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Central European Institute
of Asian Studies

Getting de-risking from China right

What ASEAN can and cannot do for Europe

Martin Šebeňa • Gary Ng

Kara Němečková • Benjamin Toettoe

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Executive summary

- 1 ASEAN countries stand to be important partners in the EU and Germany's de-risking strategies from China**, provided that the European partners recognize the political and economic limits of engagement and adopt flexible approaches that align with the ASEAN countries' goals.
- 2 ASEAN countries have increased their trade links with China in recent years**, while the US and the EU remain important (and growing) sources of final demand for ASEAN exports. **Bilateral trade statistics overstate China's role as a source of final demand**, as many ASEAN-produced raw materials and intermediate products are later re-exported from China. At the same time, Chinese-made intermediate inputs are in strong demand across ASEAN and form more than a quarter of the foreign value added in ASEAN's exports.
- 3** China-centered supply chains are expanding across ASEAN, tying the EU's economic involvement in the region ever more closely to China through intermediate goods and Chinese-built infrastructure. As a result, the **EU risks trading a reduction in its direct trade exposure to China (and thus lowering direct China-related risks) for an increase in its indirect exposure to China via ASEAN**, which brings higher ASEAN-specific country risks.
- 4** Europe, the US, Japan, South Korea and others pursue de-risking strategies which result in increased investment of their companies in ASEAN. Chinese companies also expand their presence by following the China+1 logic, leading to stiff competition in ASEAN. **China is increasingly rivaling EU firms in high-value-added sectors such as automotive, a phenomenon known as the "Second China Shock"**. Chinese companies are benefiting from deeper supply chain integration, active government support, and synergy with Beijing-supported infrastructure projects.
- 5** The EU's dominant trade liberalization approach via FTAs is unlikely to solve these challenges and may instead deepen indirect dependence on China. **Global Gateway remains resource-constrained and lacks the necessary focus on select industries and locations to achieve the desired impact.**
- 6 In the automotive sector, ASEAN presents a promising partner in European carmakers' de-risking activities.** However, it is unlikely to present a full-fledged alternative to China, despite the growing consumer market and potential as a production location. German carmakers are facing direct challenges from Chinese competitors in the premium model segment in the ASEAN market. Lack of regulatory convergence among ASEAN countries and lack of intra-regional integration make it difficult to build the scale needed to lower the carmakers' costs.

Recommendations

- 1** Structural exposure to China will remain inherent in EU–ASEAN economic relations. The EU’s de-risking approach must appreciate that it is neither feasible nor necessary to reduce exposure to China in all industries. For de-risking to succeed, the EU and Germany need a **focused approach targeting select industries** where decoupling from China-centered supply chains is either a matter of strategic priority or realistically achievable.
- 2** To reduce structural exposure to China, **supporting intra-regional supply chain integration within ASEAN is necessary**. It is also a precondition for the emergence of a cross-regional supply chain, including with India, that could potentially reduce the dominance of China-centered supply chains. To achieve that, the EU and Germany need to:
 - pursue **joint industrial clusters** in ASEAN with like-minded regional partners such as Japan and South Korea to mitigate dependencies;
 - develop a **conscious strategy to channel investment to certain geographical locations**, develop infrastructure in these localities and ensure local governments’ cooperation;
 - **coordinate government policies** to provide more concerted support for the EU companies seeking to invest in ASEAN, matching the Chinese government’s active assistance to its companies;
 - **support the deepening of regional integration among ASEAN countries**, which would decrease the need to source intermediate inputs from China by encouraging EU companies to engage local supply chains;
- 3** De-risking via ASEAN should be one of the pillars of the **broader geopolitical risk management of EU and German companies**. Building redundancies, spare capacities and inventories is not China-specific. As geopolitical ruptures drive the transition from “just-in-time” to “just-in-case” logistics, secure and robust supply chains are essential. European governments should more proactively require companies to adopt prudent risk management practices that reflect contemporary global developments.
- 4** ASEAN should not be viewed merely as part of the de-risking agenda; **the EU and Germany must engage ASEAN on its own merit and align with its industrial upgrading goals** and broader hedging strategies, where the EU is seen as an important partner.
- 5** Although geoeconomic tensions have an overall negative effect on the EU economy, the EU needs to recognize that ASEAN benefits from the increased geoeconomic competition between major economic powers. As ASEAN countries are unlikely to pursue policies to significantly reduce their dependence on China, the **EU needs a flexible and realistic policy approach**.

Introduction

De-risking has been the leading theme of China policy in the EU in recent years, from the corridors of Brussels to Berlin and Vilnius. As with any new policy, de-risking is still taking shape, crystallizing its objectives, and formulating benchmarks against which it should be evaluated. Despite this, the de-risking policy has already facilitated significant supply chain restructuring, changes in production networks, and shifts in trade relationships. Taking stock of these developments will help us understand the current trajectory, assess its effectiveness and adjust policy approaches to increase its efficiency.

Three major events prompted the EU to confront its dependencies on China. The first turning point came during the COVID-19 pandemic, which revealed the fragility of global supply chains and the degree to which the EU was reliant on China for critical goods such as personal protective equipment and pharmaceutical inputs. Russia's full-scale invasion of Ukraine marked another decisive moment. The EU's sudden and painful detachment from Russian energy highlighted the costs of overreliance on strategic competitors. In this context, China's tacit alignment with Moscow casts further doubt on its reliability as a long-term partner. The third major development can be described as the "Second China Shock," marked by the rapid ascent of Chinese companies up the value-added ladder, most prominently manifested in China's dominance in clean technologies critical to the EU's green transition. This catalyzed the EU's commitment to reduce asymmetrical dependencies and diversify critical partnerships across sectors.

In response to these mounting challenges, European Commission President Ursula von der Leyen introduced the concept of "de-risking" in March 2023 as the cornerstone of a new EU strategy toward China. The stated objective is not to sever ties with China or "decouple," but to mitigate vulnerabilities by reducing critical dependencies, diversifying supply chains, and insulating Europe from coercion, while maintaining avenues for cooperation. While the flexibility of the de-risking concept has helped build a broad consensus at the EU level, it has also created room for widely varying interpretations, as EU national governments have held divergent views on how to engage with China, reflecting different economic interests, political priorities, and historical relationships.

While seeking to reduce dependence on China and promote its domestic industry, the EU has also striven to establish new partnerships around the globe to diversify its global economic footprint and bolster existing ones. The ASEAN grouping has been touted as a potential answer to calls for de-risking, owing to its dynamic markets and attractive production bases that could offer an alternative to excessive exposure to China. While the EU's relationship with ASEAN countries has been long-standing, the de-risking framework has provided impetus for further development of ties.

However, can the EU truly derisk from China by deepening its economic engagement with ASEAN? To answer this question, we first provide an in-depth analysis of ASEAN's trade relationships with key global partners and demonstrate changes in the grouping's direct and indirect trade exposure over time. We then examine the frameworks of the EU and Germany's de-risking policies and the tools employed to achieve their goals, including free trade agreements (FTAs) and the Global Gateway initiative, and contrast them with the realities on the ground. To present a more granular picture of the challenges faced by European companies, we focus on China's structural role in ASEAN through its investment and infrastructure support policies and analyze how it compares with the roles of the EU and German actors. Finally, we present a deep-dive analysis of the automotive sector in ASEAN and its potential to become an alternative source of both supply and demand for EU companies.

Analysis of ASEAN trade using the indirect method

To evaluate de-risking policies, a nuanced and granular understanding of trade flows between ASEAN countries and their major trading partners in the EU, East Asia, and the US is needed. While most analyses use conventional bilateral trade data, we remain wary of their limitations. The combined effects of trade wars, de-risking, transshipments, and other related phenomena have led to a rapid restructuring of trade and production in the ASEAN region. Bilateral trade data no longer suffice to explain the complex reality, as their lack of granularity can lead to distortions. Instead, input-output tables provide a much more useful source of information, as they allow us to measure and compare trade flows based on final demand, rather than the proximate demand captured by bilateral data.¹

To illustrate the difference between the two approaches on a simple example, suppose that a Vietnamese company exports a motorcycle to Germany. Bilateral trade data would assign the full value of the motorcycle to Vietnamese exports; however, input-output tables allow us to break down the motorcycle into components (value added) produced in Vietnam and those produced in other countries, such as China or Thailand. This method then allocates corresponding parts of the exports to Vietnam, China and Thailand. This allows us to paint a more precise picture of trade relationships, dependencies and the scope of regional integration, or to uncover potential transshipments.

The manufacturing base, supply chain linkages, and trade flows in the ASEAN region have grown rapidly over the past decade. The production processes in these countries have become more complex, requiring an increasing number of inputs from abroad. To account for the rapid pace at which this change unfolded, part of this exercise will examine temporal trends and changes.

Current export dependencies

To illustrate the difference between the bilateral trade statistics and input-output tables, we will compare the 2023 export data from the IMF's International Merchandise Trade Statistics (IMTS) database, which measures bilateral trade, with the Asian Development Bank's (ADB) MRIO database (input-output tables).² We examine data on nine ASEAN members (because Myanmar data is unreliable, and Timor-Leste only became an ASEAN member very recently) and their exports to regional trading powers: China, Japan and Korea, as well as the US and Germany. The comparison in Figure 1 reveals several significant differences, the most striking of which warrant explanation.

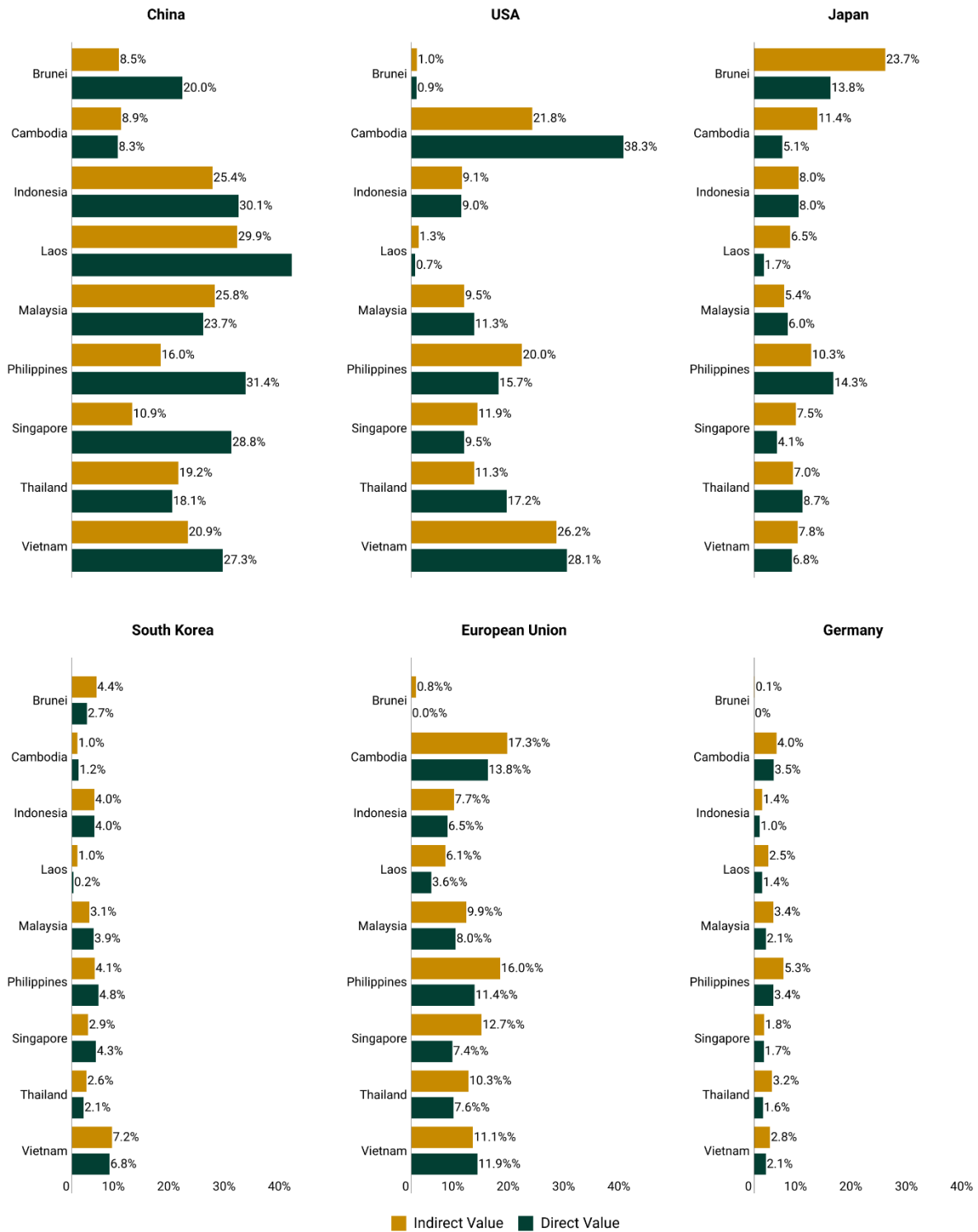
Exports to Japan in the ADB database on indirect exports are much higher for Brunei, Cambodia and Laos than in the bilateral trade statistics, with Singapore and Vietnam also exhibiting higher values. This is largely because all these countries provide production inputs to third countries (mostly China), where they are assembled into final goods and sold to Japan. The former group of countries is a provider of mostly raw materials and low-value-added inputs, while Singapore and Vietnam are suppliers of intermediate products. Thus, Japan serves as an important source of final demand for all these countries. On the other hand, indirect exports from Thailand and Malaysia are slightly lower than direct exports, likely because both countries supply several intermediate products for final assembly in Japan, which are then sold internationally.

