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The Economic Race in Southeast Asia – and why Europe is falling behind

An Essay by
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- Southeast Asia is the most significant arena of global economic competition, where global and regional economic powers vie for influence. While China, the USA, and Japan have strategically repositioned themselves in the region in recent years, Europe risks falling behind.

- The EU must finally translate its ambitious strategies into concrete action in the region. It is crucial that political measures and the interests of European companies in Southeast Asia be more closely aligned.

- Europe should learn from the strategic adjustments of its competitors. China, the USA, and Japan share the use of different cooperation models between government and business as a comprehensive strategy to support the market entry of their companies in Southeast Asia.

- Due to its vast internal market combined with world-leading, export-oriented industrial companies, the EU remains an attractive economic partner. To leverage these strengths in Southeast Asia, the EU must set the right course to support European companies in entering the markets and supply chains in the region.

- A swift conclusion of the EU trade negotiations in the region is crucial, and they should be freed from non-trade-related demands. Additionally, a closer dialogue between politics and business is need-ed, as well as a foreign economic agenda that specifically promotes investments by European companies in the region. Finally, the Global Gateway Initiative in Southeast Asia should be financially in-creased and further developed into a true European investment strategy.

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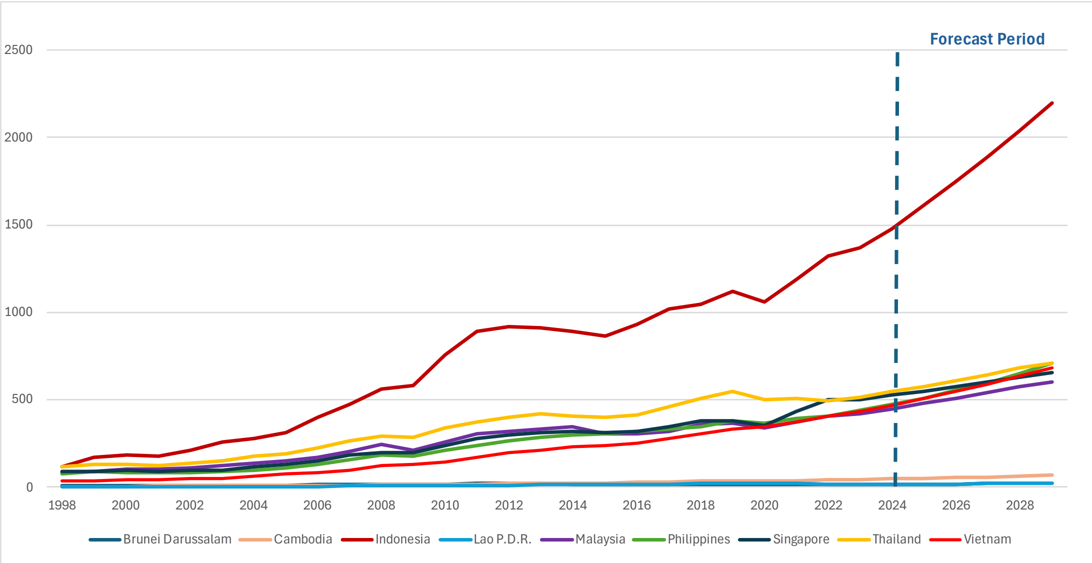
Introduction

Europe is in dire need of new economic partners. The EU's economy is stagnating and its traditional economic trailblazer, Germany, is constantly bordering on recession. The block's traditional approach of exporting its way to growth is no longer working. China, whose rapid economic development powered Europe's export-driven economies for decades, is losing steam. China is struggling with an economic crisis of its own and is caught up in trade-conflicts with the US and increasingly the EU. Coupled with these problems confronting European companies is the pressure on them to de-risk, by diversifying away from China to reduce economic dependencies. Tellingly too, in the first quarter of 2024, due to sharply decreasing imports and exports, China lost the title of being Germany's most important trading partner – a title it held for many years.

In the quest by European companies to find new growth markets and trading partners, they are increasingly looking to Southeast Asia. The emerging economies of ASEAN, the Southeast Asian regional block, form the economically most dynamic region in the world. Vietnam and the Philippines boast annual growth rates of up to 7 percent, while Indonesia is set to be the sixth largest economy in the world by 2027[1] (see Figure 1). Although burdened by a broad range of structural challenges, ASEAN, nevertheless, offers considerable diversification potential for European companies as they pursue their China+1 strategies.[2]

Figure 1: Annual GDP of ASEAN countries in billion US dollars 1998-2029



Source: IMF Datamapper, https://www.imf.org/external/datamapper

However, Southeast Asia's high growth potential is attracting other investors as well. In fact, in recent years, the region has become the major economic – and business – battleground of the world, where global and regional economic powers compete for influence. China has emerged as Southeast Asia's leading trading and investment partner and is increasingly dominating regional supply chains. The US and Japan are stepping up their game to counter China's rise in the region by opening up business opportunities for their companies. South Korea and even the Gulf countries are getting more active as well in this region. Europe has become just one of many competitors in the economic race in Southeast Asia – and it is struggling to compete.

