



DE-RISKING: THE EU'S AND JAPAN'S APPROACHES TO MANAGING ECONOMIC RELATIONS WITH CHINA

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I. Introduction

In the past few years, a range of policy concepts—from economic security and resilience to decoupling and de-risking—have gained widespread acceptance among Western powers and their allies. These concepts strongly emphasize risk mitigation through the political management of economic interdependence. They have gained credence following several unanticipated geopolitical and geoeconomic shocks—including the Covid-19 pandemic and the war in Ukraine—which, alongside heightened strategic tensions between China and the United States, have placed into question globalization and liberal models of economic prosperity and security. Economic connectivity has thus increasingly been replaced by an emphasis on supply chain resilience, trade diversification, stricter scrutiny of and controls on foreign investment and exports, and greater state intervention in strategic industrial and technology sectors.¹ Such developments are captured by a widening political consensus around ‘de-risking’, particularly in relation to China. In May 2023 the Group of Seven (G7) large economies—Canada, Japan, the United Kingdom, the United States and three members of the European Union (EU), France, Germany and Italy—announced their intentions to ‘coordinate our approach to economic resilience and economic security’ and to engage in de-risking.² These states’ concept of de-risking is informed by concerns about how they are made vulnerable by their dependencies on China in a number of sectors critical for national security but also by a recognition that some degree of constructive interdependence with China remains necessary and inevitable.

While there is general political consensus on the need to de-risk from China, there remain differences in what this entails among various stakeholders. Different considerations include the level of exposure to and assessment of specific risks; the policy instruments that actors are able and willing to put in place to address them; the trade-offs that are acceptable; and even the strategic endpoint of de-risking policies. As such, both convergence and variation in approaches to de-risking—and economic security more broadly—will shape the trajectory of relations between the Western powers and their allies on the one hand and China on the other.

¹ On connectivity see e.g. Anthony, I. et al., *China–EU Connectivity in an Era of Geopolitical Competition*, SIPRI Policy Paper no. 59 (SIPRI: Stockholm, Mar. 2021).

² Group of Seven (G7), G7 Hiroshima leaders’ communiqué, G7 Hiroshima Summit, 20 May 2023.

SUMMARY

● The European Union (EU) and Japan have both adopted de-risking measures in their economic relations with China. Driven by concerns over the security and geoeconomic implications of their dependence on China, the EU and Japan have introduced legislation and regulations to mitigate against risks in supply chains and in transfers of sensitive technologies and investments. Measures introduced also aim to boost competitiveness in strategic industries.

However, while consensus exists on the need to adopt de-risking measures, the approaches pursued in the EU and Japan vary due to several factors: the nature and extent of their economic interdependence with China, the profile and strength of domestic industries, government–business collaboration and, in the EU’s case, variations in member states’ positions and degrees of enforcement. Both the EU and Japan also recognize the importance of more closely coordinating with each other to achieve their goals: to mitigate or manage potential risks, to enhance resilience, and to maintain (and, where necessary, promote) economic ties with China in areas of mutual benefit.



This SIPRI Research Policy Paper focuses on how two key actors—the European Union and Japan—have each engaged in de-risking and explores their existing policy challenges. It begins in section II by describing the concept of de-risking and, in section III, exploring the policy frameworks employed by the EU and Japan. It then examines existing areas of cooperation between the two in section IV. Finally, section V offers recommendations on how they can more effectively pursue both individual and collective economic security through coordinated actions and policy alignment.

II. The concept of de-risking

The term ‘de-risking’ was introduced by the president of the European Commission, Ursula von der Leyen, in January 2023 as an approach distinct from the more hawkish ‘decoupling’ policy toward China that the United States was then pursuing.³ Decoupling emphasizes a wide-scale reduction of economic dependencies on China, while also imposing trade barriers and sanctions to prevent China from emerging as a serious competitor, particularly in strategic technology sectors.⁴ In contrast, de-risking entails more balanced diplomatic and economic relations with China. It emphasizes an intention to continue to ‘work and trade with China’, while also mitigating threats that China may pose to ‘[the EU’s] resilience, long-term prosperity and security’.⁵ The de-risking concept, subsequently adopted by the G7 at its May 2023 Hiroshima Summit, positions the EU as an important geopolitical thought leader.⁶

