovation support framework Promotion of the spread of secure digital infrastructure, such as through the maintenance of 5G networks and strengthening data security

Note 1: The European Commission is scheduled to announce the EU's official strategy for the Indo-Pacific, in line with this "conclusion", by September 2021.

Note 2: The Indo-Pacific refers to the region "from the eastern coast of the African continent to the island nations of the Pacific Ocean".

Note 3: In May 2021, the European Parliament froze CAI ratification procedures as China imposed retaliatory sanctions against the EU's sanctions on China for human rights abuses in the Xinjiang Uighur Autonomous Region.

Note 4: In a policy document released in 2018, the European Commission stated it will strengthen connectivity between the EU and Asia by promoting sustainable and rules-based infrastructure development in areas such as transportation, digital communications, and energy. At that time, it was implied that the EU was positive toward promoting cooperation with China in infrastructure development. However, in a policy document regarding China released in 2019, the EU positioned China for the first time as a "systemic rival", and in this general framework for an Indo-Pacific strategy, there is little mention of cooperation with China except for expectations for the realization of the CAI.

Source: Compiled by MGSSI based on the EU Foreign Affairs Council's "Council Conclusions on an EU Strategy for Cooperation in the Indo-Pacific" (16 April 2021)

The general framework covers six areas, among which the primary initiatives concerning "security and defense" ((4) in Figure 3) are limited to two points: ensuring maritime security and conducting joint exercises. In contrast, the other five areas are related to value perspectives and economics, and a total of 17 initiatives are listed. Of particular note when looking at the EU's aim to expand its influence over the Indo-Pacific region is its focus on promoting "green". The EU is expected to play a leading role in the world in the context of promoting green projects, such as through the Green and Digital Transformation of the EU in the European Green Deal growth strategy (announced in 2019).

In the EU's Indo-Pacific strategy, the transition to a greener economy is an important policy associated with many objectives, such as the formation of green alliances to achieve the goals of the Paris Agreement and the Convention on Biological Diversity (CBD), and to realize carbon-neutral societies and circular economies, as listed under target area (2), as well as efforts to promote both soft and hard connectivity infrastructure in areas such as digitalization, transportation, and energy supply, listed under (5). In a policy document released in 2018, the European Commission explained that sustainable, comprehensive, and rules-based connectivity is "the European way". At the same time, it stated that compliance with the EU's "common rules" will guarantee free and fair competition. It can be said that the EU's Indo-Pacific strategy follows these ideas.

THE INDO-PACIFIC REGION AS A PROMISING GREEN BUSINESS MARKET

The scope of green investment opportunities in the Indo-Pacific region is considerable. When looking at the world's major emerging markets by region, the Indo-Pacific accounts for three-quarters of the total (Figure 4). As such, the region is very attractive in terms of business opportunities for European governments and EU companies.

Figure 4: Scope of green investment opportunities in major emerging economies and the estimated impact on direct job creation and GHG emissions reduction (2020-2030)

		Scope of green investment opportunities (USD trillion)	Direct job creation (million)	Estimated reduction in GHG emissions (CO ₂ equivalent, million metric tons)
Total		10.3	213.4	3,824
Europe	Russia, Ukraine, Serbia, Turkey	0.6	16.8	324.7
Latin America/Caribbean	Mexico, Colombia, Argentina, Brazil	1.3	27.1	351.5
Middle East/North Africa	Morocco, Egypt, Jordan	0.2	4.2	111.7
Sub-Saharan Africa	Côte d'Ivoire, Nigeria, Kenya, South Africa	0.3	13.3	153.8
East Asia/Pacific Basin	China, Indonesia, Philippines, Vietnam	5.1	98.8	2,020.7
South Asia	India, Bangladesh	2.8	53.2	861.6

(USD billion)