In this essay, we discuss how China has pulled the levers of its control economy to establish itself as the economic behemoth in Southeast Asia, and how the US and Japan have shifted their respective strategies in the region to respond. What unites the approaches of all three powers is that they employ different government-business cooperative models as a comprehensive strategy to aid the entry of their enterprises into Southeast Asia. Europe is falling behind because it lacks such a holistic approach towards the region. Therefore, in this essay we discuss what the EU should learn from the strategy shifts of its competitors and what it needs to do to stay relevant in Southeast Asia while enhancing the business prospects of European firms in the region.

How China became the dominant economic power in Southeast Asia

China's push into Southeast Asia's economies goes back to the early 2000s, when the Chinese government, under then President Jiang Zemin, introduced its "*Going out*" strategy. About two decades earlier, Deng Xiaoping's administration had actively intervened in the economy to drive China's industrialization, primarily by employing state-owned enterprises (SOEs) backed by government funding and subsequently by the country's potent sovereign wealth funds. Chinese SOEs and private companies were then encouraged through the "Going out" strategy to invest in foreign lands, establish supply chains outside of China, and open up new markets.

In 2013, China's current president Xi Jinping doubled down on this strategy and introduced his flagship *Belt & Road Initiative* (BRI), a regional economic policy strategy to create an immense land and sea infrastructure network to link countries across Asia, Europe, and Africa. The BRI comprises six economic corridors: China-Indochina, China-Myanmar,[3] China-Pakistan, China-Mongolia-Russia, China-Central Asia-West Asia, and the New Eurasia Land Bridge. By 2023, 150 countries had signed about 200 BRI-based agreements. China's focus is emerging economies requiring investments to develop their infrastructure. There is, however, an interdependent tie between China and countries entering into BRI agreements. Many of these countries hold vital raw materials that China desperately needs to develop its burgeoning industrial and technology sectors.

As with the "Going Out" strategy, the primary tool to implement BRI projects is SOEs, controlled by the Chinese Communist Party. China has the largest number of SOEs in the world. One study estimated that, in 2022, of China's 40 million "registered firms", the government had 100 percent equity interest in 363,000 of them, a 30 percent stake in 629,000 companies, and at least some shares in 867,000 firms.[4] SOEs are key enterprises in the development of China's infrastructure. China has the world's largest network of high-speed railways,[5] fastest internet[6] and best container port,[7] a reason why it is seen as a global leader in infrastructure development. According to the International Energy Agency, Chinese companies are responsible for the construction of nearly half of all hydropower projects in Southeast Asia, Latin America, and Africa, making China the world's largest hydropower market.[8]

The good and bad outcomes of the implementation of the BRI through these SOEs are palpable in Southeast Asia. Among the colossal infrastructure projects in this region, executed by China's multinational SOEs, are the Jakarta-Bandung high-speed railway in Indonesia, the Lao-China Railway in Laos, the Bicol South Rail Project in the Philippines, the Phnom Penh-Sihanoukville Expressway and the Siem Reap-Angkor International Airport in Cambodia, as well as the East-Coast Rail Link and Malaysia-China Kuantan Industrial Park in Malaysia. Cambodia has the largest number of China-funded infrastructure projects, totaling 82. As for the highest volume of funds invested by China in these ventures, Indonesia leads with a total combined value of 20 billion US dollars for 71 projects.[9] China's technologically and financially well-endowed SOEs have executed these projects by forging joint ventures with similar SOEs in Southeast Asia. SOEs are leading enterprises in the corporate sectors of Singapore, Malaysia, Indonesia, Vietnam, Thailand, and Myanmar.

These SOE-SOE joint-ventures function as a method for China to secure entry into Southeast Asian economies. SOE-SOE ties for BRI projects are essentially determined by just two government leaders, Xi and the Prime Minister or President of the host Southeast Asian country. The ramifications of these joint endeavors have been the undermining of fair competition, competitive neutrality, and a level playing field when doing business, while also bypassing European, American, and Japanese firms from submitting a bid for these projects.

Inevitably, corruption is a troubling issue during the award and implementation of China-linked mega-projects. With China keen to secure long-term commercial and strategic stakes in emerging economies, allegations of corruption in these projects are linked to political elites in Southeast Asia.[10] Well-connected privately-owned domestic companies in China-led mega-projects, that entered through joint-ventures or by securing sub-contracts, have brought together politicians and businesspeople in a mutually beneficial 'developmental alliance'.[11] Although infrastructure development has benefitted emerging economies, these mega-projects have occurred under opaque government-business nexuses of the sort conventional good governance indicators categorize as unsatisfactory.[12]