While Japan has used the term ‘de-risking’ less in its policy communications, it was in practice among the first in the G7 to pursue enhanced political safeguards in its economic relations with China.⁷ Implicitly aimed against China, in October 2021 Japan established a cabinet position dedicated to economic security and in May 2022 it was the first G7 member to introduce dedicated legislation on economic resilience and security: the Economic Security Promotion Act.⁸ Japan’s National Security Strategy of 2022 makes implicit reference to Chinese non-military pressure as a risk to an ‘open and stable international economic order’.⁹ During its presidency of the G7 in 2023, Japan drafted the leaders’ statement on economic resilience and economic security.¹⁰ The EU subsequently announced, in 2023, its own

³ von der Leyen, U., President of the European Commission, Special address at the World Economic Forum, 17 Jan. 2023.

⁴ Bateman, J., *US–China Technological ‘Decoupling’: A Strategy and Policy Framework* (Carnegie Endowment for International Peace: Washington, DC, 2022).

⁵ von der Leyen (note 3); and von der Leyen, U., President of the European Commission, Speech on EU–China relations to the Mercator Institute for China Studies (MERICS) and the European Policy Centre (EPC), 30 Mar. 2023.

⁶ Group of Seven (note 2).

⁷ Blanchette, J. and Green, M. J., ‘Japan’s approach to de-risking’, *Asia Chess Board*, Center for Strategic and International Studies (CSIS), 3 Oct. 2023.

⁸ Nagata, K., ‘Japan’s new economic security minister sets out agenda amid global supply chain woes’, *Japan Times*, 5 Oct. 2021; and Act for the Promotion of Ensuring National Security through Integrated Implementation of Economic Measures (Economic Security Promotion Act), Japanese Act no. 43 of 2022, promulgated 22 May 2022 (in Japanese).

⁹ Japanese Cabinet Secretariat, ‘National Security Strategy of Japan’, Provisional translation, Dec. 2022, p. 4.

¹⁰ Group of Seven (G7), G7 leaders’ statement on economic resilience and economic security, G7 Hiroshima Summit, 20 May 2023.



Economic Security Strategy, which seeks a more comprehensive approach to risk management.¹¹

Whether explicitly framed in terms of de-risking or economic security, measures adopted by both the EU and Japan are aimed at mitigating the risks of economic coercion and supply chain disruption that are posed by overdependence on China. Measures have also been adopted to prevent the EU and Japan from losing industrial competitiveness, including in critical technology sectors, and to prevent civilian exports from being diverted to military applications in China.¹²

This convergence on overall aims, however, also masks a diversity of perspectives between stakeholders in the EU and Japan on what precisely constitutes a risk and to whom, and on what mitigating measures can be adopted. Moreover, in both the EU and Japan, de-risking measures intended to address the specific risks posed by Chinese actors overlap with more general policy efforts aimed at enhancing economic resilience and security in the face of a more turbulent global economic order.¹³ This adds to the complexity of distinguishing measures adopted against specific threats posed by China from safeguards against broader threats and economic uncertainties. Indeed, neither Japan's Economic Security Promotion Act nor the EU's Economic Security Strategy mentions China by name.

Specific measures associated with de-risking are also country agnostic and apply universally, rather than exclusively to China.¹⁴ In the EU, for instance, an anti-coercion instrument adopted in October 2023 was notably introduced in part to respond to US pressure on EU member states, such as the tariffs on imports of aluminium and steel imposed during the 2017–21 administration of US President Donald J. Trump.¹⁵ The EU's decade-long pursuit of strategic autonomy and more recent efforts to pursue 'open' strategic autonomy—that is, an ability to 'act autonomously when and where required and to work with partners wherever possible' in all matters of strategic significance—are aimed at repositioning the EU globally, including in relation to traditional partners such as the USA.¹⁶ Meanwhile, Japan's pursuit of what it calls 'autonomous economic prosperity' encompasses long-standing efforts not only to de-risk from China, but also to diversify its supply chains in energy, raw materials

¹¹ European Commission, High Representative of the Union for Foreign Affairs and Security Policy, 'European Economic Security Strategy', Joint communication to the European Parliament, the European Council and the Council, JOIN(2023) 20 final, 20 June 2023; and European Commission, 'An EU approach to enhance economic security', Press release, 20 June 2023.

¹² Duchâtel, M., *Technology Transfers: The Case for an EU–Japan–US Cooperation Framework* (Institut Montaigne: Paris, Mar. 2022).

