PREVENTING WAR IN EAST ASIA:
A EUROPEAN ACTION PLAN TO
STRENGTHEN DETERRENCE

Report

Author: Joris Teer, Associate Analyst for Economic Security and Technology at the EUISS

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Over the last half century East Asia has become the global economy’s manufacturing hub. Powerful trends have made a military conflict in East Asia, especially over Taiwan, more likely since 2016. The most important of these are China’s rapid military modernisation and increasing number of hostile acts under the threshold of war. To Beijing’s growing frustration, these have not improved the prospects for peaceful “reunification” with the island republic. Use of greater force, namely a maritime blockade or an invasion of Taiwan, would have a severe impact on the EU’s prosperity and security. The new EU team should put the bloc in the best possible position to help prevent military conflict in East Asia. This requires a mobilisation of the EU’s economic resources to complement the bedrock of deterrence in East Asia: the military commitments of the United States and its allies and partners in the region. This action plan outlines the steps the EU would have to take in order to – as effectively as possible – contribute to preventing military conflict by preparing for an economic one.

Rising tensions in the world’s manufacturing hub

Military conflict in East Asia, especially over Taiwan, would have a severe impact on the EU’s economy, its critical sectors and European security. Unlike Eastern Europe and the Middle East, East Asia is the global economy’s manufacturing hub. Over 75 percent of all semiconductors,
essential components of vital items ranging from fighter jets, to pacemakers and wind turbines, are produced in China, Taiwan, South Korea, and Japan. China, “the world’s sole [remaining] manufacturing superpower”, produces 35 percent of all manufactured goods worldwide. This is far more than the EU and the US combined. Shipping lanes in the South China Sea, East China Sea, and the Malacca Strait are the arteries of the world economy. Between 20 and 30 percent of global trade travels through each of these waters. Unsurprisingly, an authoritative scenario exercise concluded that an invasion of Taiwan would wipe ten trillion USD off global GDP. This is equal to the combined fall-out of the 2008 financial crisis and the Covid-19 pandemic.

To Beijing’s dismay, its hostile acts below the threshold of war have not brought its strategic goal of peaceful “reunification” closer. Since 2016, these have included detention of Taiwan residents in China, influence campaigns, cyberattacks, ever-higher numbers of PLA aircraft entering Taiwan’s Air Defence Identification Zone (ADIZ), more regular large-scale military drills around Taiwan, and the severing of subsea cables connecting the Matsu Islands to Taiwan. Yet, the Democratic Progressive Party, according to Beijing the choice for “war” and “recession”, once again won Taiwan’s presidential elections in 2024. In 2023, a mere 7 percent of Taiwan’s population wants “unification as soon as possible” or to “move towards unification”, whereas 16 percent was still in favour in 2018.

Beijing may well conclude that achieving “reunification” under these circumstances will require greater military force. Early signs are ominous. The PLA’s military drills that encircled Taiwan and its outlying islands following President Lai’s inauguration address “looked like an [invasion] rehearsal”, said US Indo-Pacific Commander Samuel Paparo. He warned that the PLA is adding

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9 Zhang Zhijun, president of the Association Relations Across the Taiwan Straits, a quasi-official body that handles ties with Taiwan cited in Zhang, Y., ‘Taiwan residents urged to make right choice between peace, war’, China Daily, January 2024 (https://www.chinadaily.com.cn/a/202001/04/W56596120a3105f21a507a84a.html).


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“capacity at an alarming rate.”11 The exercises are likely “only the beginning of a military, diplomatic, and economic pressure campaign” to put pressure on the Lai Administration.12

In the event of actual military conflict, Europe would face the impact of war-related disruption and economic coercion, meaning (counter)sanctions by China. Both a blockade and an invasion of Taiwan are likely to bring the island republic’s world leading semiconductor manufacturing sector to a complete standstill. An invasion may well lead to its downstream destruction.13 Surveyed experts believe a US-China war is the likely outcome of an invasion.14 This would make sea lanes and aerial routes indefinitely inaccessible. In turn, an inability to move energy, materials, components, and personnel to and around East Asia would disrupt the region’s manufacturing of vital goods.15 Even “just” a maritime blockade is expected to set off a sanction spiral between China and the US, the EU, and their partners in East Asia. As a result of the subsequent moral imperative and intense US pressure to impose severe sanctions, EU-China trade relations could quickly unravel.