While the Chinese government has used BRI to deploy China's SOEs into emerging economies, with a focus on infrastructure projects, it has continuously encouraged privately-owned firms to be "out-going" and venture actively into the industrial and technology sectors in Southeast Asia. Chinese private enterprises have since achieved, at an extremely rapid pace, global brand recognition in these two sectors where its SOEs have little presence. The Chinese government identified key industries, emphasized strategic investments, funded research and development (R&D), insisted on innovation, and stressed the creation of integrated supply chains. State support allowed companies such as Huawei and Xiaomi, that create, among other things, telecommunication-technology, to swiftly surpass long-established European firms such as Europe's Ericsson and Nokia. Electronic products produced by companies such as Hisense and Midea have growing global recognition. In the making of drones, China's DJI has 70 percent of the global market share.[13] E-commerce and digital platforms led by AliBaba, Tencent, and Baidu have global repute. Among electric vehicles (EVs), BYD has surpassed Tesla, until recently the world's largest firm in this sector. In robotics, China is becoming a global leader, while the government actively supports domestic production of airplanes (C919), also to stimulate the aerospace industry.[14]

With the help of these world leading private companies, China is increasingly penetrating the markets of Southeast Asia, attempting to outcompete its established Western rivals. This is most evident in the technology sector. Competition in this area is provided by fast-rising firms such as AliBaba, Huawei, and BYD. Huawei, for instance, has been tying up with public universities in Southeast Asia to launch artificial intelligence (AI) and cloud computing training centers, with one already established in Thailand. AliBaba has expanded its presence in e-commerce by forging a public-private partnership with state-controlled Malaysia Airports Holdings to create a digital free-trade zone (DFTZ) park. This project aims to develop a regional e-commerce logistics hub that will connect Malaysia's SMEs globally through AliBaba-inspired electronic world trade platforms. In Indonesia, TikTok, which apart from being a global social network is a growing force in online shopping, has acquired a controlling stake in the country's leading e-commerce platform Tokopedia.[15]

China's push of its private companies into Southeast Asia was aided by the government's strategic and active trade policy in the region. Parallel to its accession to the World Trade Organization (WTO) in 2001, China proposed the *ASEAN-China Free Trade Area* (ACFTA). ACFTA was finally implemented in 2010 and has since been upgraded upon China's initiative. Currently, the Chinese government is pushing for the completion of the next phase of ACFTA, to further deepen the trade agreement and include emerging sectors. Furthermore, China is a member of the *Regional Comprehensive Economic Partnership* (RCEP), the world's largest free trade agreement that includes all ASEAN countries as well as Australia, New Zealand, South Korea, and Japan.[16]

As a consequence, China has emerged as Southeast Asia's most important economic partner. Its trade volume with the ASEAN countries has nearly doubled in the last five years alone.[17] However, Chinese companies are not just expanding their market share. These enterprises are increasingly dominating the region's industrial supply chains as well. In fact, more than 80 percent of China's exports to the region are industrial goods.[18] The share of imports of intermediate goods from China in 2021 was around 30 percent in Vietnam, Indonesia, Thailand, and the Philippines.[19] These numbers have probably increased since then as China's growing economic rivalry with the West has compelled it to push even more into the region's economies. China needs alternative markets to unload its industrial production. But above all, Chinese companies are shifting parts of their supply chains into Southeast Asia to circumvent American tariffs and sanctions. For Vietnam, *The Economist* recently calculated an almost 100 percent correlation between the monthly increase in imports from China and in exports to the USA.[20] Although no such calculations exist for the rest of the region, there are many indications that this might be true for other countries as well – think car parts in Thailand or solar panels in Malaysia.

USA's delayed response to China's rise in ASEAN

In 2017, just as China was expanding its economic influence in Southeast Asia and pushing for new and deepened trade agreements to open up markets and supply chains, the USA under then President Donald Trump withdrew from the already signed *Trans-Pacific Partnership* (TPP) agreement. The remaining eleven signatories eventually agreed under Japanese leadership to proceed with implementing what is now the *Comprehensive and Progressive Agreement for Trans-Pacific Partnership* (CPTPP), leaving the USA out of this free trade architecture which is deepening in the region.

In 2022, alarmed by China's rapidly rising economic clout in the region and beyond, President Joe Biden moved to reverse course. In a clear attempt to de-couple the United States from China, his administration introduced in 2022 the *Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act*[21] and the *Inflation Reduction Act* (IRA).[22] These legislation, presented by the government as "Bidenomics", focused on "smart public investments" in infrastructure, clean energy, semiconductors, and manufacturing.[23] According to Biden, these legislative and policy approaches were his methods to grow "the economy from the middle out and bottom up instead of the top down."[24]

Biden's new policy direction was seen as a form of "American-style industrial policy",[25] with others referring to them as "big spending bills".[26] Total spending through these new initiatives reportedly would top "four trillion dollars".[27] Spending on just the CHIPS & Science Act, described as "one of the world's most ambitious industrial policies today, with subsidies, loans, tax credits, and support for research and development (R&D)", would total 79.3 billion US dollars, to be expended between 2022 and 2031.[28]