Key sectors for green investments	East Asia/Pacific Basin	South Asia
	China, Indonesia, Philippines, Vietnam	India, Bangladesh
Urban transport (low pollution & low-carbon buses, micro-mobility services, smart transport & logistics, etc.)	1,604.2	863.8
Municipal waste and wastewater treatment	873.8	470.5
Utility-scale renewable energy (excluding nuclear energy)	786.5	423.5
Energy efficiency of buildings	526.8	283.7
Distributed generation renewable energy (including power storage systems)	525.4	282.9
Climate-smart agriculture (CSA)	415.0	223.5
Decarbonization of heavy industry (expanded use of carbon capture and storage (CCS), carbon capture and utilization (CCU), and green hydrogen)	304.7	164.1
Low-carbon aviation/shipping	103.8	55.9

Source: Compiled by MGSSI based on the International Finance Corporation's report "A Green Reboot For Emerging Markets" (January 2021)

The following provides an overview of German activities in expanding green investment in the Indo-Pacific region, where the German government and companies are relatively active compared to other EU member states.

1) Although the German government is working to build a future hydrogen society centered on green hydrogen, it is estimated that the country will need to rely on imports for up to 70% of its demand for green hydrogen. In 2020, Germany's National Academy of Science and Engineering (acatech) and the Federation of German Industries (BDI) summarized their investigative report by asserting that Germany should prioritize partnerships with Australia to build long-term, large-scale cooperation across the entire value chain for green hydrogen. Under the leadership of acatech, BDI, and the University of New South Wales in Sydney, and with the support of the German Federal Ministry of Education and Research, the "HySupply" feasibility study is currently being carried out to explore whether a green hydrogen partnership between Germany and Australia can be realized by 2030. BDI is focusing on launching a CO₂-free energy system, which would cover the transportation of green hydrogen and provide business matching opportunities. In addition, German energy giant RWE, which owns one of Australia's largest solar power generation facilities (capacity 249 MW, scheduled to start operation in 2021), is already proceeding with a plan to develop port infrastructure in Germany in order to import a large volume of Australia-produced green hydrogen.

(2) Since the Indo-German Energy Forum was established in 2006, the German government has been actively working to expand renewable energy and improve energy efficiency in India. For example, the German public institution German Corporation for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH, GIZ) and the German development bank Kreditanstalt für Wiederaufbau (KfW) are

engaged in the training of managers and engineers of Energy Efficiency Services Limited under the Ministry of Power of India to promote wider adoption of LED lighting and other initiatives. In addition, the German Federal Ministry for Economic Affairs and Energy is focusing on expanding energy efficiency businesses in India by supporting German companies in exporting their climate-friendly energy technologies and achieving market penetration in low- and middle-income developing countries under the framework of the Energy Export Initiative. An analysis of India's energy efficiency potential prepared by the Indo-German Chamber of Commerce in 2019 also pointed to the existence of many business opportunities in this particular domain in India. Furthermore, KfW has provided financial cooperation for the energy efficient housing program initiated by India's National Housing Bank in 2010. With the addition of technological cooperation from GIZ, by 2019, the program had evolved into an energy efficiency labeling scheme for residential buildings, which is overseen by India's Bureau of Energy Efficiency of the Ministry of Power. It is expected to be a boon for German companies' energy efficient housing operations in India, as the labeling scheme is based on German technologies and know-how, and new housing construction in India is expected to reach 3 billion sq. meters of total floor area by 2030.

CONCLUSION

The EU, which has seized the transition to a green society as an opportunity, is expected to further expand its green business by leveraging its Indo-Pacific strategy. Beyond that, the EU will likely seek to promote the spread of technology standards that make the most of its strong rule-making capabilities. However, fierce competition is expected with China, which is boosting its development capabilities with environmentally friendly technologies. Meanwhile, although the EU Indo-Pacific strategy also includes the aspect of restraining China, the EU needs to continue to seek cooperation with China, because cooperation is essential for the international community to achieve carbon neutrality, as emphasized in the Net Zero by 2050 roadmap released by the International Energy Agency (IEA) in May 2021. The situation should be closely monitored, because how the EU finds realistic solutions to these difficult issues is important for both the Japanese government, which seeks to forge alliances to promote containment of China, and Japanese companies, which are searching for ways to grow their green business.