Figure 1

ASEAN direct trade vs final exposure per partner (2023)



The comparison of direct and indirect exposure reveals the complex nature of ASEAN trade relationships.



The picture is similar for South Korea, although in this case Singapore's indirect exports are lower (due to intermediate exports to South Korea), while Thailand's indirect exports are higher (with processing in a third country before final consumption in South Korea, mostly in China and Japan). Like Japan, South Korea is an important source of final demand for products made in ASEAN countries.

When it comes to China, indirect exports are much lower than direct exports in Brunei, Indonesia, Laos, the Philippines, Singapore, and Vietnam. The reason is that these countries primarily provide manufacturing inputs (raw materials and intermediate products), which are subsequently used in final production in China and then re-exported to third countries. By contrast, Malaysia and Thailand exhibit a higher share of indirect exports to China than is indicated in bilateral trade statistics, since they sell a larger share of final goods, concentrated in certain segments (electrical equipment in Malaysia and hospitality in Thailand). Overall, China is a significant source of demand for ASEAN products; it is the largest export destination for four of the nine ASEAN countries (Indonesia, Laos, Malaysia, and Thailand).

The comparison between direct and indirect exports to the US is the least straightforward, potentially due to transshipments, which will be discussed in more detail below. Both databases show very similar data on exports from Brunei, Laos, and Indonesia because all three are suppliers of raw materials to the US. The figure for final exports is lower for Vietnam, Malaysia and Thailand, indicating that exports from these countries consist of final goods with a high level of foreign value added, especially from China, South Korea and Japan. Finally, when focusing on final exports, the share of the US in Cambodia's exports drops significantly from 38% to 22%, which suggests an extremely high level of foreign value added in Cambodia's exports. It is very likely that Cambodia serves as a transshipment location for US-bound exports of third countries.

Except for Vietnam, all ASEAN countries have a higher indirect than direct exposure to the EU. This means that the EU represents a significant source of final demand for ASEAN products, trailing only behind China and the US. The difference is particularly pronounced in Laos, the Philippines, Singapore, and Thailand, with final demand typically 3% to 5% above what direct exports indicate.

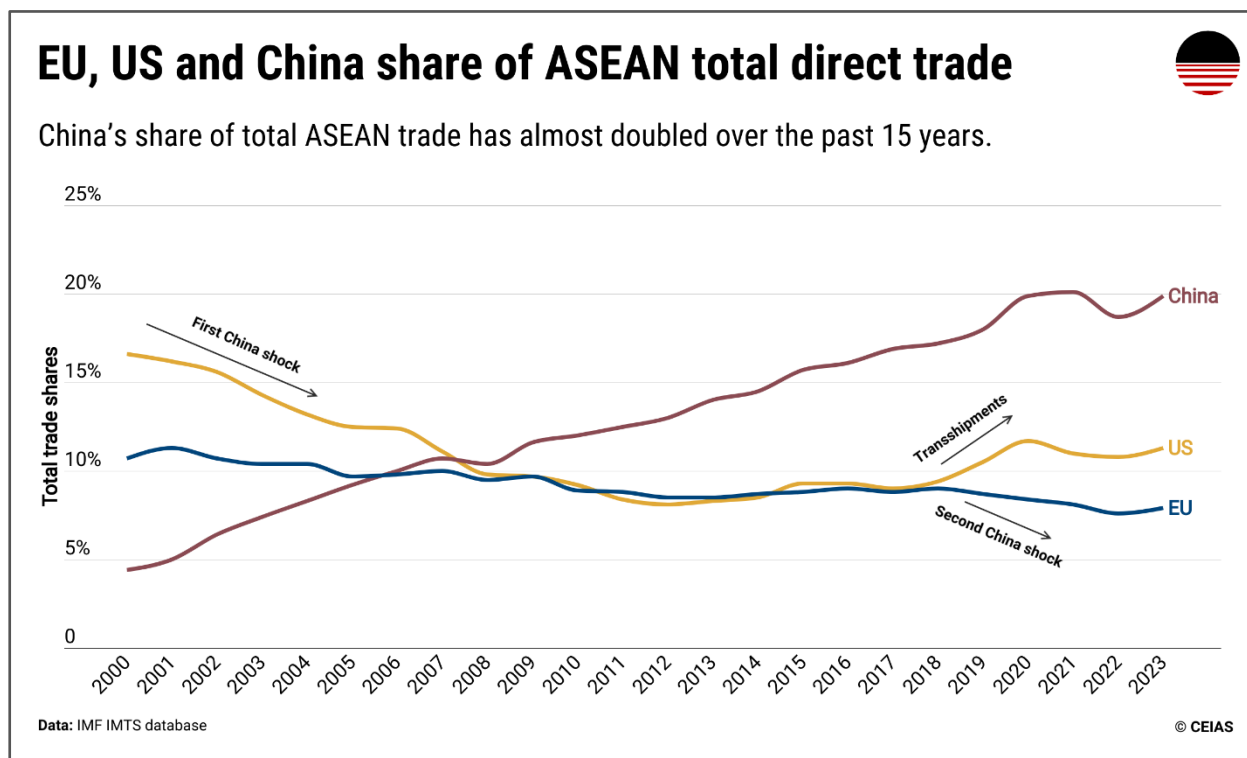
Finally, ASEAN countries' exports to Germany are much lower than those to East Asia; therefore, they do not warrant discussion at the level of individual countries. Nevertheless, it is important to note that indirect exports to Germany exceed direct exports for all ASEAN countries, indicating that Germany is an important source of final demand for ASEAN manufacturing.

Export dependencies over time

To assess the extent and nature of changes in ASEAN countries' trade relationships, we compare 2023 data with 2013 data. The bilateral trade database reveals three distinct yet consistent trends (Figures 2 and 3): the export shares to China and the US have increased over the decade, those to Germany and Japan have declined, and exports to South Korea have remained relatively stable. The magnitude of change, however, differs markedly. The share of exports to the US rose sharply from 8% to 12% in trade-weighted terms, while exports to China increased from 14% to 19%. Applying an even longer lens, it is worth noting that the US share remains below its 1998 peak of 19%, reached at the onset of the Asian Financial Crisis. Due to the impact of the "First China Shock" (the transfer of low-end manufacturing from the US to China), China surpassed the US in 2008 as ASEAN's largest export destination and has since widened its lead. While China's share of exports has plateaued since 2020, the US share has trended upward since 2022, reflecting the effects of trade tensions and transshipment practices.

The relative decrease in the EU's share of ASEAN exports in the 2020s appears to be a result of the Second China Shock, such as Chinese companies climbing the production value chain and edging out their more established European competitors.

Figure 2



On a more granular level, the share of direct exports to Japan has declined substantially, particularly for Indonesia, Malaysia, Vietnam, and the Philippines, which together account for most of ASEAN's total exports. Exports to Germany and other European countries have also decreased across the board; however, the decline is less pronounced than in Japan's case, due to the EU's comparatively smaller initial share in ASEAN's exports.

A comparison of the ADB MRIO data on final demand for 2013 and 2023 offers a more nuanced picture (Figure 4). The data similarly indicate substantial growth in China's export share, though the magnitude of this increase is notably smaller. This differs in Indonesia and Malaysia, where the share of indirect exports has doubled, in contrast to the one-third increase reported in bilateral trade statistics. The US share of ASEAN's indirect exports has increased in all nine countries, with Cambodia, Thailand, and Vietnam recording substantial increases. A significant part of the growth in these three countries can be explained by transshipments; however, it can also be partly explained by the ongoing trade restructuring under the de-risking umbrella pursued separately by multiple countries (the EU, the US, South Korea, and Japan) and the growing importance of the US as a source of final demand.

Japan's share of indirect ASEAN exports has increased in Brunei, Cambodia, Laos and Singapore, reflecting the above-discussed role of these countries as suppliers of raw materials and intermediate inputs (namely Singapore). On the other hand, Japan's share of indirect exports has decreased in key ASEAN countries, notably in Indonesia, Thailand, the Philippines and Vietnam. The magnitude of the decrease, however, is less pronounced, as indicated by the bilateral trade data. Unlike the bilateral trade data, which show South Korea retaining its share of ASEAN exports, the final demand decomposition indicates that South Korea lost its share across all ASEAN countries, except Vietnam. While the decrease is not dramatic, it reflects South Korea's declining importance as a source of final demand

for ASEAN's products, especially vis-à-vis China and the US. The increase in South Korea's export share in Vietnam, as evidenced by bilateral trade statistics, reflects the reshoring of production from China to Vietnam, particularly in the electronics sector, led by Samsung and LG.³

The EU's share of final exports grew in most countries in the region, most notably in the Philippines (5.2% increase) and Thailand (3.3% increase). Only Vietnam and Cambodia recorded a decrease, while it remained stable in Indonesia (up 0.2%). While Germany's indirect export share is lower overall than in 2013, it remains a significant source of final demand for ASEAN's goods. Germany's share of final ASEAN exports is between 2.3% and 2.7%, except in Vietnam, where the already low share has declined further to 1.8%. On the other hand, Germany's share of Thailand's and the Philippines' final exports has increased over the last decade.

In summary, while the data on direct and indirect exposures mostly show similar trends, they differ in their magnitude. The rise of China and the decline of Japan are less pronounced in data on indirect exports, while the positions of South Korea and Germany do not show a straightforward trend. Meanwhile, the US and the EU have increased their share of final exports over the past decade.