Meanwhile, export controls and trade sanctions were introduced to hamper China from securing access to advanced semiconductors, as well as the equipment to produce them domestically. This raised concerns about protectionism, with these measures serving to safeguard American firms from competition, the ostensible outcomes also of industrial policies.[29] The stated reason for such uncompetitive measures was that the United States found it necessary to deny China the cutting-edge AI capabilities it could use to modernize its nuclear and conventional weapons.[30]

To muster the support of emerging economies in Asia, the USA introduced its *Indo-Pacific Economic Framework* (IPEF), an obvious attempt to counter China's BRI and to get back into a leading role in shaping the region's economic landscape. The IPEF serves to more closely align the United States with old allies, i.e. Australia, Japan, South Korea, India, and Singapore, while nurturing its ties with emerging Southeast Asian economies, i.e. Brunei, Indonesia, Malaysia, Thailand, Vietnam, and the Philippines. The island states of Fiji and New Zealand have also been incorporated into the IPEF. These 14 countries in the IPEF account for 40 percent of the world's total economy and have a combined population of 2.5 billion people. The IPEF has four pillars: (1) digital trade, (2) strengthening supply chain resilience, (3) clean energy and infrastructure, and (4) taxation and anti-bribery.[31] The focus on anti-bribery is part of Biden's strategy to counter corruption, introduced in 2021. This *U.S. Strategy on Countering Corruption: Implementation Plan*,[32] the first of its kind, outlined Biden's approach to fighting corruption at home and abroad.

The United States' other alliances remain important as well, such as the G7, comprising Canada, Japan, France, Germany, Italy, and the United Kingdom. During the G7 summit in 2021, Biden introduced the core idea of a Partnership for *Global Infrastructure and Investment* (PGII) as part of his '*Build Back Better World*' (B3W) plan. At the summit the following year, the PGII was presented as an effort to ensure better coordination between the member countries in their approach to economic resilience and economic security.[33] And, at its summit in 2024, the G7 reiterated its pledge to commit 600 billion US dollars in private investments, targeted at 'low- and middle-income countries' which is to be spent by 2027. These funds are for constructing railways, developing cellular connectivity, expanding Wi-Fi coverage, and promoting green energy while creating good access to electricity.[34]

Noting these G7 pledges, privately-owned multinational companies (MNCs) in the United States have called for government-business collaboration to develop infrastructure projects in emerging economies. Some MNCs have actively moved to link their business development strategies with these incentives offered by the G7. For example, at the G7 summit in June 2024, BlackRock, the world's largest asset fund manager – and soon to be the world's second-largest infrastructure investor, after its takeover of private investment fund Global Infrastructure Partners (GIP) – stressed three points about financing infrastructure development. First, Larry Fink, BlackRock's CEO, made an argument for "blended finance"[35] when he contended at the G7 summit that the "IMF and the World Bank were created 80 years ago when banks, not markets, financed most things. Today, the financial world is flipped. The capital markets are the biggest source of private-sector financing" for building new vital infrastructure.[36] Thus, more private capital for infrastructure must be unlocked in emerging nations. Third, public-private partnerships (PPPs) are essential to allow for private funding of infrastructure.[37]

In this context, BlackRock further stressed the construction of data centers, crucial for the promotion of AI. Data centers, given their size and complexity, require considerable power and water supply that can only be supplied sufficiently if proper infrastructure is in place. BlackRock is but one of several large American asset fund managers and infrastructure investors that have burgeoning portfolio and direct investments in emerging economies, including in Southeast Asia. BlackRock has also joined forces with another prominent American MNC, Microsoft, to commit 5 billion US dollars for digital infrastructure, cybersecurity, and capacity building in Indonesia and Malaysia, while Thailand and the Philippines have been targeted for infrastructure development.[38]

The example of the role of asset managers such as BlackRock in the corporate sector shows a major difference in the political economy of the United States and China. Much economic power in the United States is concentrated in the hands of large MNCs, including global asset fund managers. In China, state capital is in play. Economic power is concentrated in the Chinese state through its control of SOEs. Another core difference between the U.S. and China is their primary mode of foreign investment. U.S.-based MNCs utilize foreign portfolio investments to enter key sectors of emerging economies. Of late, a number of large US-asset managers have voiced their intent to invest in the infrastructure, energy, and logistics sectors, where Chinese SOEs already have a global presence.

Meanwhile, as the digital economy grows globally and claims of AI's importance mount, investments are flowing into Southeast Asia through another group of major American MNCs, the so-called 'Magnificent Seven', that is Amazon, Apple, Google, Meta Platforms, Microsoft, Nvidia, and Tesla. The activities of these American tech-based MNCs encompass building data centers, promoting digitalization and digital competitiveness, creating new skills, and enhancing AI-focused innovation and commercialization. American industrial MNCs, such as Intel and AMD, with a long presence in Southeast Asia's electrical and electronics products (E&E) sector have also developed global supply chains. These E&E-based firms in Southeast Asia have benefited from U.S.-China tensions, with foreign investors targeting Malaysia and Singapore to diversify production and supply chains in the semiconductor industry away from China and Taiwan. Due to similar investment shifts in many industrial sectors, Malaysia has also emerged as the world's third-largest photovoltaic manufacturer, second to Vietnam.[39] Meanwhile, Vietnam's E&E sector has benefited from heavy investments from South Korea's leading MNC, Samsung.