Dynamics would be similar to how Russia-EU trade relations fell apart following Putin’s invasion of Ukraine.16 The economic and societal impact, however, would be far more severe. The full extent of EU critical sector reliance on China’s unmatched manufacturing base remains unknown. But just the known dependencies are reason for much concern. EU Member States depend on China for the supply of many vital medicines, such as antibiotics.17 China controls over 50 percent of the mining or refining of the majority (19 out of 34) of the materials the EU deems critical.18 These are needed in defence, medical, digital, green, and other critical sectors.

Telecommunications networks of most Member States still depend on Huawei for servicing of equipment.¹⁹

Finally, US involvement in a conflict in East Asia is likely to make the EU, especially Central and Northern EU Member States, more vulnerable to Russian military opportunism. In a Taiwan contingency, the US is believed to focus its military means on its main rival in its primary theatre: China in the Indo-Pacific.²⁰ Reduced stockpiles and production capacity constraints in the US defence economy would force Washington to make difficult trade-offs.²¹ This is particularly the case for a range of precision-guided missiles such as HIMARS and ATACMS. These are needed in the Ukraine war and would need to be made available in a broader European conflict (a land war) as well as to arm Taiwan and in a broader conflict in East Asia (a maritime war). In addition, the US Navy will highly likely shoulder the burden of repelling any Taiwan invasion. This may threaten its ability to fulfill its core function in NATO: ensuring the safe reinforcement of US troops across the Atlantic in times of crisis. Deterrence gaps in Europe may become even greater during a second Trump presidency. Members of his administration have consistently advocated prioritising Taiwan and the Indo-Pacific over Ukraine and Europe.²²

Therefore, a Taiwan conflict would weaken deterrence in Europe. In time, this may even open the door for Russian fait accompli actions, akin to the seizure of Crimea in 2014, but possibly this time on NATO territory.²³ Analysts fear that Russia, after an end to the war in Ukraine, “can rebuild the readiness of a substantial portion of its army and reconstitute inventories of ballistic and cruise missiles”. If Moscow succeeds in this, NATO’s current defence posture “will not be adequate to prevent the rapid loss of key territory in the Baltic states” in the event of an invasion.²⁴ In a worst-case scenario, an attempted land grab, say in Estonia, can lead to a Russia-NATO war.

**Preventing conflict by preparing for economic conflict**

To safeguard prosperity and security, the new EU team would have to mobilise European strengths to maximally contribute to US-led military deterrence of China. Washington’s security commitments have long formed the backbone of deterrence in East Asia. Still today, the US is

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the only power with the required defence capabilities in East Asia to check China's military rise. Deterrence, or “the practice of discouraging or restraining someone – in world politics, usually a nation-state – from taking unwanted actions, such as an armed attack”, has become the central concept in US policy discussions on how to prevent war in the Taiwan Strait. Practically, American commitments are shaped by longstanding bilateral alliances with regional middle powers like Japan, South Korea, the Philippines and Australia, naval deployments, and military bases. In this way, the US seeks to deny China confidence in achieving its goal of “reunifying” with Taiwan by force.

The Biden Administration has launched both diplomatic and military initiatives to tilt the balance of power back in its favour. American officials and experts regularly express a sense of urgency. For example, Biden’s CIA director revealed that US intelligence indicates that President Xi instructed the PLA to be ready “to conduct a successful invasion” by 2027. Washington has spearheaded new trilateral security partnerships, namely AUKUS, Japan-Korea-US and Japan-Philippines-US. The President himself has made four verbal public commitments to come to Taiwan’s aid when attacked.

Meanwhile, the US invests in military capabilities to make it impossible for China to win a Taiwan conflict quickly. A long war would put Beijing on an uncertain and dangerous path. Putin’s failure to win in the first weeks in Ukraine has led to a costly and high-risk war of attrition. This included a challenge to the regime itself in the form of the June 2023 Wagner Mutiny. In June 2024, a senior US military leader revealed that swarms of unmanned submarines, surface ships, and aerial drones are in development and ready to be deployed in the near future. Collectively, these capabilities are meant to turn the 180-kilometre broad Taiwan Strait into a “hellscape” during the early hours and days of an invasion. By doing so, the US military hopes to buy allies and itself time to reach the Strait with greater military means.