Figure 3

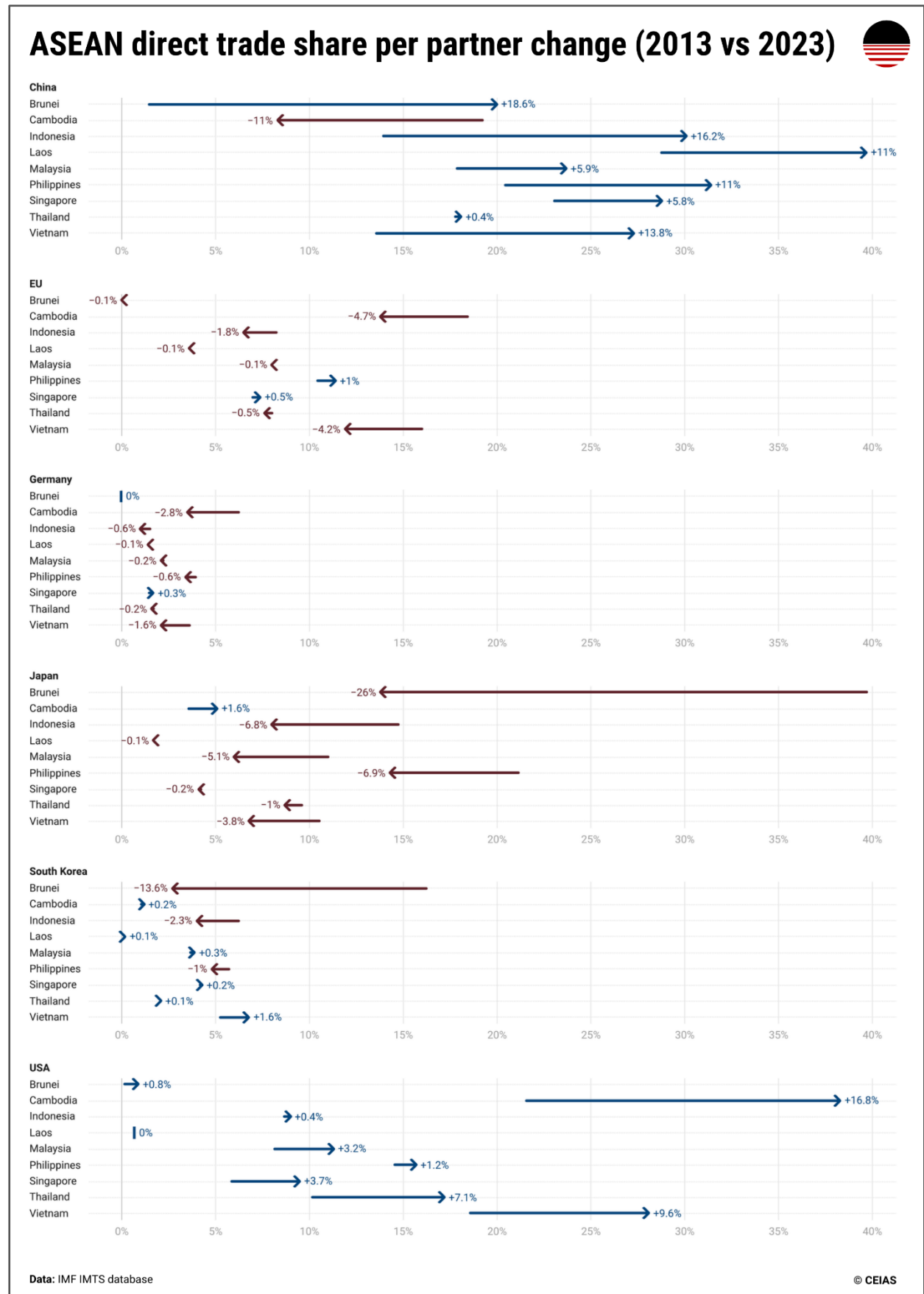
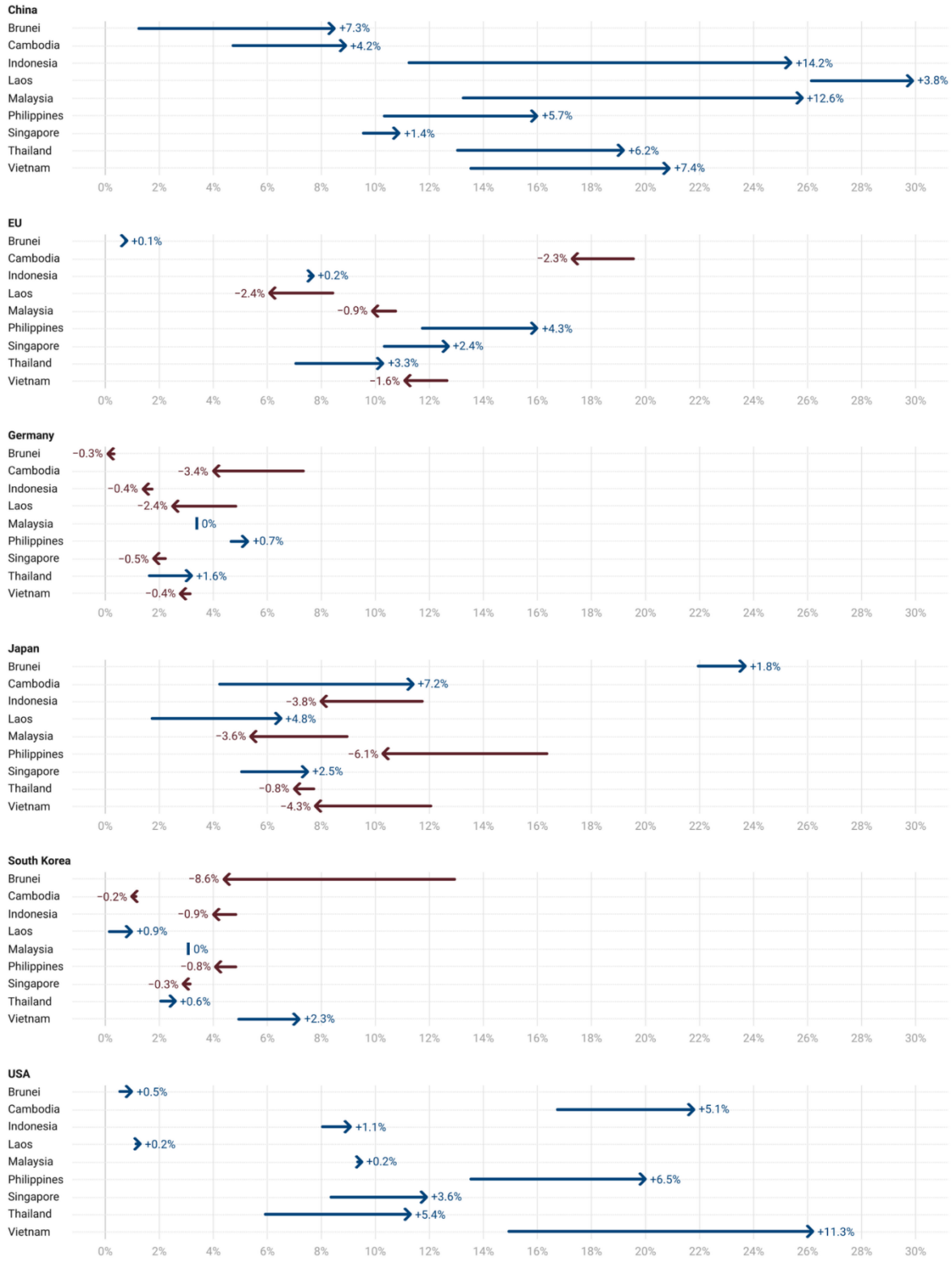


Figure 4

ASEAN final trade exposure per partner change (2013 vs 2023)



Trends showcase major increase in ASEAN's final exposure to China and the US.



Data: ADB MRIO database

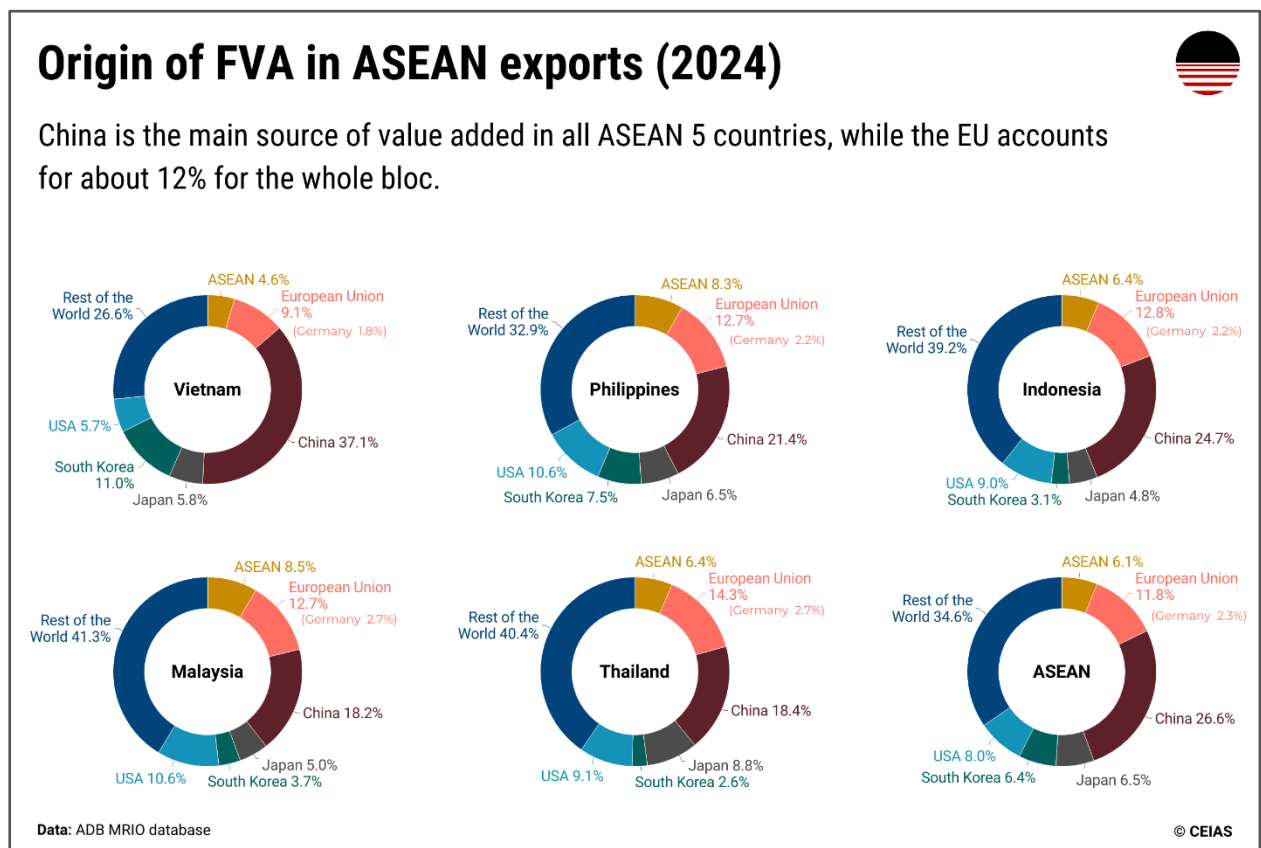
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Foreign value added in exports

The value-added decomposition allows us to calculate the proportion of foreign value added in the exports of individual ASEAN countries. This information can be used to establish the level of integration in local and global production networks. As Figure 5 shows, the highest proportion of the foreign value added in the exports of ASEAN 5 countries (Indonesia, Philippines, Malaysia, Thailand, and Vietnam) originates in China (26.7%), followed by the EU (11.8%), the US (8%), Japan (6.5%), and Korea (6.4%). The combined value of inputs from ASEAN 5 countries is approximately 6.1%, while German inputs stand at 2.3%. It is important to note that these numbers are somewhat skewed by Vietnam's export size, which accounts for almost half of ASEAN 5 exports (Figure 6). Therefore, Figure 5 provides a breakdown by individual ASEAN 5 countries, showing that the share of ASEAN countries' inputs (intra-ASEAN trade) typically ranges between 7-9% of foreign value added, with Vietnam having a lower proportion due to the large share of Chinese value added.