¹³ Hayashi, D., 'Europe: De-risking as a strategy for economic self-reliance', Discuss Japan: Japan Foreign Policy Forum, Japanese Ministry of Foreign Affairs, 12 Jan. 2024; and Katz, R., 'Japan is joining "de-risk from China" coalition', Japan Economy Watch, 3 Oct. 2023.

¹⁴ E.g. European Commission, 'An EU approach to enhance economic security', 20 June 2023.

¹⁵ Regulation (EU) 2023/2675 of the European Parliament and of the Council of 22 November 2023 on the protection of the Union and its Member States from economic coercion by third countries (Anti-Coercion Instrument), *Official Journal of the European Union*, 7 Dec. 2023. See also Council of the EU, 'Council adopts a regulation to protect the EU from third-country economic coercion', Press release, 23 Oct. 2023; and Hackenbroich J. at al., *Defending Europe's Economic Sovereignty: New Ways to Resist Economic Coercion*, Policy brief (European Council on Foreign Relations: Berlin, Oct. 2020).

¹⁶ Bissierbe, N. and Norman, L., 'France's Macron renews call for a sovereign Europe less reliant on foreign powers', *Wall Street Journal*, 11 Apr. 2023; and Council of the EU, Spanish Presidency, 'Open strategic autonomy for a competitive and resilient EU', 1 July 2023.



and other sectors.¹⁷ Measures introduced by Japan in 2023 to protect critical industrial sectors and enhance export controls also do not explicitly mention China as the target.¹⁸

Both the EU and Japan continue to recalibrate their economic dependencies in relation to China, including strengthening economic relations with geopolitically like-minded countries (sometimes referred to as ‘friend-shoring’).¹⁹ However, it is important to highlight that de-risking and economic security policies are not only defensive and geostrategic, but also represent attempts to boost national economic competitiveness and address domestic social pressures. This makes the gamut of issues falling under the umbrella of ‘de-risking’, as well as its policy goals, exceedingly wide.

III. Policy frameworks of the European Union and Japan

This section outlines the frameworks and instruments currently being deployed by the EU and Japan in greater detail, as well as challenges that each faces in implementation. Similar motivations underpin both the EU’s and Japan’s prioritization of de-risking and economic security, as elaborated above. Nonetheless, there are distinctions between the approaches of these two like-minded powers that stem from their respective geopolitical and economic vulnerabilities, strategic interests, and institutional arrangements and constraints.

Japan’s approach

As an island state without any significant natural resources, Japan has carefully nurtured extensive external networks of economic interdependence. It has always done so warily, informed by both economic and security considerations. Japan adopted a ‘comprehensive security’ policy in the early 1980s, with economic security as a key pillar.²⁰ Hence, at the same time as it has pursued integration into the global and regional economy, Japan has historically provided state support to industries deemed strategic for the national economy.

Recent geopolitical events have driven Japan to take a more vigilant approach to interdependence—including through the passage of the Economic Security Promotion Act in May 2022.²¹ The legislation aims to establish measures to ensure stable supplies of specified strategically critical materials, protection of essential infrastructure services, development of critical technologies and protection of sensitive information such as patent applications.²² It includes financial support to industries seeking to diversify supply chains and reduce

¹⁷ Japanese Cabinet Secretariat (note 9), p. 30.

¹⁸ Nishimura, Y., Japanese minister for economy, trade and industry, Press conference, Japanese Ministry of Economy, Trade and Industry, 31 Mar. 2023.

¹⁹ Rizzi, A., ‘Give and take: How the EU’s friend-shoring can improve its relations with the global south’, European Council on Foreign Relations, 3 Aug. 2023; and Todō, Y., ‘Japan’s supply chains at risk: Preparing for a Taiwan contingency’, Nippon.com, 12 June 2023.

²⁰ Akaha, T., ‘Japan’s comprehensive security policy: A new East Asian environment’, *Asian Survey*, vol. 31, no. 4 (Apr. 1991).

²¹ Act for the Promotion of Ensuring National Security (note 8).

²² Koyu I. et al., ‘Japan’s Economic Security Promotion Act: Background and overview’, *Asia-Pacific Review*, vol. 29, no. 3 (2022).



