

THEME 01

# The future of Europe from an Asian perspective

HEGEMONY

EUROPE

TRADE WAR

In a world of hegemonic conflict between the U.S. and China, the role of Europe will change. As the U.S. isolates China and economic opportunities arise in the East, Europe will grow closer to Asia. From an Asian perspective, this represents “the return of history”. Much that has happened since the trade war strengthens this Asian view.

## Our observations

- During the Sino-American trade war, Europe has grown closer to Asia and China against the will of the U.S. Many EU members have already joined the [Asian Infrastructure Investment Bank](#) (AIIB). More recently, Europeans refused to join the U.S. in isolating China’s [Huawei](#), Germany refuses to list Hezbollah as a terrorist group and backs Russia’s Nordstream 2 pipeline, and [Italy](#) (among other European countries) has joined the Belt and Road Initiative (BRI). Furthermore, after China being the first country to ground the Boeing 737 Max, European countries quickly followed.
- [Kishore Mahbubani](#) has argued that if the U.S. were to focus its campaign against China on unfair trade practices, it would generate a great deal of global support. However, the real goal of the Trump Administration is to undermine China’s plan to become a technological leader (Made in China 2025).
- Last week, the European Commission (EC) published its [China outlook](#). Although noting concerns about the rise of China, the EC emphasizes the need to have a pragmatic relationship with China. The EC also explicitly recognizes China’s right to become a leading technological power.
- In [The Future is Asian](#), Parag Khanna argues that Europe’s pivot to Asia is much more successful than the American “Pivot to Asia”. Asian countries’ investment in Europe is substantially higher than the U.S.’s and as European countries face slowing growth and intellectual property risk in China, they are diverting investment to elsewhere in Asia (e.g. the EU is ASEAN’s largest investor).



## Connecting the dots

In the hegemonic conflict between the U.S. and China, Europe is forced to adapt. As both Washington and Beijing are increasingly using trade and investment as a political weapon, Europe is forced to become more pragmatic to protect its interests. Above all, this means that Europe will grow closer to Asia. Interestingly, from an Asian perspective, this represents “the return of history”. We have previously [noted](#) that compared to the West, Asian societies have a diametrically opposed view of history. From an Asian perspective on history, Europe has always been tightly connected to Asia. From the Phoenicians, Greeks, Mongols and Persians to the Arabs, Crusades, Ottomans and European colonization, Asia’s relations with Europe are far-reaching and long-lasting. What are the implications of this return of history? Europe’s relationship with China, like its relationship with the U.S., will remain pragmatic – if necessary, against the will of the U.S. Already, European countries have endorsed the AIIB, the BRI and Huawei under heavy U.S. criticism. But the U.S. will not punish European countries, as this would only accelerate their pivot to Asia. Moreover, intensifying hegemonic conflict between the U.S. and China will also benefit Europe. As the U.S. tries to isolate China, the latter will aim for the “[permanent substitution](#)” of American goods and services. This means that China’s supply chains will move away from the U.S. in favor of other parts of the world. For instance, in response to the trade war, China is already purchasing more soybeans from Brazil, Argentina, and Canada than from the U.S. This permanent substitution means that opportunities will arise for European and Asian (e.g. Korean, Japanese)

firms, especially in high-tech sectors, in which China seeks to replace American firms. Indeed, Qualcomm, Intel and Nvidia have already seen revenues contract in China. Beijing could also pick [Airbus over Boeing](#) as a reward for Europe intensifying trade with China. More broadly, Europe will grow closer to Asia both economically and institutionally. After all, economic opportunities will increasingly arise in Asia. We are entering the third wave of modern Asian growth that began with postwar Japan and South Korea, followed by greater China (Taiwan and Hong Kong first, then the mainland), and which is now propelled by South and Southeast Asia. Khanna notes that each wave corresponds to a new set of countries in the demographic sweet spot and each represents an ever-larger share of Asia’s population. Europe is set to benefit from this third wave of Asian growth as it becomes highly connected to Asian economies. Asia-Europe trade is expected to reach \$2.5 trillion by 2025, about double the current trade between Europe and North America or between North America and Asia. The EU is also signing or negotiating trade deals with [Japan, India, and ASEAN](#), which adds more momentum. Meanwhile, European countries are joining Asian institutions (e.g. AIIB, BRI). From an Asian perspective, the return of history means that we should expect more economic and institutional cooperation between Europe and Asia. Most importantly, the EU is uniting on a [China policy](#), which does not necessarily mean that the EU and China will clash like the U.S. and China, but rather allows the EU to extract better deals from China. As hegemonic conflict between the U.S. and China proliferates, it is European and Asian firms that could increasingly benefit.

## Implications

- Europe’s autonomous and pragmatic approach amid the conflict between the U.S. and China is a [positive sign](#) for the survival of the EU. After all, as both Washington and Beijing are increasingly using trade and investment as a political weapon, EU members will only be able to push back by being part of the world’s largest common market. The European Commission is already challenging big Silicon Valley companies and looking at new ways of policing Chinese corporate takeovers.
- As European and Asian firms are taking Chinese market share away from American firms, the trade war is accelerating the decline of the U.S. (which is the result of the [Trump administration policy](#) and the imposition of [American sanctions](#)).