It also needs to be noted that the share of value added from other ASEAN countries in ASEAN exports remains relatively low, despite their geographical proximity and efforts to facilitate intra-regional integration. The intra-ASEAN trade of intermediate goods, important for high-value-added manufacturing, remains low and largely limited to low-value-added inputs, even though the volumes have been increasing over time.

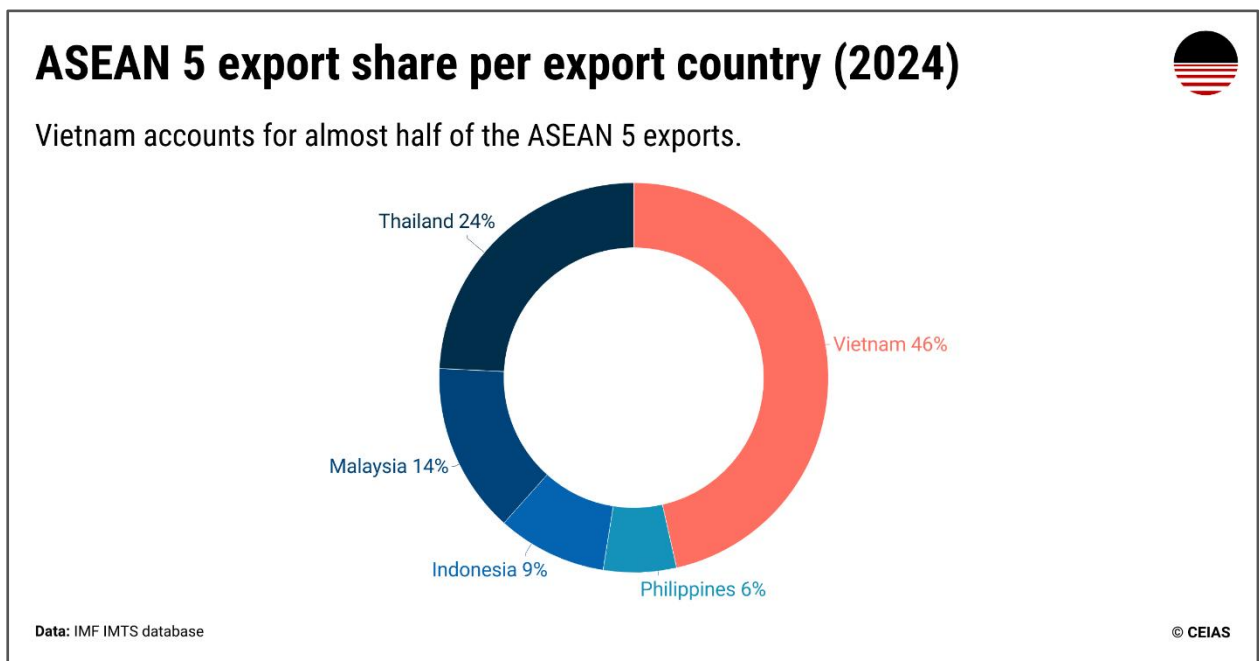
Figure 5



The share of Chinese value added in overall foreign value added is the largest among the ASEAN 5 countries, typically comprising 18-28% of total foreign value added. Vietnam is an outlier, with 37% of Chinese foreign value added, driven by high levels of transshipment and, in part, by the relocation of Chinese factories, which themselves pursue the China+1 or “China+n” model.

Except for Vietnam, the US share of foreign value added stands at 9-12%, positioning the country as an important source of upstream inputs, particularly in research and development (R&D), design, and other business activities. The South Korean share of foreign value added is particularly high in Vietnam (11%) and the Philippines (7.5%), indicating a higher number of Korean-owned businesses in these countries and closer integration into Korean production networks. The Japanese share of foreign value added is the highest among Thai exports, reflecting Thailand's longstanding integration into Japanese production chains, especially in the automotive sector. Nevertheless, the share of Japanese inputs is relatively higher in the other four ASEAN countries, reaching 5-8%. Finally, the share of the German value added in ASEAN exports (2-3%) is very similar across all five countries, and its structure mirrors the US, namely, it is concentrated in high-value-added upstream activities.

Figure 6



Deep dive: Vietnam's exports

As indicated above, the structure and trends in Vietnam's exports diverge from those of other ASEAN countries, which deserves a more detailed look. The volume of Vietnam's exports to the US is higher than to China. At the same time, the Chinese value added in Vietnam's exports to the world, and notably the US, is very high at 40%.

Vietnamese exports to the US (Figure 7) have grown by 80% between 2019 and 2024, outpacing only Vietnamese exports to China, which grew by 126% over the same period. The exports grew particularly fast in 2021 (36% year-on-year), then plateaued for two years before picking up pace again in 2024 (17% year-on-year). The proportion of domestic Vietnamese value added in exports to the US has been steadily decreasing, reaching about 50% in 2024. On the other hand, the share of Chinese value added in Vietnamese exports to the US rose from 15.5% to 21% between 2019 and 2024. The faster the increase in exports to the US, the higher the growth of Chinese value added in Vietnamese exports, indicating that part of the trade took the form of transshipments of Chinese goods with little to no domestic value added. The Chinese share of exports is concentrated in categories such as electrical and optical equipment and intermediate manufacturing products, including textile products (fibers, fabrics, yarns), chemical products (plastics), and machinery (Figure 8), which are typically linked to transshipments.⁴

Figure 7

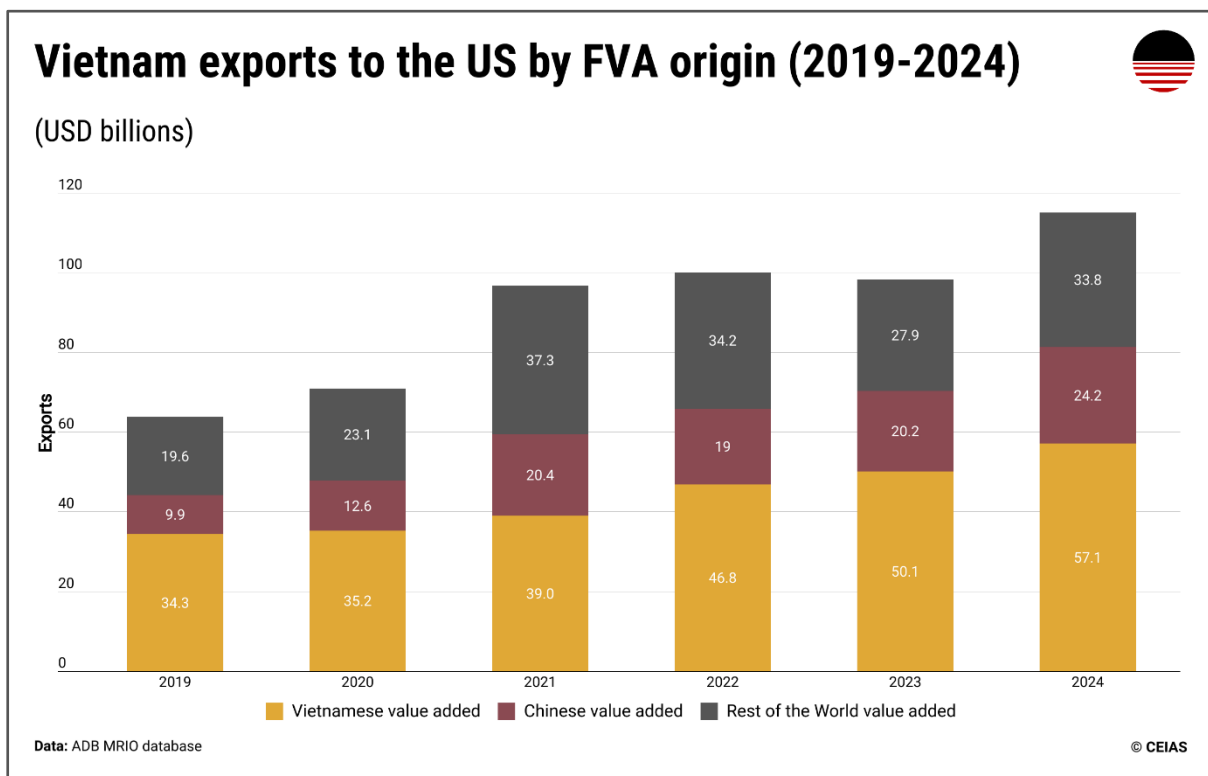
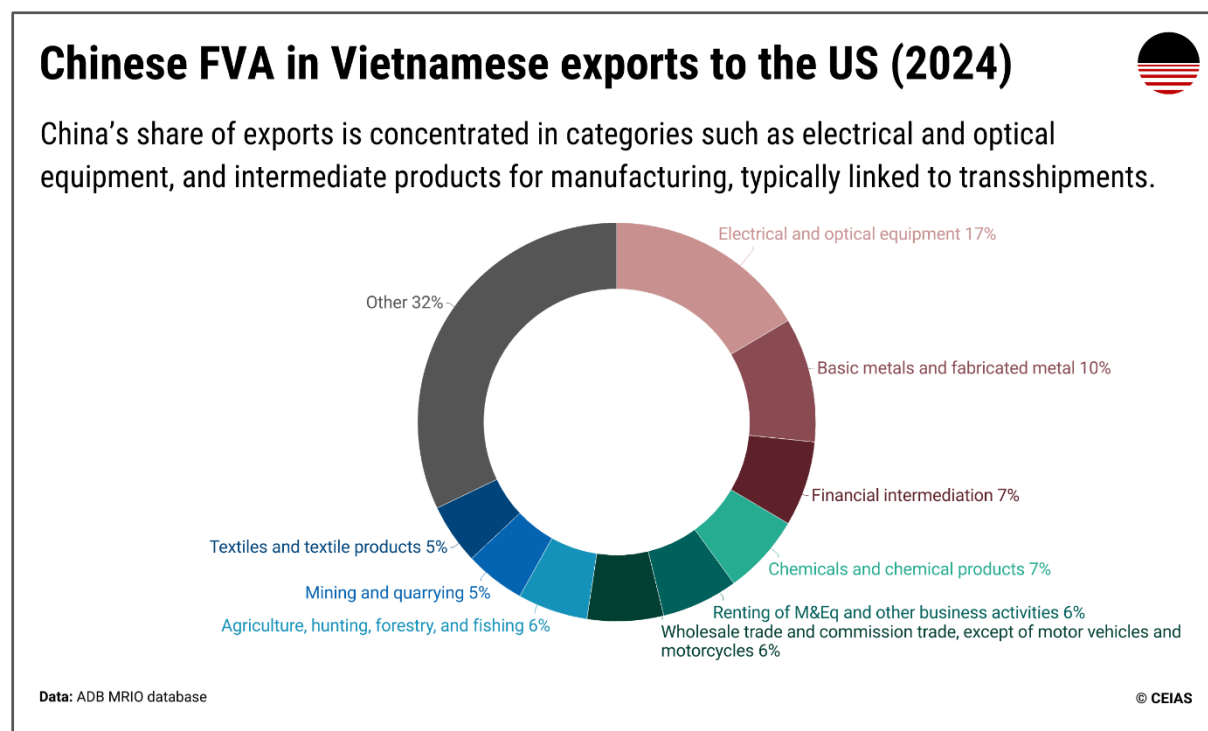


Figure 8



It is also notable that the proportion of Korean value added increased in 2020 and 2022, then dropped sharply in 2023, before bouncing back in 2024. This can again be explained by the establishment of Korean companies' manufacturing facilities in Vietnam, from where they export to other parts of the world, including the US.