Evidently, in response to China's SOE-SOE driven approach, public-private partnerships as an alternative model of government-business relations are occurring, encouraged by political leaders in the US and in other G7 countries. Such types of government-business partnerships figure increasingly prominently in pre-entry investment deliberations between governments, SOEs and MNCs in Southeast Asia.

Under pressure Japan changes course

By the 1990s, within a span of just three decades, Japan had emerged as the second largest economy in the world and the leading economic power in Asia. China has since usurped Japan's place in both rankings. And, just like companies from Europe, prominent Japanese firms in the industrial sector have fallen behind when competing with Chinese companies. Therefore, Japan, like the United States, has recently been increasingly proactive in trying to counter China's growing economic dominance.

For its part, Japan, in response to China's BRI, proposed in 2016 its plan for a *Free and Open Indo-Pacific* (FOIP). The FOIP serves as an avenue for Japan to channel investments into the most under-developed Southeast Asian countries. One core objective of the FOIP is to develop the infrastructure that these countries urgently require. Japan has been pursuing this objective by creating 'corridors'.[40] For example, Japan's *East-West Economic Corridor* spans from Da Nang in Vietnam through Thailand to Mawlamyine in Myanmar, a method also for it to secure entry into India and rapidly emerging South Asia. Japan also has a *Southern Economic Corridor*, running through Ho Chi Minh City in Vietnam, Phnom Penh in Cambodia, Bangkok in Thailand, and Dawei in Myanmar. The economic value of these corridors is becoming increasingly clear, including for domestic SMEs in this region. By 2024, about 1,100 companies, both domestic and foreign, were operating along these two corridors.

Thailand's presence in both corridors is telling. After all, Japan played a major role in Thailand's rapid industrialization which commenced in the 1970s. Within Southeast Asia, Thailand has the largest number of Japanese companies, totaling nearly 6,000, which are active in the automotive and E&E sectors.[41] In both sectors, the importance of supply chains is obvious, a particularly pertinent issue as nurturing Thai firms, specifically SMEs, is a core government agenda.[42]

In 2024, Japan entered into an agreement with the United States to create another corridor, the *Luzon Economic Corridor* (LEC), to expand its economic presence in Southeast Asia. This corridor is situated in the Philippines, possibly the United States's closest ally in Southeast Asia. Luzon was picked to situate this corridor given the island's vast supply of critical minerals, such as nickel, cobalt, copper, and bauxite, which are crucial for the semiconductor and EV industries, including the production of batteries.[43] The mere possibility of access to such minerals serves as an incentive for foreign firms to invest in this corridor. After all, production of nickel in the Philippines and Indonesia accounts for 45 percent of this mineral's total global output.[44]

In 2023, the *Japan-Vietnam Joint Initiative Agreement* was signed,[45] evidently to ride on Vietnam's high growth rates over the past decade. In Cambodia, Japan created in 2024 a special economic zone (SEZ) to draw investments from Japanese enterprises. This SEZ was Japan's response to the lessons it had learned from China's vast investments in the E&E and textile sectors in Cambodia which had helped this under-developed economy develop its manufacturing sector. The Chinese own 90 percent of Cambodia's clothing factories, while this sector constitutes about 40 percent of its GDP.[46] By 2022, Cambodia had emerged as the 8th largest exporter of clothing and footwear in the world, while Chinese enterprises have been integrated into the supply chains that produce products exported to Japan, the US and Europe.[47]

Japan has experienced first-hand what it means to be overly economically dependent on China. In 2010, China restricted its exports of rare earths to Japan. This, and several related developments, prompted the Japanese government to promote the diversification of supply chains, especially in areas that had hitherto been dominated by China. One core element of this diversification strategy was the introduction of the *Economic Security Protection Act* (ESPA) in 2022. The ESPA's core objective is to protect supply chains from disruption due to geopolitical conflicts by indigenizing them or by relying on Japan's allies, not China. To achieve this objective, the EPSA aims to ensure a stable supply of critical materials; guarantee constant provision of services using critical infrastructure; and support the development of important technologies.[48] The Japanese government introduced a range of subsidies aimed at promoting the build-up of domestic production capacities, research and development as well as investments in global supply chains in critical industries. In Southeast Asia, for instance, between 2020 and 2023, its *Overseas Supply Chain Diversification Support Project* has supported 124 such projects.[49] Further, the Japanese government is increasingly using its development cooperation as an instrument to promote its exporting companies by applying "tied aid", i.e. concessional loans that require recipient countries to award contracts to Japanese businesses.[50] These plans, if successful, will not just help Japan to diversify its supply chains away from China, but will have much impact on the competitiveness of Japanese firms in the technology sector where they are falling behind.[51]

Catching up: Is Europe acting strategically enough?