'excessive dependence on specific countries' for materials critical to national security, as well as stricter regulatory or export control of sensitive technologies, including semiconductors.²³ Japan has so far placed restrictions on exports of 23 types of semiconductor-manufacturing equipment, implicitly in line with US restrictions.²⁴

While Japan's economic security policy discourse is country-agnostic, in practice its approach has been to collaborate in a range of bilateral and minilateral formats with like-minded partners in coordinating policy approaches to China.²⁵ Beyond the EU and the USA, Japan has discussed collaboration on critical materials essential for electric vehicles with Australia and Canada and has discussed strengthening free trade with the Association of Southeast Asian Nations (ASEAN), where Japan has made significant investments.²⁶ Beyond government policies, Japanese firms have also been actively diversifying their investment destinations in response to both geopolitical pressures and less favorable market conditions in China over the past decade as an indirect way of de-risking.²⁷ However, Japanese industry is also carefully examining the broad range of areas where it could continue to cooperate with China, as deep Japanese business ties with China in industries such as automobiles persist.²⁸

Challenges

While Japan's 2022 Economic Security Promotion Act provides the broad framework to identify both areas of risk and measures to mitigate them, implementation will remain a challenge. To begin with, Japan must strike a balance between risk mitigation and maintaining—or even expanding—trade with China. Japan's economic dependence on China remains high: it is still Japan's largest trading partner, with bilateral trade worth US\$335 billion in 2022, and it was the source of an estimated 21 per cent of Japan's imports.²⁹

Even during periods of rapidly deteriorating bilateral diplomatic relations, both countries have found it mutually beneficial to keep trade and investment intact. Extensive interdependence, including in sectors such as semiconductors, means that Japanese businesses will bear significant costs should Japan move to quickly and drastically reduce economic ties with China. China remains the largest market (30 per cent) for Japanese semiconductor-making equipment and Japanese restrictions on exports could also incur

²³ Japanese Cabinet Secretariat (note 9), p. 30.

²⁴ Kelly, T. and Uranaka, M., 'Japan restricts chipmaking equipment exports as it aligns with US China curbs', Reuters, 31 Mar. 2023; and Kyodo News, 'Japan's export curbs on chip-making equipment to China take effect', *Japan Times*, 23 July 2023.

²⁵ Minilateral refers to diplomatic formats or initiatives, wider than bilateral but narrower than multilateral in scope. Inagaki, K., 'G7 prioritizes "de-risking" China over "de-coupling"', *Financial Times*, 19 May 2023.

²⁶ Kharpal, A., 'EU and Japan look to partner on AI and chips as China "de-risking" strategy continues', CNBC, 3 July 2023; Satoh, R., 'Japan courts Canada, Australia for China-free EV supply chain', *Nikkei Asia*, 4 Oct. 2023; and Sukegawa, S., 'Japan, ASEAN, and "de-risking" through free trade', *The Diplomat*, 20 July 2023.

²⁷ Luo, C., Si, C. and Zhang, H., 'Moving out of China? Evidence from Japanese multinational firms', *Economic Modelling* vol. 110 (May 2022); and *Nikkei Asia*, 'Kyocera, Meiko, other Japan makers seek investments outside China', 15 Oct. 2023.

²⁸ Lim, G. and Xu, C., 'Japan and China: Growing economic interdependence amid decoupling talks', *ThinkChina*, 22 Dec. 2022.

²⁹ Japanese Ministry of Foreign Affairs, 'Japan–China economic overview', Jan. 2024.



Chinese countermeasures.³⁰ As a result, a gap has emerged between public policy as embodied in the Economic Security Promotion Act and private businesses, with the latter reluctant to respond to government calls for restrictions on trade and investment.³¹ At the same time, however, many Japanese companies operating in China remain cautious about economic prospects and the business environment due to both higher operating costs and political uncertainties.³² To some extent, policy-driven de-risking and businesses' own risk-mitigation strategies converge.