Vietnamese exports to China (Figure 9) exhibit an uneven trajectory, with periods of rapid growth (up to 45%, year-on-year) followed by declines. Only the proportion of Chinese value added is steadily rising, while the share of Vietnamese value added has stabilized at around 50%. It is notable that Korean value added in exports to China had risen significantly through 2022 and fallen sharply afterwards. Vietnam is undoubtedly becoming deeply integrated into Chinese production networks, which, at the same time, rapidly increases domestic economic output. China not only serves as the final demand for Vietnamese production but also as a source of investment in domestic manufacturing. Korean firms are taking the second spot, remaining integrated within the Chinese production networks even when they set up manufacturing facilities in Vietnam.

Vietnamese exports to the EU (Figure 10) jumped 22% in 2024 compared with the previous year. However, they were only up by 16.7% compared to 2019. The domestic value added in Vietnamese exports to the EU remains stable at about 58%, with Chinese value-added comprising over 16% of exports (up from 13% in 2019). The share of Korean value added in Vietnamese exports to the EU has fallen by more than a third since 2019, though it rebounded strongly in 2024. The share of the EU value added in exports to the EU has grown steadily. Still, the levels are rather low, and the data do not indicate that this is a result of European companies' reshoring production from China to Vietnam.

Figure 9

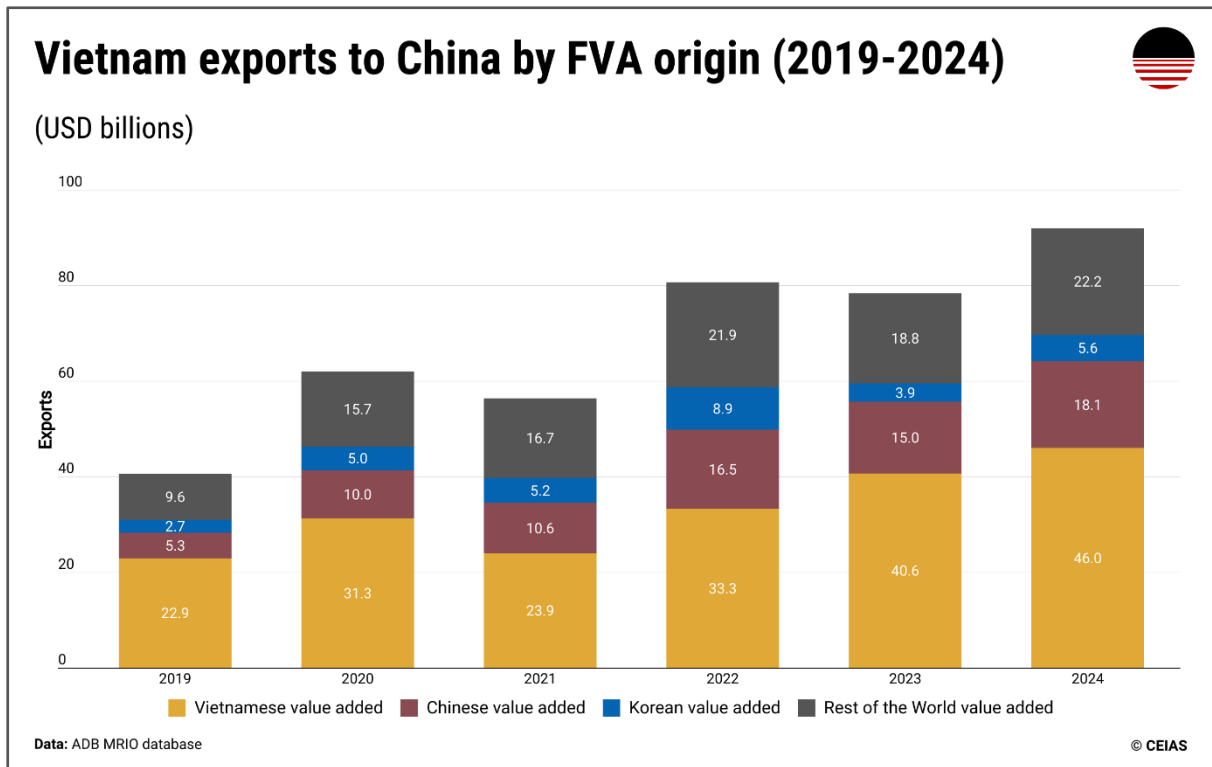


Figure 10

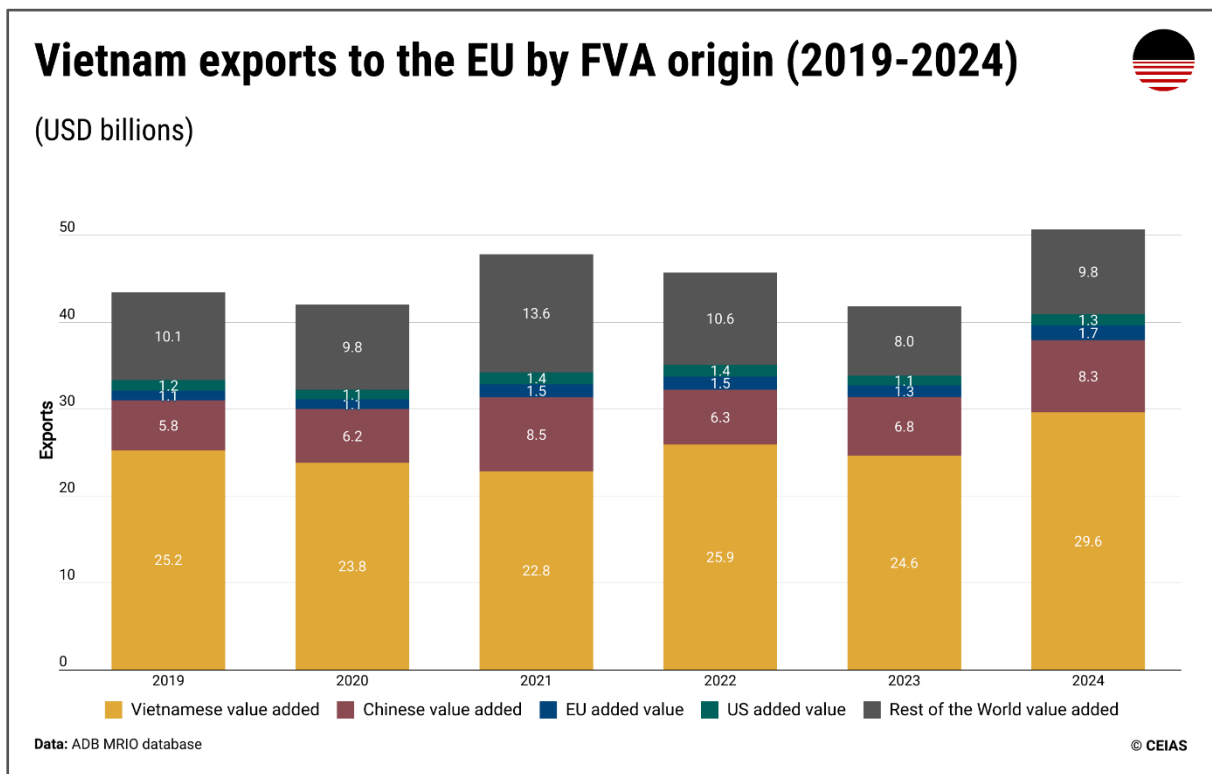


Figure 11

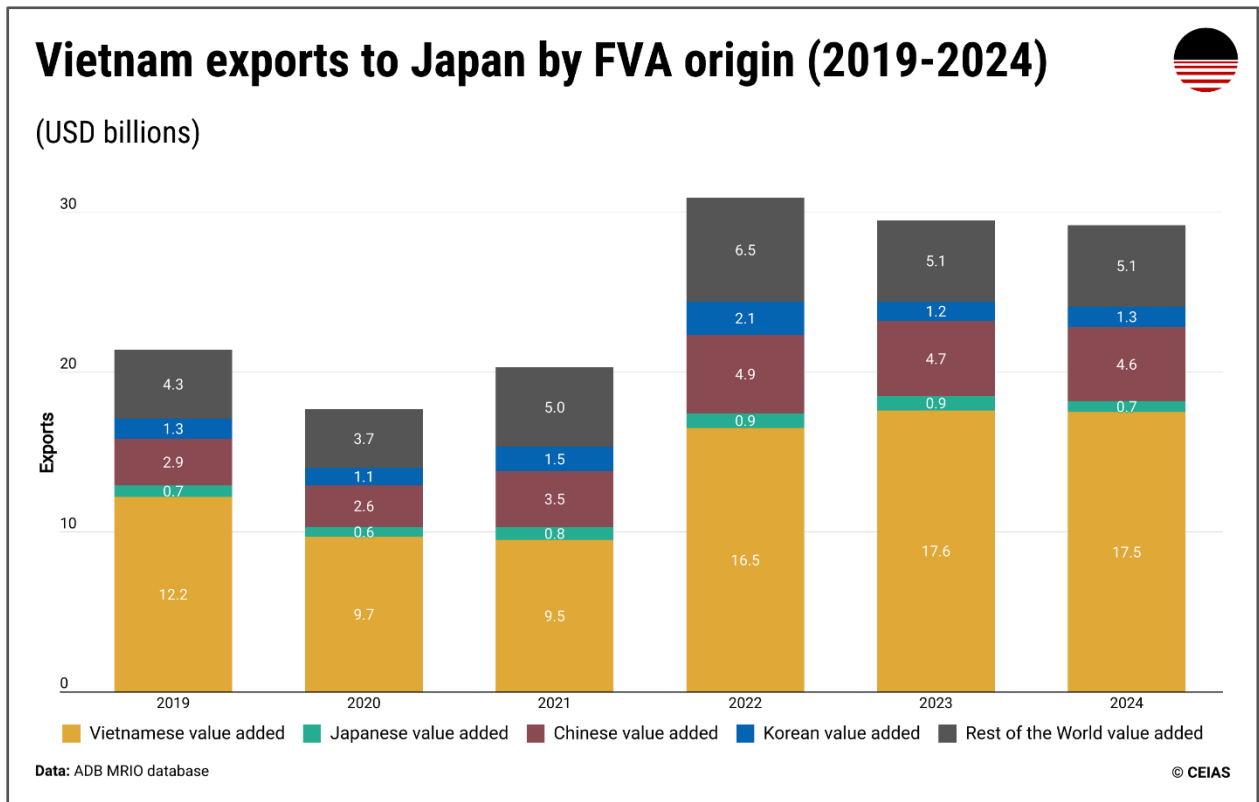
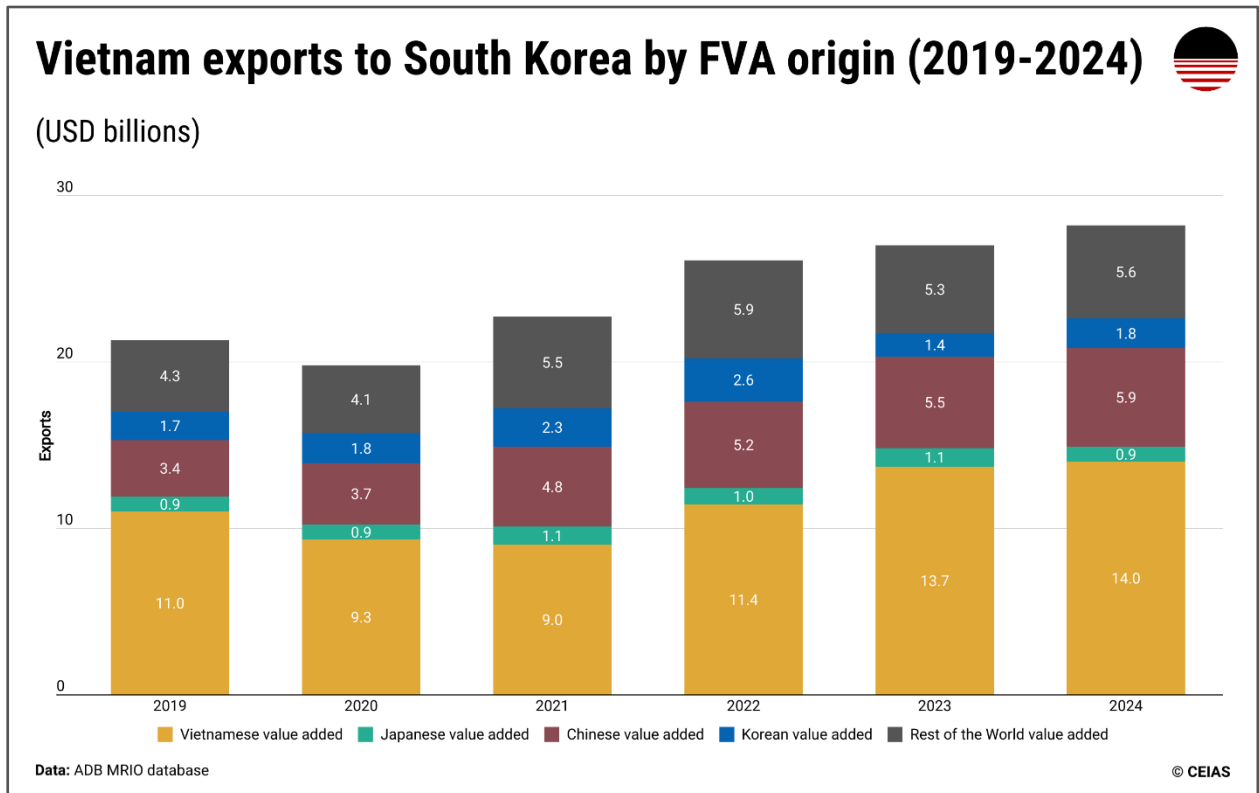