The US also deployed midrange ground-based missile launchers to the Philippines in April 2024, the first US deployment of such systems in the Indo-Pacific. Likewise, Congress adopted a bill with broad bipartisan support that included eight billion USD for Taiwan military aid in April 2024. Through these actions, Washington seeks to reduce China’s confidence in its

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30 This was part of a bill that also included the long-delayed 60-billion-dollar aid package for Ukraine. Jalonick, MC et al, ‘Senate overwhelmingly passes aid for Ukraine, Israel and Taiwan with big bipartisan vote’, AP News, April 2024 (https://apnews.com/article/israel-ukraine-aid-tiktok-senate-8fe738b17e5c4b2636bc0de11b2620b7).
ability to present the world with a *fait accompli* takeover of Taiwan, after fighting only a “short” and “sharp” war.\(^{31}\)

Through these actions, the Biden Administration seeks to shape “perceptions so that [China continues to see] the alternatives to aggression as more attractive than war,” despite Beijing’s fast growing military power.\(^{32}\) A further expansion of long-range strike capabilities of the US and its allies in the region would make a blockade or invasion of Taiwan far riskier for Beijing. A second Trump Administration may invest even more in arming allies and partners in the Indo-Pacific. Trump’s 2019-2021 national security advisor and his deputy have both advocated rapidly expanding military aid to Taiwan.\(^{33}\)

EU Member States may depend on US capabilities to deny China faith in its ability to win a quick war in East Asia (deterrence by denial). After all, France at present is the only EU Member State with the naval capabilities necessary to make a meaningful contribution to this.\(^{34}\) But the EU can still increase the cost for China of starting any conflict, especially a long conflict, by threatening (economic) costs (deterrence by punishment). Tensions have risen at a rapid pace. US efforts to regain the initiative give Beijing reason to suspect that time is no longer on its side. Contributing as effectively as possible to deterrence requires that the new EU team initiates a four-step action plan as soon as possible:

❖ **Step 1: Settle on an action plan at the highest EU level to contribute to deterrence in East Asia.** To contribute to deterring China from starting a military conflict, the new EU Council President should put peace and stability in East Asia high on the agenda. The goal is to achieve buy-in at the highest EU levels for an action plan to contribute to US-led (military) deterrence. Discussing this during a Foreign Affairs Council, the meeting that brings together the EU’s foreign ministers every month, would be a good start.

❖ **Step 2.1: Map reverse dependencies, meaning the goods and services for which China depends on the EU.** The EU, the world’s third largest economy and largest manufacturer behind China, possesses meaningful economic resources.\(^{35}\) Converting these into actual leverage, however, requires identifying the goods and services for which China relies on the EU. To this end, the European Commission should, with the US and partners in East Asia, compile “a comprehensive overview of [economic]...”

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\(^{31}\) Admiral Samuel Paparo in Rogin, J., June 2024.
pressure points [they control] vis-à-vis China long before any conflict takes place.\textsuperscript{36} ASML's near-monopoly and decade-plus lead over China in the production of lithography systems, highly complex semiconductor manufacturing tools that require servicing and spare parts over the entire lifecycle, is the most powerful known EU reverse dependency.\textsuperscript{37} EU officials should then combine their overviews with those produced by partners in North America, East Asia, and the UK.

Current efforts to map reverse dependencies are not ambitious enough. Mapping of "complete" industry ecosystems remains limited to high-profile sectors, such as the semiconductor industry and green tech value chains.\textsuperscript{38} Research projects that zoom in on the EU's reverse dependencies with sufficient granularity (through extensive case studies) are still rare and too narrow. For example, the scope of one particularly meticulous research project on reverse dependencies is limited to twelve case studies because of budget constraints.\textsuperscript{39}

The European Commission should with Member States, industry representatives, and geo-economic, technical and China experts initiate a far bolder effort to chart reverse dependencies across industries. Understanding the EU's and allied strengths and weaknesses in an era of great power competition in globalised networks requires something closer to "a huge new scientific effort [...] to map the business networks that bind the world together, building data on relationships that are hopelessly obscure today [...]". This necessitates a "large-scale cooperation among people who understand international relations, financial networks, supply chain, information science and history, and material science – a Manhattan Project aimed at [...] figuring out how things are made."\textsuperscript{40}

Specifically, the Commission should rapidly invest in multi-disciplinary teams in charge of mapping these value chains, by rapidly expanding its specialised staff across these fields. The US approach to assessing its military strength since the Cold War provides


\textsuperscript{38} See for example Varas, A., 'Strengthening the global semiconductor supply chain in an uncertain era', Boston Consulting Group and Semiconductor Industry Association, April 2021.