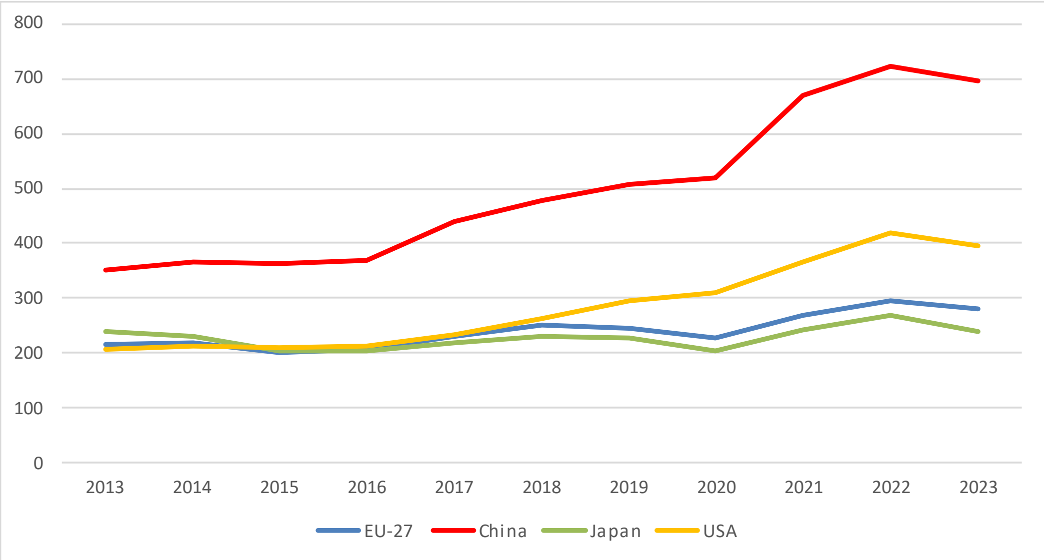
While the USA and Japan have profoundly shifted their strategies to counter China's growing economic domination and expand their economic influence in the region, Europe has been surprisingly reticent to commit itself to Southeast Asia. Europe has acted, but not thoughtfully – and strategically – enough. After the Biden administration introduced a range of initiatives to support American enterprise domestically and globally and enhance production capacity, the EU responded in early 2023 with its Green Deal Industrial Plan – along with its offshoot, the *Net Zero Industry Act* (NZIA) – and the *Critical Raw Materials Act*. And, as in the United States, the *European Chips Act* was introduced in 2023 to deal with the problem of disrupted supply chains and to reduce the EU's dependence on China.[52] This legislation further aims to increase the EU's share of global chip production to counter the fact that 80 percent of all chips are manufactured in Asia, with the EU and the USA sharing the remaining 20 percent.[53] This huge disparity in the production of chips globally served as an indication of how far behind the US and EU are in the production of this core product.

These EU initiatives, particularly the NZIA and the Critical Raw Materials Act, have not, however, been inspiring in terms of targeting key sectors and regions to muster investments, productively develop under-developed regions, and enhance the capacity of businesses to compete. Indeed, there has been much criticism of these legislations since their introduction.[54]

Another concern is that, in spite of the EU's stated desire to de-risk from China, it is insufficiently aware of the problems this will have on European firms operating in emerging economies and their supply chains. For example, by 2024, China had emerged as the world's largest exporter of automobiles, produced by Chinese and foreign firms.[55] Many of the industry's most prominent brands, such as General Motors, Tesla, Toyota, and Volkswagen, use China as a manufacturing and supplier base, or a vital sales market, or both.[56] By 2023, about a third of automobiles manufactured in China were exported to other Asian countries, though Southeast Asia in particular.[57] Yet, when the EU introduced its China strategy, European firms were urged to cut their exposure to this country.

Meanwhile, the EU has not built on one enormous strength it has, its economic heft. Its huge internal market, in combination with its world leading and export-oriented industrial companies make it one of the most attractive economic partners in the world. One would thus assume that Europe would be a major export market for Southeast Asian economies and European companies would form a crucial link in the region's supply chains. However, this is not the case. While ASEAN economies have grown rapidly during the last 25 years (see Figure 1), the trade volume between them and the EU has crept up rather slowly (Figure 2). Compare this to the rapid rise in trade between ASEAN countries and China and the USA over the past decade and it becomes evident that Europe has been falling behind in the economic race in the region.