Figure 12



Vietnamese exports to Japan (Figure 11) have increased by a more modest 36% since 2019, but have plateaued since 2022. Interestingly, while total exports have grown, the share of Japanese value added in Vietnamese exports to Japan has decreased, indicating a lower level of Vietnam's integration into Japanese production networks, in contrast to the Korean experience. On the other hand, there has been a slow increase in domestic value added and a rapid increase in Chinese value added in Vietnam's exports to Japan, further evidencing the growing entanglement between Vietnam's and China's manufacturing.

Finally, Vietnamese exports to South Korea (Figure 12) have grown steadily, while the domestic share of exports has remained stable at 50%. Curiously, the share of South Korea in Vietnamese exports has hardly grown over the past six years, suggesting weaker linkages with South Korea's manufacturing clusters. On the other hand, the Chinese value added in Vietnamese exports to South Korea has grown to 21%. Thus, South Korea is an important market for Vietnamese production, and the Korean final demand is a stable source of support for Vietnam's economy. At the same time, Vietnamese manufacturing for South Korean consumers requires a high number of inputs from China, indicating South Korea's continuous indirect dependence on Chinese production.

Conclusions

The analysis of trade relationships within and beyond ASEAN reveals several trends. The data clearly captures the effects of the First China Shock (the surge in Chinese exports after its WTO accession that displaced manufacturing jobs in advanced economies, especially the US), while the impact of a Second China Shock (stiff competition in high-value-added products as a result of China's industrial policies) is beginning to emerge. China and its firms emerge as the most consequential drivers of ASEAN's production network restructuring, while the US continues to play a major role through its enduring final demand.

Due to the high level of interdependence in global trade networks, changes in the economic relationships between China and major partners such as the US and the EU inevitably spill over to ASEAN as well. The repercussions of recent trade wars, particularly tariff avoidance, are most evident in Vietnam, which serves as a case study in this chapter. At the same time, the restructuring of supply chains under various de-risking agendas is taking shape in a gradual, uneven, and largely uncoordinated manner.

Transshipments complicate the regional trade picture, as they distort statistical data and alter the ranking of ASEAN's major trading partners once properly adjusted for. The EU, including Germany, for its part, remains an important and expanding source of final consumption, though it plays only a limited role in the region's production networks. In many cases, exports from ASEAN consist of raw materials or intermediate goods sent to third countries, particularly China, for further processing before being re-exported to European markets.

The growing domestic value added in ASEAN exports suggests that geopolitical tensions are generating short-term economic benefits for the region. These advantages may prove short-lived unless ASEAN governments adopt proactive industrial and trade policies to maintain competitiveness and sustain investment inflows. EU countries should prioritize forms of economic engagement in ASEAN that align with such policies, as we explore in the following section.

EU's De-risking and ASEAN: Between ambitions and reality

Having analyzed the trade patterns that characterize ASEAN relations with key global players, we now turn to the grouping's role in the EU and in Germany's de-risking policies. We trace the key features of the engagement with ASEAN under the de-risking agenda, contrasting the policy toolbox preferred by the EU and German policymakers with the reality on the ground.

EU's de-risking mosaic and ASEAN

The European Economic Security Strategy of June 2023 is built on three pillars: promote, protect and partner.⁵ To reinvigorate the EU's competitiveness, the strategy highlights the need to diversify both the sources of supply and export markets. The third pillar focuses on partnering and strengthening cooperation with countries around the world that share the EU's perspective on economic security. The goal is to build "resilient and sustainable value chains" and to "reinforce the international rules-based economic order and multilateral institutions".⁶ The EU aims to work with partners that are also pursuing a de-risking approach and deepen cooperation with them by signing FTAs and improving connectivity through initiatives such as the Global Gateway (see below). In the newly introduced strategic approach to economic security in December 2025, the European Commission stated that it would seek cooperation with third countries, either bilaterally or through frameworks such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, to which four ASEAN countries (Brunei, Malaysia, Singapore, and Vietnam) are also parties.⁷

ASEAN appears as a promising partner in a de-risking endeavor. While the relationship is not solely driven by the EU's de-risking agenda, it reflects the bloc's need to adapt to a changing global landscape. As global uncertainty deepens, the EU is seeking to diversify its economic partnerships and "spread its eggs across different baskets".⁸ For ASEAN, closer engagement with the EU similarly offers a way to hedge against the risks posed by US-China rivalry.

With a population of around 660 million and, when combined, constituting the world's fifth-largest economy, ASEAN represents a dynamic and rapidly growing market. Collectively, it is the EU's third-largest trading partner outside Europe, after China and the US. Vice versa, the EU is ASEAN's third-largest trading partner behind China and the US.⁹ The region's economic diversity, ranging from advanced manufacturing in Malaysia and Thailand to digital innovation in Singapore and fast-growing consumer markets in Vietnam and Indonesia, creates multiple opportunities for engagement. ASEAN countries are well-positioned for strong economic expansion, supported by favorable demographics.

ASEAN is not the only option discussed by European policymakers regarding de-risking. India and other countries in the larger Indo-Pacific region also feature prominently among the diversification targets. At the same time, ASEAN is an attractive alternative for firms that want to maintain operations in the Asia-Pacific region or gradually diversify away from China by relocating only selected parts of their supply chains to the neighboring region.

The EU's relations with ASEAN are set out in the Indo-Pacific strategy published in 2021. The growing momentum in relations between the two blocs is evidenced by the 2020 upgrade of EU-ASEAN ties to a Strategic Partnership, joint Ministerial Declaration on Connectivity (December 2020) and the conclusion of the ASEAN-EU Comprehensive Air Transport Agreement in October 2022, the first region-to-region aviation agreement of its kind. In 2022, the 1st EU-ASEAN commemorative summit at the level of leaders was held in Brussels.

As a rapidly growing region that is itself increasingly aware of the need to tackle dependencies on China, ASEAN is viewed by the EU as a credible alternative and a partner with promising opportunities.¹⁰ In a 2023 speech in Manila, Commission President Ursula von der Leyen highlighted that the Philippines and the EU are “natural economic partners” as they work to de-risk their trade and investment.¹¹ She emphasized the importance of diversifying raw material sourcing and highlighted opportunities for deeper cooperation, such as supporting local processing industries in the Philippines, which currently exports much of its nickel ore to China.¹²

High-level engagement is increasing. In October 2025, President of the European Council António Costa attended the ASEAN summit in Kuala Lumpur, where he urged the two blocs to “secure our supply chains, diversify partnerships, promote sustainable trade, and build resilience in critical sectors,” and expressed the wish to upgrade the relations to a Comprehensive Strategic Partnership by 2027.¹³ The momentum in relations between the two regions is also reflected in high-level political engagement between ASEAN countries and individual EU member states.

The focus on ASEAN is also reflected in private sector engagement. European companies are exploring opportunities in Southeast Asia as part of their China+1 strategies to diversify manufacturing and sourcing, reduce reliance on a single supplier, and establish operations outside China. However, much of this push originates from company headquarters, as local purchasing managers in China often remain satisfied with their Chinese partners.¹⁴

European companies are relocating some of their production sites to Southeast Asia and re-evaluating sourcing strategies, with a growing number turning to ASEAN economies as a more economically viable alternative to China in a volatile geopolitical environment. The companies benefit from growing intra-regional competition, enabling them to establish operations in locations that offer the most favorable conditions.¹⁵ Table 1 highlights major investments by EU companies in ASEAN since 2023.