\textsuperscript{39} Rühlig, T. et al., Reverse dependency: Making Europe's digital technological strengths indispensable to China, Digital Power China, May 2024 (https://timruhlig.eu/ctf/assets/x93kiko5r7l/14P2jpF9hLX46ua1XVVDTG/66c8581a0e03a85465cf6277592d8abe/DP_C_-_GESAMT_0.pdf).

lessons. The Department of Defense’ Office of Net Assessment (ONA) has since 1973 provided confidential “long-term comparative assessments of trends, key competitions, risks, opportunities, and future prospects of U.S. military capability to the Secretary of Defense [...]”\footnote{US Department of Defense (DoD), ‘Office of net assessment (ONA)’ (https://www.defense.gov/About/office-of-the-secretary-of-defense/office-of-net-assessment/).} One of ONA’s main tasks is to map how specific US military capabilities, say its bombers, aircraft carriers and offensive cyber capabilities, measure up against those of rivals, now and in the next decades. The European Commission should aim to set up a body with ONA’s level of ambition and time horizon, but then focused on the geoeconomic realm. Specifically, it should assess how European and allied positions of strength (and weakness) in key value chains measure up against those of China and other rivals, and how this balance of dependencies is likely to change in the upcoming twenty years. In addition, a European economic intelligence service can help pool Member State resources. Both initiatives would require improved information security within EU institutions.\footnote{Duchâtel, M., ‘Xi’s Europe visit shows the EU needs an economic intelligence service’, Euractiv, May 2024 (https://www.euractiv.com/section/china/opinion/xis-europe-visit-shows-the-eu-needs-an-economic-intelligence-service/).}

In the shorter-term, more extensive data gathering and information sharing between Member States and the institutions on Chinese investment attempts (for example mergers and acquisitions), research cooperation requests and export license applications can grant insight into the strategic capabilities Beijing still lacks.

China has long pursued industrial policies, executed economic espionage campaigns and adopted localisation requirements for foreign companies to indigenise key strategic industries. The most sensitive studies on reverse dependencies should be shared behind closed doors only.\footnote{‘Notice of the State Council on the Publication of Made in China 2025’, Translated by Center for Security and Emerging Technology (CSET), May 2015 (https://cset.georgetown.edu/wp-content/uploads/t0432_made_in_china_2025_EN.pdf).} Otherwise, these efforts can prematurely provide China with clues regarding what leverage the EU possesses. Maintaining reverse dependencies is helped by further strengthening FDI-screening mechanisms, the continued harmonisation of export controls and more restrictive policies for R&D collaboration with China.

\textbf{Step 2.2: Prepare trade and investment sanction packages at various levels of ambition.} Strengthening US-led deterrence requires EU capitals to be “clear about what [they] seek to deter and what it will do if the threat is challenged.”\footnote{Mazarr, MJ., ‘Understanding Deterrence’, RAND Corporation, April 2018, p.11 (https://www.rand.org/pubs/perspectives/PE295.html).} In the run-up to the invasion of Ukraine, the European Council tried to deter Russia by punishment, as it threatened “massive consequences [and] severe costs” that would be “coordinated with allies”.\footnote{‘European Council conclusions, 16 December 2021’, European Council (https://www.consilium.europa.eu/en/press/press-releases/2021/12/17/european-council-conclusions-16-december-2021/).} The sanctions effort was designed in detail by the EU with allies and
partners. However, the exact measures prepared were not communicated to Moscow prior to the war.