Convincing Japanese companies operating in China to reduce economic dependence while providing them with remedies and working with partners to strengthen supply chain resilience will remain a challenge—and a top priority for the government. Japan will certainly adopt and implement measures to mitigate risks associated with economic dependence on China and in response to China's use of economic coercion. Finding the right balance between, on the one hand, promoting Japanese economic interests based on market principles and efficiency and, on the other, national security imperatives and public policies that at times clash with the private, economic interests of businesses will continue to inform Japan's economic security debates.³³

The European Union's approach

In March 2023 von der Leyen laid out an economic de-risking strategy for the EU that includes four pillars: (a) making the EU's economy and industry more competitive and resilient; (b) using the existing toolbox of trade instruments; (c) developing new tools for sensitive high-technology sectors that might bolster China's military capability; and (d) aligning with other like-minded countries.³⁴ The European Economic Security Strategy, released in June 2023, highlights four key areas of economic security risk: supply chain resilience, critical infrastructure, technology security and 'technology leakage', and economic coercion.³⁵

In recent years the EU has used a range of policy tools aimed at ensuring a level playing field—that is, fair competition, in relation to China.³⁶ Various policy instruments that—directly or indirectly—fortify economic security have also been adopted or existing mechanisms strengthened, including anti-subsidy investigations and anti-dumping measures.³⁷ It has also intro-

³⁰ Ma, J., 'China "may come up with countermeasures" as Japan's chip export controls take effect: Analyst', *Global Times*, 23 July 2023.

³¹ Vekasi, K., 'Japan's approach to economic security and regional integration', eds A. J. Tellis, A. Szalwinski and M. Wills, *Strategic Asia: Reshaping Economic Interdependence in the Indo-Pacific* (National Bureau for Asian Research: Seattle and Washington, DC, 2023); and Yin, Y. and Xing, X., 'About half of Japanese companies plan to maintain or boost investment in China: Survey', *Global Times*, 12 Oct. 2023.

³² Bloomberg, 'Japan executives leave Beijing with key issues unresolved', 25 Jan. 2024.

³³ Shigeaki, S., 'The essential challenge of "economic security"', *Asia-Pacific Review*, vol. 29, no. 3 (2022).

³⁴ von der Leyen (note 5).

³⁵ European Commission, JOIN(2023) 20 final (note 11), section 2.

³⁶ Steinberg, F. and Benson, E., 'Evaluating Europe's Economic Security Strategy', Commentary, Center for Strategic and International Studies (CSIS), 13 July 2023.

³⁷ Regulation (EU) 2016/1037 of the European Parliament and of the Council of 8 June 2016 on protection against subsidised imports from countries not members of the European Union, *Official Journal of the European Union*, L 176, 30 June 2016; and Regulation (EU) 2016/1036 of the European



duced new defensive policy instruments, including the foreign investment screening mechanism, the International Procurement Instrument and the Anti-Coercion Instrument.³⁸ Notably, following on from the adoption of the European Economic Security Strategy, in October 2023 the European Commission recommended a list of 10 critical technology areas that are vital for the EU's economic security.³⁹ Among these, four—advanced semiconductor, artificial intelligence (AI), quantum and biotechnology—are considered to be the most sensitive and to present immediate risk to technology security and technology leakage.⁴⁰

In addition, the EU is escalating efforts to enhance the competitiveness and resilience of EU industries in strategic sectors, including renewable energy, the digital industry and defence.⁴¹ For example, the Economic Security Strategy proposed the establishment of a new platform—the Strategic Technologies for Europe Platform (STEP)—to help steer and leverage up to €160 billion (\$176 billion) to strategic projects, including for green and digital transitions.⁴² Efforts aimed at securing and domesticating the supply chains in critical sectors also include initiatives such as the adoption of the list of Important Projects of Common European Interest (IPCEI) and the EU Chips Act and the proposed Critical Raw Materials Act and Net-Zero Industry Act.⁴³ A loosening of EU rules on state aid, including a prolongation of the March 2023 Temporary Crisis and Transition Framework and other amendments to EU rules, have also been prompted by a need to boost the competitiveness of EU industries in the face of subsidies provided by competitor states.⁴⁴

Parliament and of the Council of 8 June 2016 on protection against dumped imports from countries not members of the European Union, *Official Journal of the European Union*, L 176, 30 June 2016.

³⁸ Regulation (EU) 2019/452 of the European Parliament and of the Council of 19 March 2019 establishing a framework for the screening of foreign direct investments into the Union, *Official Journal of the European Union*, L 79 I, 21 Mar. 2019; and Regulation (EU) 2022/1031 of the European Parliament and of the Council of 23 June 2022 on the access of third-country economic operators, goods and services to the Union's public procurement and concession markets and procedures supporting negotiations on access of Union economic operators, goods and services to the public procurement and concession markets of third countries (International Procurement Instrument – IPI), *Official Journal of the European Union*, L 173, 30 June 2022; and Regulation (EU) 2023/2675 (note 15).