While the EU sees ASEAN as part of the de-risking puzzle, for ASEAN countries, the EU is attractive for their own hedging strategies amid intensifying geopolitical competition. According to the State of Southeast Asia surveys, the EU has been continuously ranked as the top “preferred and trusted third-party” among ASEAN stakeholders.¹⁶

Figure 13

Major EU investments in ASEAN since 2023



(indicative, both announced and completed)

| Company | Industry | Activity | EU country | Location | Amount (€ million) |
|--------------|------------------------------------|--|-------------|----------------|---|
| Arkema | Advanced materials | new bio-factory | France | Singapore | 400 |
| AT&S | Advanced materials | new production facility | Austria | Malaysia | 1000 |
| Baader | Agri-food | new production facility | Germany | Malaysia | N/A |
| BASF | Chemicals | expansion of production | Germany | Thailand | N/A |
| Biotronik | Medical technology | manufacturing and R&D | Germany | Singapore | hundreds of millions |
| BMW | EV batteries | high-voltage battery assembly plant | Germany | Thailand | 42 |
| Carlsberg | Agri-food | expansion of a brewery | Denmark | Vietnam | 77 |
| CGR | Automotive | new production facility | France | Thailand | N/A |
| CMA CGM | Logistics | new deep-water terminal | France | Vietnam | 512 |
| Continental | Automotive/EV | expansion of tire production facility | Germany | Thailand | 300 |
| CIP | Green energy | offshore wind farm | Denmark | Philippines | 2600 |
| CTP | Industrial real estate development | industrial parks | Netherlands | Vietnam | 1000 |
| De Heus | Agri-food | high-tech livestock hub | Netherlands | Vietnam | 330 |
| DHL | Logistics | expansion of warehousing capacity | Germany | Southeast Asia | 350 |
| DSV | Logistics | warehouse facility | Denmark | Singapore | 174 |
| Infineon | Semiconductors | SiC power semiconductor fab | Germany | Malaysia | 7000 |
| Infineon | Semiconductors | new back-end production site | Germany | Thailand | 1,390 |
| Lego Group | Toys production | new manufacturing facility | Denmark | Vietnam | 906 |
| M.A.i | High-tech machinery | production facility | Germany | Malaysia | N/A |
| Maersk | Logistics | new warehouse | Denmark | Vietnam | N/A |
| MASCOT | Textiles | garment production and processing facility | Denmark | Vietnam | 48 |
| Melexis | Semiconductors | testing site | Belgium | Malaysia | 70 |
| Mosca | Packaging solutions | expansion of production | Germany | Malaysia | N/A |
| Neways | Semiconductors | new manufacturing facility | Netherlands | Malaysia | N/A |
| NXP | Semiconductors | 12-inch fab foundry | Netherlands | Singapore | €1.38 billion (40% share in a €6.71 billion facility) + additional combined investment of €1.63 billion |
| Pandora | Jewellery | new manufacturing facility | Denmark | Vietnam | 131 |
| Porsche | Automotive | expansion of assembly facility | Germany | Malaysia | N/A |
| Saint-Gobain | Construction material | expansion of manufacturing facilities | France | Malaysia | 41 |
| Sanofi | Pharma | expansion, opening of new modular concept facility | France | Singapore | 558 |
| SCHOTT | Advanced optics | new production facility | Germany | Malaysia | N/A |
| Siemens | High-tech machinery | high-tech factory | Germany | Singapore | 200 |
| Siltronic | Semiconductors | 300-millimeter wafer fab | Germany | Singapore | 2200 |
| Škoda Auto | Automotive | car manufacturing and assembly facility | Czechia | Vietnam | 435 |
| Stahl | Chemicals | new state-of-the-art facility | Netherlands | Singapore | N/A |
| Tetra Pak | Food processing and packaging | phase 2 of aseptic packaging plant | Sweden | Vietnam | 97 |
| Trelleborg | Marine solutions | new manufacturing facility | Sweden | Vietnam | 36 |
| VDL | High-tech machinery | expansion of manufacturing capacity | Netherlands | Singapore | 68 |
| VDL | High-tech machinery | new production facility | Netherlands | Vietnam | millions |
| X-Fab | Semiconductors | expansion of production facility | Germany | Malaysia | 522 |

Data: Authors' compilation

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However, most ASEAN countries are unwilling to tie themselves to a single bloc and are pursuing multi-alignment policies. Vietnam's "bamboo diplomacy" and Indonesia's "free and active" foreign policy are prominent examples of efforts to simultaneously pursue economic, security, and political ties with major powers, including the US, China, the EU, and Russia. ASEAN countries are already capturing part of the spillover from other powers' de-risking drives, including the EU's, under China+1 strategies redirecting trade and investment toward the region. The countries in the region are interested in tapping into major powers' engagement to support their own economic development and efforts to move up the value chain. In this regard, while the ASEAN countries remain wary of China due to its South China Sea claims and assertive pursuit of economic and security interests, they are unlikely to subscribe to the idea of significantly curtailing the relationship with Beijing, which has been increasing its economic presence in the region and from which these countries benefited. The ASEAN countries' own countermeasures against what they deem dumping practices by China and threats to their industries are counterbalanced by the interest in securing Chinese capital and technology, especially amid the growing surge in manufacturing investment from China.¹⁷ Meanwhile, as shown in the previous chapter, China accounts for a larger share of total trade than trade with the US and the EU in all major ASEAN countries, making it a significant factor in their foreign policymaking.¹⁸

EU Toolbox

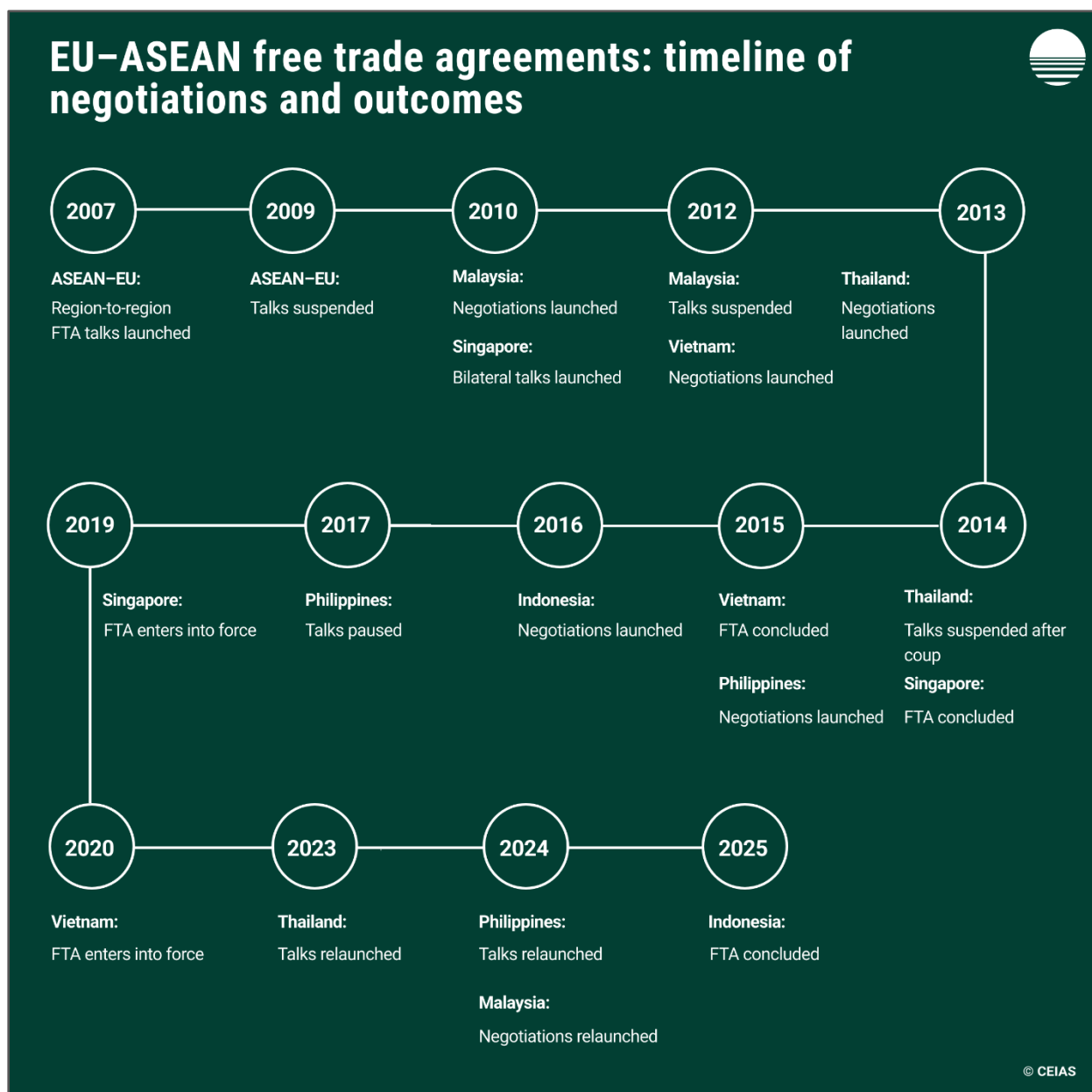
The EU utilizes a number of policy tools to facilitate de-risking from China towards ASEAN. It pursues FTAs with individual ASEAN countries, encourages investment by supporting the harmonization of regulations and standards, provides technical assistance, engages in informal dialogues and information-sharing with businesses, and directly invests through its Global Gateway initiative. Below, we will look at two tools in more detail, the FTAs and Global Gateway.

The EU and ASEAN initially sought to negotiate a comprehensive, region-to-region FTA.¹⁹ Talks were formally launched in 2007 with the ambition of creating one of the largest interregional free trade areas. As of 2009, negotiations had reached an impasse, largely due to human rights issues in Myanmar and a lack of consensus among ASEAN members on the agreement's breadth and depth.²⁰ Since then, the EU shifted to a bilateral track, pursuing FTAs with individual ASEAN members while maintaining the long-term objective of eventually consolidating these deals into a broader interregional framework.

The goal of the FTAs is to deepen bilateral trade relations and go beyond WTO rules by addressing sustainability, supply chain, and intellectual property issues.²¹ The FTAs are meant to improve the ease of doing business by reducing redundant procedures and removing barriers such as local content requirements. The agreements not only facilitate smoother market access but also send a clear signal of stability and certainty to companies on both sides. Thus, they are as much political as trade instruments.

Still, it has become increasingly difficult for third countries to negotiate FTAs with the EU, partly because of the requirement to first conclude a Partnership and Cooperation Agreement.²² This condition is intended to ensure that requirements on non-trade issues, such as human rights, labor rights, and environmental protection, are met. While this policy helps to foster alignment with EU norms and ensures a predictable regulatory environment for European businesses, it has proven difficult for several ASEAN countries to meet these stringent requirements. As a result, progress on new agreements remains slow, and a comprehensive region-to-region FTA still appears a distant prospect.²³

Figure 14



The FTAs with Singapore and Vietnam have served as models for future EU-ASEAN deals, both in terms of substance and structure. Negotiations with Thailand (initially launched in 2013) and Malaysia (in 2010) were suspended but relaunched in 2023 and 2025, respectively, following renewed political interest as the EU seeks to hedge against uncertainties in transatlantic trade relations and tense ties with China.²⁴ Negotiations with the Philippines resumed in 2024 after a seven-year hiatus.

Meanwhile, talks with Indonesia were successfully finalized in September 2025. The conclusion of a political deal, despite contentious issues such as palm oil and the nickel export ban, reflects a strategic shift in the EU's approach to external economic relations, introducing a level of pragmatism that has not traditionally been "part of the EU's DNA".²⁵ The deal aligns with the EU's broader goal of strengthening supply chains for critical minerals essential to its green transition, as Indonesia is one of the world's leading producers of nickel, copper, and bauxite.²⁶

The EU-Vietnam FTA took a decade to negotiate and ratify, underscoring the complexity of the issues addressed. While the agreement eliminates 99% of tariffs, with the remaining 1% partially lifted through

zero-duty quotas, the tariff component was not the primary breakthrough, given that pre-existing levies were already relatively low. More significant was the confidence the agreement fostered among European investors and buyers.²⁷ Vietnam demonstrated a strong willingness to align with EU standards, even committing to liberalizing labor unions, something traditionally rejected by communist governments. Its transformative impact has made Vietnam a reference point for other ASEAN countries currently negotiating with the EU.²⁸

A recent white paper by the EU-ASEAN Business Council highlights the untapped potential for the EU to further deepen its engagement and collaboration in the region. It also recognizes the EU's ongoing efforts to streamline sustainability reporting and due diligence frameworks, praising their emphasis on growth and competitiveness.²⁹ However, addressing these regulatory gaps will require deeper dialogue and targeted capacity-building efforts from both sides to help ASEAN producers meet EU standards without undermining their economic viability.