To make deterrence as credible as possible, the European Commission should – in secret – prepare concrete and detailed plans for import, export, and investment sanction packages at various levels of ambition. After all, an on-and-off blockade of Taiwan warrants narrower EU weaponisation of reverse dependencies than a full invasion.46 The European Commission should again coordinate these packages in classified meetings with partners. At moments of high tension, the EU should spell out in detail the economic costs to China (see step 4).

There is of course the risk that Beijing obtains information on the prepared sanction packages prematurely. However, if information is leaked to Beijing either directly or via the press then this too may have inadvertent advantages: it would reinforce perceptions in China that the EU is focused on strengthening its capability and is internally mustering will to impose severe costs.

❖ **Step 3.1: Identify the most dangerous strategic dependencies including by conducting military crisis stress-tests with industry.**

The EU should strive to achieve a more comprehensive and granular overview of the EU’s strategic dependencies. Credibility of EU deterrence in East Asia depends as much on the EU’s vulnerability to strategic value chains controlled by China, as it does on reverse dependencies. At present, no party has a comprehensive overview of the critical economic inputs produced in East Asia. As a result, it remains unclear which EU critical sectors would be threatened most by the war-related disruption and economic boycotts that would result from a Taiwan contingency.

The European Commission should run joint military-economic stress-tests with Member States, critical industries, and external military and geo-economic experts.47 Stress-tests have become well-established best practice in the field of (corporate) cyber security. They provoke all involved actors into increasing preparedness by showing the impact of worst-case scenarios. Leaders in critical industries, however, lack the expertise to gauge the disruptions generated by a military conflict. Meanwhile, defence experts lack a granular understanding of the supply chains on which critical EU industries and vital processes rely. Military-economic stress-tests provide both parties with a more comprehensive picture of the exact economic and societal fall-out of war-related disruption (for example blocked access to Taiwan and perhaps even parts of Japan and South Korea, due to unsafe sea lanes in the East and South China Seas) and Chinese sanctions (for example an export ban on resources to produce medicine). In turn, these


exercises can help inform future geoeconomic net assessments and strengthen a prospective EU economic intelligence agency (see step 2.1).

Based on these insights and exercises, EU officials and Member States can speed up targeted diversification strategies that safeguard critical production and vital processes even when conflict occurs. The Commission’s call on Member States to outline key strategic dependencies in advanced semiconductors, artificial intelligence and the two other technologies it deems most critical is a good first step.48

❖ **Step 3.2: Focus de-risking efforts on dependencies that threaten medical, semiconductor, defense, and telecommunication sectors.**

Both China and the U.S. pursue (re)industrialisation across the board to establish greater control over the production of critical economic inputs. Adopting a similar strategy is difficult for the EU, as its industrial policies are constraint by structural challenges. The EU faces some of the highest energy prices and labour costs globally, devolved powers on continental, national, provincial, and municipal levels, stringent climate and environmental regulations, and powerful not-in-my-backyard movements.

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Preventing war in East Asia
An action plan to strengthen European deterrence

Step 1
Settle on an EU action plan
to contribute to deterrence in East Asia
Initiated by the European Commission President;
other involved parties: EU Member States; European Commission President; HR/VP

Map reverse dependencies
meaning the goods and services for which China depends on the EU. Combine this overview with those of allies and partners.
Initiated by the European Commission President;
other involved parties: European Council;
EU Member States; Industry representatives;
External geo-economic, technical and China experts

Identify the most critical dependencies
by conducting military crisis stress-tests with industry. At present, no party has a comprehensive overview of critical economic inputs produced in East Asia.
Initiated by the European Commission President;
other involved parties: EU Member States;
Industry representatives; External military and geo-economic experts.

Prepare sanction packages at various levels of ambition
An on-and-off blockade of Taiwan warrants narrower EU weaponisation of reverse dependencies than a full invasion.
Initiated by the President of the European Commission and the HR/VP;
other involved parties: EU Member States

Focus de-risking efforts
on dependencies that threaten medical, semiconductor, defence, and telecommunication sectors. The EU is worse positioned than the U.S. and China to pursue broad (re)industrialisation.
Initiated by the European Commission President;
other involved parties: EU Member States;
Industry representatives; external geo-economic experts.