³⁹ European Commission, Commission recommendation on critical technology areas for the EU's economic security for further risk assessment with member states, C(2023) 6689 final, 3 Oct. 2023, annex.

⁴⁰ European Commission, 'Commission recommends carrying out risk assessments on four critical technology areas: Advanced semiconductors, artificial intelligence, quantum, biotechnologies', Press release, 3 Oct. 2023.

⁴¹ European Commission, Proposal for a Regulation of the European Parliament and of the Council establishing the Strategic Technologies for Europe Platform ('STEP'), COM/2023/335 final, 20 June 2023.

⁴² European Commission, 'EU budget: Commission proposes Strategic Technologies for Europe Platform (STEP) to support European leadership on critical technologies', Press release, 20 June 2023; and European Commission, JOIN(2023) 20 final (note 11), section 3.1.

⁴³ European Commission, 'Secure 5G deployment in the EU—Implementing the EU toolbox', Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, COM/2020/50 final, 29 Jan. 2020; Regulation (EU) 2023/1781 of the European Parliament and of the Council of 13 September 2023 establishing a framework of measures for strengthening Europe's semiconductor ecosystem and amending Regulation (EU) 2021/694 (Chips Act), *Official Journal of the European Union*, L 229, 18 Sep. 2023; European Commission, 'Proposal for a regulation: European Critical Raw Materials Act', 16 Mar. 2023; and European Commission, 'Proposal for a regulation: Net Zero Industry Act', 16 Mar. 2023.

⁴⁴ European Commission, Directorate-General for Competition, 'Temporary Crisis and Transition Framework', [n.d.].



As in Japan, a main feature of the EU's approach is not only to strengthen regulatory and defensive measures, but also to continue to pursue 'open and rules-based trade and investment' with countries worldwide.⁴⁵ The EU is in several negotiations for free trade agreements.⁴⁶ In its Economic Security Strategy, the EU places emphasis on working with 'like-minded partners, such as the members of the G7'.⁴⁷ The strategy identifies such bilateral and multilateral formats and initiatives as digital partnerships, green alliances and partnerships, raw materials partnerships, and the proposed Critical Raw Materials Club as ways to enhance economic security and resilience.⁴⁸ Meanwhile, in June 2021 the EU and the USA established the Trade and Technology Council (TTC) to coordinate their approaches to policies that have an impact on economic security.⁴⁹ It represents a key platform for dialogue on de-risking, in which Japan has been keen to be involved.⁵⁰

Challenges

Despite the rapid development of the EU's current and proposed policy toolbox, several challenges hinder progress in implementation. A primary obstacle is a lack of clarity. The European Economic Security Strategy notably provides no definition of economic security, and what qualifies as strategic and security-related sectors is also in the process of being formulated.

This is compounded by the different perspectives of the 27 EU member states on both risks and policy objectives. Each member state has its own vulnerabilities and levels of exposure to China and each has distinct interests with respect to the Chinese market. The spectrum of opinions on the matter spans from, at one end, Hungary's foreign minister warning that de-risking measures could potentially harm the European economy to, at the other, Lithuania's robust pursuit of diversification away from China.⁵¹

There is also divergence in perspectives between policymakers and the business community, which leads to policy uncertainties. Concerns arise as to how to balance protection on the one hand with innovation and competitiveness on the other.⁵² Private sector actors, each with their own vulnerability to and interests in China, also engage in their own risk-mitigation strategies in relation to China. While there are increasing calls for concrete action plans from the EU and its member states to incentivize European companies to actively pursue diversification from China, some raise doubts about whether

⁴⁵ European Commission, JOIN(2023) 20 final (note 11), section 1.

⁴⁶ European Commission, Directorate-General for Trade, 'Negotiations and agreements', [n.d.].

⁴⁷ European Commission, JOIN(2023) 20 final (note 11), section 3.3.

⁴⁸ European Commission, JOIN(2023) 20 final (note 11), section 3.3.

⁴⁹ Brockmann, K., Bromley, M. and Maletta, G., 'Developments in the European Union's dual-use and arms trade controls', *SIPRI Yearbook 2023: Armaments, Disarmament and International Security* (Oxford University Press: Oxford, 2023).