Figure 2: Trade in goods of all ASEAN countries in billion US dollars



Source: ASEANstats 2024, https://data.aseanstats.org/trade-annually

With Europe so focused on China to grow its export-led economies, it overlooked what was happening in Southeast Asia. Now that its companies are searching for ways to de-risk from China and diversify into the region, they realize that they are struggling to compete with competitors that have been penetrating regional markets and supply chains for years – supported by governments that strategically pushed for expanding their economic influence. On paper, the EU and its Member States seem to have adjusted their policy approach by adopting new Indo-Pacific Strategies and, in 2024, the *European Economic Security Strategy* (EESS) that highlight Southeast Asia's growing economic and geopolitical importance. The EESS was introduced to promote de-risking by addressing the EU's reliance on China-led supply chains. EESS's other aim is to build European economic security by enhancing technology security and reducing technology leakage.[58]

Europe's approach in Southeast Asia, however, can be described as piecemeal. So far, the EU has only concluded free trade agreements with Singapore and, most recently, with Vietnam, in 2019. Negotiations with fast growing Indonesia and the Philippines have been lingering on for many years without much progress. Negotiations with Thailand were only revived last year, after having been on hold since 2014. Trade negotiations between the EU and Malaysia, first initiated in 2010, have similarly been on hold, since 2012, with no attempt to restart it. The main obstacle to a successful conclusion of these negotiations appears to be the EU's efforts to impose non-trade related demands, such as extensive environmental standards, on its trading partners. Indonesia and Malaysia strongly reject these demands and accuse the EU of protectionism under the guise of climate change mitigation. With growing global economic interest in the region, Europe's own economic troubles, stagnating trade with the EU, and a growing number of bilateral and regional trade agreements, including the ACFTA, RCEP, and CPTPP, the emerging economies of ASEAN are in a position to walk away from negotiations with the EU. As a consequence, European companies, being mostly excluded from regional trade agreements, struggle to compete with their Chinese, American, and Japanese, counterparts in the region.

In 2021, the EU launched its *Global Gateway Initiative*, its response to China's BRI. Global Gateway intends to 'boost smart, clean and secure connections in digital, energy and transport sectors, and to strengthen health, education and research systems across the world'.[59] Through this initiative, the EU aims to invest 300 billion euros in developing countries by 2027. Only 10 billion euros of this total has been earmarked for projects in Southeast Asia,[60] an incomprehensibly small sum given the enormous geopolitical and economic importance of the region. Just for comparison: The Rempang Eco-City industrial park project in Indonesia, which is being developed under the BRI, is planned to have a budget of 11.5 billion US dollars.[61]

In Southeast Asia, in line with the EU's 'green transition' and 'sustainable connectivity' agenda, the Global Gateway's ventures include creating grids and roads in Cambodia; improving electricity distribution to achieve energy efficiency, including through a hydropower plant in Vietnam; constructing urban transport, irrigation systems, and roads in Laos to enhance connectivity; and setting up solar power stations and home solar systems for last mile electrification in the Philippines. While these projects speak directly to the EU's green transition agenda, they could theoretically serve as a means to open up business opportunities for European companies, attain control of major infrastructure, and secure access to vital resources, currently acquired via Chinese supply chains in the region. In some cases, this is happening. One example, though a project still under review by the EU, is the Lumut Maritime Industrial City (LuMIC) in Malaysia. If this project is approved, LuMIC will be a joint-venture between Port of Antwerp-Bruges International, a company from Belgium, and Perbadanan Kemajuan Negeri Perak, a Malaysian SOE. However, in general, the Global Gateway is still being drawn along the lines of classical development cooperations, where strategically opening up opportunities for European companies is but an afterthought.

The label, Global Gateway, suggests that a coherent investment strategy is in place, managed by the European Commission (much as the BRI is overseen by the Chinese government). However, Global Gateway in Southeast Asia is merely a collection of unconnected projects, often managed and financed by Member States' national development banks and agencies, some of which had been in the pipeline long before this initiative was introduced. Given the small financial volume of most projects, the relatively modest total sum that is being mobilized for the region, and the lack of a true strategic approach to its implementation, it is clear that Global Gateway is not a well-structured response to China's BRI or Japan's FOIP (and its economic corridors).

Conclusion: Where now Europe?

Southeast Asia is visibly becoming a major battleground between SOEs and private firms from China and MNCs from industrialized economies. Evidently, government-business relations of two sorts are occurring, i.e. public-private partnerships and those involving SOE-SOE ties, encouraged by government leaders in the G7 and in China respectively. Both types of government-business relations figure prominently in pre-entry investment deliberations between ASEAN governments and SOEs and MNCs. Meanwhile, Japan has been creating inroads for Japanese firms into underdeveloped regions of Southeast Asia through transnational economic corridors, similar to China's BRI, and SEZs. These Japanese-led corridors and SEZs comprise Southeast Asian SMEs, facilitating the creation and development of supply chains in the region.

The United States has an increasingly active form of 'venture capitalism', seen in the likes of BlackRock, State Street, and Vanguard that are planning to aggressively invest in the infrastructure, industrial, and technology industries. In China's 'state capitalism', SOEs are the key agents for large-scale investments in mega-projects. Meanwhile, although Europe has huge MNCs of global repute, its capacity to fund R&D and invest in new technologies, including in emerging economies, is not as great as those by China and the United States. In fact, Germany, Europe's largest economy, has little or diminishing presence in the increasingly important technology sector in Southeast Asia.