Persuade China’s leader(s)
of EU resolve
to cut off trade, if EU red lines are crossed. This should be done through private direct messages to President Xi and public messages.
Initiated by the European Commission President; EU Council President; HR/VP
other involved parties: Leaders of most powerful EU economies (DE, FR, NL); In coordination with EU partners and allies in Europe (UK), North America (US, CA), and Indo-Pacific (SK, JP, TW, AU, IN)

2.1
2.2
3.1
3.2
4
The Commission and Member States should use their limited resources to help critical sectors overcome the strategic dependencies that carry the highest risk. Policymakers and think tanks have devoted a lot of attention to strategic dependencies that may put at risk the Union’s green and digital transitions. However, the dependencies that directly threaten the “security (i.e., physical or financial), safety and health of [...] European populations” when weaponised should be considered even more important. Examples are reliance on China for resources to produce vital medicine and ammunition, the critical materials required to manufacture semiconductors, weapon systems and medical technologies, the assembly, test, and packaging (ATP) of semiconductors and the servicing of European telecommunication networks (Huawei). After all, the medical sector cannot take care of patients without medicine or medical systems; Member State militaries cannot deter Russia without weapon systems and ammunition; almost no critical goods can be produced without access to semiconductors or critical raw materials; and the functioning of modern communication networks relies on the continued goodwill of 5G vendors.

Meanwhile, the EU must ensure that the green and digital transitions do not lead to new high-risk dependencies. For example, the energy systems of EU Member States would be more geopolitically vulnerable, if these included China-produced complex products that require servicing and spare parts such as wind turbines.

❖ **Step 4: Persuade China’s leader(s) of EU resolve to cut-off trade, if EU red lines are crossed.** Effective EU deterrence depends on the belief among China’s leader(s) that the EU and its Member States will follow through if China uses military force to change the status quo. This requires a combination of consistent messaging through both private and public statements, clearly laying out the EU’s red lines and what happens if these are crossed. EU leaders should simultaneously use diplomatic outreach to present reassurances: they should reiterate to Beijing that they do not support Taiwan independence. To minimise the risk of retaliation against vulnerable parties, EU officials and heads of government of the most powerful economies in the EU, in particular Germany, France, and the Netherlands, must communicate the costs on behalf of the EU.

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Most importantly, this should be done in direct meetings with President Xi. In today’s China he (and he alone) wields the highly centralised power required to take the decision to go to war. In fact, it is doubtful whether threats communicated at lower levels will be relayed to him. The (immediate) personal risks for senior military leaders to argue against the case for war “if Xi has already articulated a preference to use force” are likely far higher than those of war itself.\(^5\) Fortunately, EU leaders and several Member State heads of government have enjoyed regular access to him over almost his entire leadership. Reiterating these private messages publicly, as “clear public commitments”, can strengthen deterrence further. This could strengthen the notion of “a perceived obligation [for the EU] to respond” in the mind of China’s leader(s).\(^5\)

Contributing as effectively as possible to deterrence requires EU leaders to be more forward leaning in their messaging. On the positive side, EU leaders have reiterated the importance of peace and stability in the Taiwan Strait for the EU, effectively refuting Beijing’s claim that the Taiwan issue is merely a Chinese “internal affair”.\(^6\) Some have even added that the EU “stands strongly against any unilateral change of the status quo, in particular by the use of force.”\(^6\) Fewer, however, have communicated that the EU would impose a cost on China. One positive example stands out. According to a member of his team, President Macron told Xi in a closed-door meeting in Beijing that a Taiwan conflict “would force us to impose massive sanctions.” Encouragingly, Macron’s diplomatic advisor then repeated the president’s words in a public forum.\(^6\)

**Economic deterrence matters**

In discussions on the importance of peace and stability in the Taiwan Strait for the EU one key fact remains undisputed: the economic, and likely also strategic, costs of a war in East Asia are enormous. The question remains however if the EU can meaningfully strengthen deterrence, or whether such endeavours would be marginal contrasted with US-led deterrence through military means.