⁵⁰ Duchâtel, M., *Economic Security: The Missing Link in EU–Japan Cooperation* (Institut Montaigne: Paris, Apr. 2023), p. 10.

⁵¹ Yang, H., 'Hungarian minister: "De-risking" may kill EU economy', *China Daily*, 13 Sep. 2023; and Boruta, R. and Pinelytė, E., 'Sino-Lithuanian relationship: Cautious engagement, ties and its impact on the EU de-risking policy', Eastern Europe Studies Centre, 29 Dec. 2023.

⁵² SIPRI Workshop on "De-risking" in concept and in practice: Japan's and the EU's approaches to China', 29 Sep. 2023.



there will be sufficient inducements to convince companies to embrace de-risking policies.⁵³

Lack of clear consensus on risks is exacerbated by institutional design, with fragmentation of policy perspectives not only among member state interests but also among EU institutions with distinct mandates and competencies.⁵⁴ Harmonization is made even more difficult by the fact that the EU shares competencies with member states and its authority is significantly limited in areas such as security. Implementation of the economic security and de-risking policies that are set at the EU level is also largely left to the member states. The EU has fewer tools in relation to industrial subsidies than other national actors, although new budgetary instruments and policies, including the Chips Act, IPCEI and other proposed tools, represent progress on that front.

A wider question concerns how far derisking can or should go, given the high dependencies on China in certain sectors, such as green energy.⁵⁵ In 2022 the EU depended on China for 61 per cent of its imports of wind turbines, 96 per cent of its solar panels and 54 per cent of its electric cars.⁵⁶ China's dominant position in the global supply chain and market share presents a unique challenge as short- to medium-term de-risking efforts are difficult to undertake and may even slow down the green transition. This reality introduces another layer of complexity in implementing de-risking strategies.

IV. Cooperation between the European Union and Japan

Both the EU and Japan are pursuing policies to insulate and protect their domestic markets from supply chain disruptions or economic coercion, as outlined above. However, each has also pursued dedicated external partnerships in support of a 'rules-based global order' in which economic interdependence can remain a source of prosperity. Indeed, the two have been referred to as 'natural partners'.⁵⁷ Their mutual emphasis on upholding the multilateral rules-based system, similar geostrategic alignment, and common values related to human rights and democracy has been enshrined in their legally binding Strategic Partnership Agreement (SPA).⁵⁸ A deepened economic relationship is also being pursued, not least through a major trade agreement, the EU–Japan Economic Partnership Agreement (EPA),

⁵³ Spillner O. and Wolff G., 'China "de-risking": A long way from political statements to corporate action', German Council on Foreign Relations (GDAP) Policy Brief no. 16, June 2023; Demarais A., 'Why Europe will struggle to "de-risk" from China', *Foreign Policy*, 19 Sep. 2023; and Hensing J., 'Germany shows why Europe cannot rely on business-led de-risking', Bertelsmann Stiftung, 23 Jan. 2024.

⁵⁴ Bermingham, F., 'EU slows down de-risking plans for China in face of member state resistance', *South China Morning Post*, 24 Jan. 2024.

⁵⁵ Sanderson, H., 'The problem with de-risking: Transitioning to clean energy requires trade with China', *Foreign Affairs*, 2 Jan. 2024.

⁵⁶ Eurostat, 'International trade in products related to green energy', Oct. 2023; and Eurostat, 'International trade in hybrid and electric cars', Oct. 2023.

⁵⁷ European External Action Service (EEAS), 'EU and Japan leaders meet to discuss joint efforts on peace, security and stability', 29 May 2015.

⁵⁸ Strategic Partnership Agreement between the European Union and its Member States, of the one part, and Japan, of the other part, signed 17 July 2018, not yet in force, provisional application from 1 Feb. 2019, *Official Journal of the European Union*, L 216, 24 Aug. 2018.



which entered into force in 2019.⁵⁹ At a July 2023 EU–Japan summit the two sides further indicated their commitment to cooperation in economic security and resilience and to collaboration in a digital partnership and on critical materials supply chains.⁶⁰ They also share information through the Coordination Platform on Economic Coercion established by the G7 in 2023.⁶¹

Beyond cooperation bilaterally and through the G7, the EU and Japan are both engaged in a range of other platforms to enhance economic security with like-minded partners—some of which do not overlap. Significantly, the Chip 4 Alliance, the Indo-Pacific Economic Framework for Prosperity (IPEF), trilateral Japan–South Korea–USA consultations and the Quadri-lateral Security Dialogue (Quad) all involve Japan and the USA but not the EU. It is notable, however, that the EU–Japan EPA was negotiated in the shadow of US withdrawal from both the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), two ambitious proposed free-trade agreements.