Unlike Europe, the US has a clear sectoral strategy. American firms are focusing on key sectors where they have a dominant presence, specifically technology, AI, and data centers. Meanwhile, given the interlocking ties between asset investment funds such as BlackRock and Vanguard and MNCs in the semiconductor industry – vital for the AI revolution – the nexus between industrial and investment capital is a key new phenomenon. The Big Three asset managers – BlackRock, State Street, and Vanguard – have a combined total asset base of 30 trillion US dollars under their management.[62] This amount is higher than the combined assets of all sovereign wealth funds worldwide and five times the size of the global hedge funds industry. These three asset management enterprises collectively own 90 companies listed on the S&P500, control over 1,600 large companies, and indirectly employ about 23 million people worldwide.[63] This industrial-investment capital nexus can help forge joint-ownership networks between US-based MNCs and Southeast Asian SOEs, while also shaping supply chains. This trend is evident, for example, in BlackRock's tie-ups with state-owned Malaysia Airports Holdings and Singapore's sovereign wealth fund, Temasek Holdings.[64]

As for the EU, no major strategy appears to be in place to help European firms garner a deeper presence in Southeast Asia. In the latest EU-ASEAN Business Sentiment Survey, 59 percent of the European companies surveyed stated that the EU does not sufficiently support their interests in Southeast Asia – the highest level of dissatisfaction since the survey was introduced in 2015.[65] The EU should pay greater heed to the nature of government-business ties created by China and the US, as well as the corridors and SEZs built by Japan, to penetrate ASEAN economies. The EU has no clear agenda that can be seen as "business-enhancing" to actively support European industries, including those that have long operated in Southeast Asia. In fact, when the EU introduced its China strategy, European firms were urged to cut their exposure to the country, even though some of these enterprises had embedded deep roots, including through supply chains, in this densely populated country that has a burgeoning middle class and a growing market share of Southeast Asian economies.

In Germany, the government moved to cap the guarantees it gives businesses for their investments abroad and intensified its scrutiny of Chinese investments.[66] These acts have occurred even though the EU is aware that European firms are struggling to compete in Southeast Asia. There is also little indication of active government-business dialogue to deal with what is clearly a crisis for German – and EU – industrial firms in Asia. European enterprises are further hampered by the regulations stipulated by the EU that have a major bearing on competitiveness and productivity. Undoubtedly, regulations are vital, but how they may impair business participation in emerging economies must also be considered.

To avoid being left behind in its participation in ASEAN's emerging economies, Europe should turn its highflying Indo-Pacific strategies into real change actions on the ground. For this, it should learn from the more holistic approaches adopted by China, Japan, and the USA which entail joint government-business endeavors to determine how best to penetrate Southeast Asia's deeply competitive market. True, Europe is lacking the SOEs of China or the deep pockets of US investment funds. However, the EU's huge economic market and its prominent industrial enterprises, as well as the high level of trust it enjoys in the region, puts it in a good position to increase its economic presence in Southeast Asia.

Moreover, as US-China tensions mount, the EU is being considered by regional elites as the preferred partner to hedge against the uncertainties of this rivalry.[67] Europe evidently has the potential to catch up with the leading economic powers in the region, possibly increase its presence in strategic sectors in Southeast Asia. But for this to occur, the EU needs to promptly change course by enhancing bureaucratic-business dialogue to determine the problems encountered by European firms on the ground so as to provide viable policies to increase its presence in this region.

The EU should also push for a timely conclusion of the stalled trade negotiations in the region to reduce trade barriers and facilitate the entry of European firms into Southeast Asia. The EU should not overload these negotiations with non-trade demands. Trade policies should be decoupled from issues that are not directly trade-related. To encourage European companies to enter Southeast Asian markets and supply chains, more targeted measures are needed to promote investment in the region. Here again, such measures should work along economic lines, not be overburdened by non-economic issues that hamper companies from competing on a level playing field with enterprises from the USA, China, and Japan.

The Global Gateway should be more thoughtfully structured, as a well-coordinated strategic investment plan, while its budget in Southeast Asia must be adjusted to reflect the crucial importance the region plays for Europe's diversification efforts. The Gateway's projects should focus on areas where European firms have a competitive advantage, thus creating entry points and business opportunities for these companies in the region.

While there is an imperative need to change course by implementing a holistic strategy targeting Southeast Asia, this is easier said than done since the EU comprises 27 Member States and has highly complex and often sclerotic decision-making procedures. But change actions are urgent as the EU is losing precious time in Southeast Asia as China, the USA, and Japan rush forward. Moreover, many of the proposed measures entail little or no need for any European regulation. Some can be dealt with at the national level or through cooperation between several Member States. Others are just a matter of setting the right policy priorities for Southeast Asia, created in dialogue with European firms.

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