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A pledge of economic punishment by the EU can strengthen deterrence for two reasons. First, an economic collapse puts at risk the one thing that Xi values even more than “reunification” with Taiwan: political stability.59 Xi’s absolute priority is the continued rule of the Communist Party in China. For the last 35 years, this has been upheld through a Faustian bargain between those who govern and the governed: after the Tiananmen Square crackdown the Chinese gave up their pursuit of individual liberties in exchange for a promise of rapid economic development. Scholars have rightly argued that a joint decision by the EU and its allies and partners to cut off trade would put this arrangement at risk.60

Second, the EU’s economic leverage is growing.61 China’s dependence on exports, also to advanced economies, has increased in the last two years – despite Xi’s policies that aim to achieve a high degree of self-reliance in strategic sectors.62 The explicit goal of his dual circulation policy is to inoculate the country from “foreigners who would artificially cut off supply [to China]”, by tightening “international production chains' dependence on China”.63 China is supposed to expand domestic production of critical products, such as food and semiconductors, to ensure its economic and national security. It was supposed to achieve this by directing its gigantic domestic market inwards. To some extent China has succeeded: whereas exports of goods and services still made-up 36 percent of China’s GDP in 2006, in 2020 this number fell to 18.4 percent.64 During the same period, its share of global manufacturing quadrupled.65 Consumption, however, has faltered following the end of Xi’s Zero-Covid policy and the real-estate crisis. In 2022, China again relied for over 20 percent of GDP on exports.66 Beijing seems to have doubled down on stimulating production to solve its economic malaise. This makes Xi’s dream of industrial autarky again more reliant on the willingness of the West to continue imports from China. Therefore, China has become more vulnerable to European threats to close of its market in the last two years.

Finally, there is no obvious cost to implementing the proposed action plan. If a war in the Taiwan Strait takes place, the EU will face a massive economic fall-out from war-related disruption and economic coercion anyway. The combination of moral outrage and US pressure will force the EU as a whole or ‘just’ its leading Member States to impose massive sanctions on China, to which Beijing will respond. Whether the EU and its partners threaten economic devastation on China before a conflict is unlikely to affect the economic impact of a conflict on

60 Ibid.
66 Ibid.
the EU. Threatening economic punishment before a conflict, however, may reduce the probability that Beijing sets in motion this devastating chain of events.

The next best thing: announcing the inevitable

Despite the advantages of adopting a deterrence strategy, the EU’s unanimous decision-making processes and China’s influence with several Member States make it difficult to execute the action plan in full. Deterrence by punishment rests on the ability to make a credible (and preferably detailed) threat to dissuade a potential aggressor. The EU’s allies, either federal or unitary states, are better positioned than the EU to execute Step 1 (Settle on an action plan at the highest [political] level to contribute to deterrence in East Asia), Step 2.2. (Prepare trade and investment sanction packages at various levels of ambition) and by extension Step 4 (Persuade China’s leader(s) of […] resolve to cut-off trade, if […] red lines are crossed). The EU’s set up makes it far more difficult to be proactive. For example, only one EU Member State is needed to keep “peace and stability in East Asia” or “Taiwan” off the agenda of the Foreign Affairs Council, the body that brings together the EU’s foreign ministers every month. The EU may well fail to adopt something akin to the above action plan prior to conflict.

If plan A fails, how can the EU still contribute to deterrence? Plan B requires EU leaders to spell out the dynamics that a conflict is very likely to unleash, while still executing the less controversial steps of the action plan to strengthen resilience.67 Macron’s message to Xi that a Taiwan conflict “would force us to impose massive sanctions” encapsulates this.68 The president did not threaten an already agreed to EU punishment. Instead, he indicated that a conflict would spark the mobilisation of France’s economic resources with sanctions as the inevitable result. By outlining the reaction to conflict, Macron still proactively raised the costs of conflict. EU and Member State leaders should communicate to China that dynamics at the EU level will likely be similar. This warning will be more persuasive, if the EU simultaneously maps and maintains its reverse dependencies while mitigating the most dangerous dependencies on China. Adopting and implementing the most difficult steps of the action plan in time may fail. Communicating to Beijing that the EU will be forced and prepared to impose economic punishment is the second-best deterrence strategy.

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67 These are Step 2.1: Map reverse dependencies, meaning the goods and services for which China depends on the EU; Step 3.1: Identify the most dangerous strategic dependencies including by conducting military crisis stress-tests with industry; and Step 3.2: Focus de-risking efforts on dependencies that threaten medical, semiconductor, defence, and telecommunication sectors.