In the absence of certainty regarding the next US administration’s policy on external partnerships, it is important that the EU and Japan—both jointly and independently—remain important forces in promoting a ‘rules-based’ economic order. In this regard, it is key that both not only emphasize this in their bilateral relations and minilateral groupings, but also buttress multi-lateral institutions—for instance, the World Trade Organization (WTO)—that uphold rules globally.

V. Conclusions and recommendations

Despite the expansive list of policy instruments that have been developed or proposed in recent years, both the European Union and Japan face challenges ahead. Among them, clarifying policy definitions—to include not only risks, but also goals and targets—will be an important first step towards more effective de-risking. A wider sense of clarity in policy goals and targets will also provide private sector actors in both the EU and Japan with a more predictable environment in which to contribute to economic security and resilience. In this regard, both the EU and Japan, bilaterally as well as in their partnerships with other like-minded countries, will need to continue to seek more alignment.

Recommendations

The following are recommendations to further induce more effective collaboration between the EU and Japan and to leverage their relationship. This can both mitigate risks in their economic relations with China and allow them to coordinate their efforts to promote a wider rules-based international economic order.

⁵⁹ Agreement between the European Union and Japan for an Economic Partnership, signed 17 July 2018, entered into force 1 Feb. 2019, *Official Journal of the European Union*, L 330, 27 Dec. 2018. See also European Commission, ‘EU–Japan Economic Partnership Agreement’, [n.d.].

⁶⁰ European Commission, ‘EU and Japan boost strategic cooperation on digital and on critical raw materials supply chains’, Press release, 13 July 2023.

⁶¹ Group of Seven (note 10); and Szczepanski, M., ‘Economic security policies in G7 countries’, At a Glance, European Parliament, European Parliamentary Research Service, Oct. 2023.



Leverage and coordinate existing cooperation mechanisms

Established EU–Japan cooperation frameworks—including the Economic Partnership Agreement, the Strategic Partnership Agreement, the EU–Japan High-level Economic Dialogue and the EU–Japan Green Alliance—should be leveraged and strengthened, including through increased political commitment and full implementation. High-level bilateral consultations on economic security should be continued and regularized. Through existing frameworks and consultations, the EU and Japan should each also commit to enhance the sharing of information on platforms in which the other party is not currently involved (including the TTC and the IPEF).

Emphasize and buttress cooperation in sectors with positive global spillovers

To the extent that economic security is pursued in support for as well as protection of critical industrial sectors and supply chains, the EU and Japan should emphasize boosting competitiveness in industries where there are positive spillovers for environmental, developmental and social goals within and beyond their territories. This will leverage the strengths of both EU and Japanese platforms as value-based standard setters. Platforms such as the EU–Japan Green Alliance and Partnership on Sustainable Connectivity and Quality Infrastructure should be given political priority and actively utilized.

Widen the actor scope of consultations

Beyond official dialogues between EU and Japanese officials, a denser network of cooperation and dialogue should be pursued, including in and from EU member states. Government-to-business and business-to-business dialogues, along with research collaboration across EU–Japan relations, should also be expanded to consider how the two sides can best enhance resilience by capitalizing on economic opportunities and complementarities. Concrete government support and guidance, however, needs to be developed, with the goal of fostering a better understanding and deepening exchanges with and across their respective industries. While emphasizing domesticated and joint supply chains, the two actors should also jointly explore alternative supply chains in cooperation with third countries.

Continue to support a free and open economic order

In their emphasis on protecting national and EU-wide economies, there is a need to coordinate economic security policies, particularly where measures implemented by one actor may negatively affect the other. Unilateral trade measures should be minimized, and there should be a continued focus on buttressing multilateral institutions such as the WTO to maintain credibility in efforts to promote common rules.

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SIPRI RESEARCH POLICY PAPER

DE-RISKING: THE EU'S AND JAPAN'S APPROACHES TO MANAGING ECONOMIC RELATIONS WITH CHINA

JIAYI ZHOU, FEI SU AND JINGDONG YUAN

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