EU sustainability regulations are currently under review as the bloc shifts priorities toward security, defense, and boosting competitiveness.³⁰ As part of the Commission's Sustainability Omnibus package, launched in February 2025, the EU is scaling back the scope of the Corporate Sustainability Due Diligence Directive (CSDDD), which obliges companies to track human rights and environmental impacts across their value chains. In May 2025, German Chancellor Friedrich Merz and French President Emmanuel Macron called for the CSDDD to be repealed entirely³¹, and delays have also been proposed for other regulations, such as the EU Deforestation Regulation.³² However, the uncertainty surrounding these regulations casts a shadow that may be more disruptive than the regulations themselves.³³

Global Gateway

Although the Global Gateway has multiple goals beyond de-risking,³⁴ the European Commission's economic security strategy highlights investment in sustainable development through the initiative as one of the channels to support the security of global supply chains.³⁵ Launched in 2021, the initiative was conceived as a European response to, and alternative to, other major global infrastructure programs, including China's Belt and Road Initiative (BRI), providing a strategic framework for investing in sustainable, high-quality infrastructure worldwide. In Southeast Asia, the Global Gateway funds 15 projects.³⁶ Originally, it was more development-oriented but has shifted towards a focus on partnerships and cooperation, recognizing the growing economic development of the ASEAN countries.³⁷ Through a "Team Europe" approach, Global Gateway seeks to mobilize up to €300 billion in public and private investments by bringing together the EU, its member states, and their financial and development institutions.³⁸ Under the Critical Raw Materials Act, the EU commits to leveraging the Global Gateway's soft and hard infrastructure to develop projects along the raw materials value chain and enhance connectivity.³⁹ However, the initiative's capacity should not be overestimated as the announced €300 billion is already committed, with most planned investments already allocated, leaving little room for new funding.⁴⁰

Both Global Gateway and raw materials financing rely heavily on private-sector participation to generate so-called "crowding-in" effects, in which public investments and guarantees attract additional private capital.⁴¹ Yet European companies remain cautious about high-risk sectors like mining and large infrastructure projects, partly because many are end users distant from resource extraction and because European mining companies are few. Without active public financing, critical investments in structurally weaker raw material partner countries may not materialize. This concern was echoed by then German Foreign Minister Annalena Baerbock, who emphasized that expanding trade relations with Asia depends on banks' willingness to finance necessary investments by German companies, underscoring the need for discussions on new investment locations and risk assessments.⁴²

Under Global Gateway, Team Europe pledged €10 billion for ASEAN by 2027, with about €4.2 billion already mobilized by early 2024 to finance sustainable connectivity, with a focus on the green transition and resilient infrastructure across energy, digital, and transport, and investments in health, education, and research that underpin integration.⁴³

Among the EU flagship projects in the ASEAN region are power grid development, the expansion of Infineon's silicon carbide power semiconductor fab into the world's largest semiconductor plant, and the development of the port of Lumut in Malaysia.⁴⁴ Germany is leading efforts to upgrade Indonesia's rail connectivity as part of the Surabaya Regional Railway Line.⁴⁵

In addition, under the EU-ASEAN Sustainable Connectivity Package, the EU is working with the International Trade Centre on a project focused on trade, economic connectivity, and sustainable value chains. It aims to assess value chains with potential for trade development; build the capacity of ASEAN public and private sector stakeholders, including micro, small and medium enterprises (MSMEs) and producers, on environmental and social standards; support MSMEs in adopting sustainable production and trade practices; and promote business-to-business linkages both within ASEAN and between ASEAN and the EU.⁴⁶

Germany's ambivalent approach to de-risking

Germany was quick to endorse the de-risking framework.⁴⁷ In fact, then-Chancellor Olaf Scholz had already used the language months before von der Leyen's speech, advocating for "de-risking and diversification" over US-style decoupling in a media interview. For German policymakers and businesses, the shift in rhetoric was a welcome one. Reframing the China debate in terms of risk management rather than rupture allowed firms to justify continued engagement with China without facing pressure to cease their operations in the country altogether.

The concept of de-risking features prominently in Germany's first-ever China Strategy, released in July 2023.⁴⁸ The document devotes significant attention to de-risking, outlining economic vulnerabilities, especially in key sectors such as automotive, machinery, and chemicals, but avoids provisions on direct state intervention. Instead, it places the responsibility for de-risking on the private sector. The government has not conducted a systematic or comprehensive mapping of dependencies, largely due to the confidentiality of company-level data and the absence of any legal obligation for firms to disclose such information.⁴⁹ Consequently, companies are expected to assess their own risks and dependencies.

Both the previous and current governments have taken a soft approach, engaging directly with major German firms that are highly exposed to the Chinese market.⁵⁰ These discussions have focused on encouraging companies to review their supply chains, avoid dependence on single-source suppliers, and diversify both their supply chains and consumer markets. At the same time, Berlin has cautioned the companies against relying on state support in the event of a crisis. As then Foreign Minister Annalena Baerbock stated at the launch of Germany's National Security Strategy: "The German government is not in any position to bail out German companies invested in China".⁵¹

Germany has also worked closely with the EU and the OECD, which provide useful company-level data and AI analytical tools that can be used to better track economic dependencies, including the OECD's MAGIC database.⁵² In addition, Germany has engaged in exchanges and best-practice sharing with Japan and the United Kingdom to adopt successful de-risking measures implemented elsewhere, including stockpiling systems.

Despite broad recognition of the risks, Germany's de-risking efforts have been cautious and at times inconsistent, which reflects the ongoing divisions within the previous ruling coalition. Many in Berlin remain reluctant to jeopardize access to the Chinese market, even as industry leaders acknowledge that the era of easy profits from China's growth may be drawing to a close.

Under Chancellor Friedrich Merz, who has been in power since May 2025, Germany is expected to pursue a more assertive, security-focused economic policy toward China. The new government has committed to reducing strategic dependencies while preserving trade ties grounded in reciprocity.⁵³ The governing coalition agreement recognizes that the issue of systemic rivalry has "now come to the fore".⁵⁴ Merz has also made it clear that companies choosing to invest in China will bear the risks themselves.⁵⁵ The governing CDU/CSU's position paper from April 2023 called for "de-risking the right way" through greater diversification of export markets, raw material sources, and supply chains, as well as enhanced protection of critical infrastructure and sensitive technologies.⁵⁶

Building on Germany's China strategy, the Foreign Office is preparing a China action plan that should focus on de-risking, diversification, and reducing dependencies.⁵⁷ However, progress on the ground has been limited beyond rhetoric. In 2024, the German government launched a €1 billion raw materials fund to support investments in the mining, processing, and recycling of critical raw materials. To date, not a single project has been approved.⁵⁸ This is largely because the eligibility criteria are designed to allow only companies already at an advanced stage to apply. In practice, many firms require support at much earlier phases, such as conducting feasibility studies. It is therefore expected that the eligibility criteria will be adjusted in the future to allow for greater flexibility and better alignment with industry needs.⁵⁹

While the new government remains committed to the de-risking strategy, there is still no clear framework for measuring progress or monitoring compliance.⁶⁰ Since the government places the responsibility for de-risking primarily on private companies, its ability to enforce or guide the process remains limited. Moreover, the broad and ambiguous nature of the term "de-risking" allows for widely divergent interpretation, including continued, and in some cases increased, investment in China. Some German firms (such as Volkswagen⁶¹, BMW⁶², BASF⁶³ or Bosch⁶⁴) justify this by adopting "in China for China" strategies that localize production and sales, arguing that such models contain the risk within the Chinese market and reduce exposure to global disruptions.

Despite calls to reduce exposure to China, German investment has reached record highs in recent years. In 2024, German firms invested €5.7 billion in China⁶⁵, which accounts for 56.4% of total EU foreign direct investment (FDI).⁶⁶ According to the Business Confidence Survey Report for 2024/25, published by the German Chamber of Commerce in China, 92% of German companies plan to maintain their operations in China, and over half plan to increase their investments over the next two years.⁶⁷

ASEAN plays an important role in the de-risking debates in Germany. The new German coalition is expected to strengthen diplomatic ties with Southeast Asia as part of the "multi-polar" approach to economic diplomacy rooted in the Indo-Pacific Guidelines, published in 2020.⁶⁸ The document provides a framework for closer cooperation with ASEAN across multiple areas, including trade, climate action, and the defense of the rules-based international order. Berlin supports further upgrading the relationship to a comprehensive strategic partnership and the launch of an annual EU-ASEAN consultation mechanism on economic security issues such as semiconductors and renewable energy.⁶⁹ In his first trip to Asia in August 2025, Germany's foreign minister, Johann Wadephul, visited Indonesia.⁷⁰

Southeast Asia also features prominently in the German government's initiatives to diversify trade relations and investment destinations. These include projects implemented under the Market Entry Program, which support German small and medium-sized enterprises in their internationalization efforts and entry into foreign markets, such as the Purchasing Initiative Southeast Asia and the diversification strategy for investment guarantee policies.

Conclusions

While the European de-risking toolbox has been growing and has already achieved notable successes, especially the conclusion of FTA negotiations with Indonesia, there is still room for policy intervention. While FTAs certainly increase the attractiveness of a production location, this benefit is limited to those who operate in the industries covered by the FTA and export to the countries that are parties to the FTA. Moreover, the overall benefit might still not be sufficient to offset the cost differential between manufacturing in China and ASEAN, the costs of extending supply chains, or the expenses of relocating or constructing factories. Even when the benefit of the FTA outweighs the cost of relocation, the benefit will be realized over a longer period, while relocation entails high upfront costs. Therefore, due to the mismatch in time horizons, the FTAs may not lead to factory relocations even when they are economically beneficial. This underlines the need to pursue a multipronged approach, within which the FTA is only one of the tools. Moreover, the lack of regional integration in ASEAN remains a challenge even amid progress in FTAs, creating space for the EU to provide more support to ASEAN, including financial and capacity-building assistance to address policy gaps, complementing the EU's support for its companies' local supply chain integration.

Meanwhile, the Global Gateway initiative still plays a marginal role in de-risking in ASEAN, for two key reasons. First, its financial firepower is rather limited. Compared with the financing needed to develop ASEAN's infrastructure, €10 billion over several years will not have a substantial impact. These amounts also pale in comparison with the infrastructure projects pursued by the Chinese state-owned enterprises, as discussed in the following chapter. Second, the investments are distributed across various countries and industries, which reduces the impact, even though infrastructure and energy together account for a large share of the financing. The Global Gateway initiative would support de-risking if it facilitated the development of industrial clusters, which would allow firms to derive similar supply chain benefits to those they enjoy in China. This would require funding directed to a small number of locations, which would be at odds with the Global Gateway's political goals - it would only invest in certain ASEAN countries and leave others out.

While the EU and, particularly, the German government came to appreciate the need for their firms to diversify their production base, the pace at which the manufacturers move production to ASEAN is lower than hoped. EU companies have for decades benefited from the Chinese supply chain, and especially the embeddedness of German heavy-industry companies in Chinese production clusters is higher than that of their US, South Korean, or Japanese counterparts.⁷¹ German producers often pursue the 'in China for China' strategy, as the Chinese market is a large source of demand for them. Therefore, within the scope of de-risking, German companies are willing to shift to ASEAN only the part of production destined for local consumption or for export to markets outside China. Given the size of the Chinese market, this might represent only a small share of manufacturing capacity. Moreover, for smaller producers, it is often not economical to split production between China and ASEAN countries, so they choose to remain in China.

For a change to occur, clusters need to emerge in ASEAN economies, making it more economically attractive for EU firms to invest there. The development of clusters, however, also requires a conscious strategy to channel investment to specific geographic locations, develop infrastructure in these localities, and ensure cooperation from local governments. While this is something the EU government could facilitate, it is also politically sensitive, as it would entail picking certain locations over others, potentially angering the ASEAN partners on the losing end. Thus, a strategic reappraisal of the EU's approach is necessary to facilitate more intensive engagement.

Finally, from the EU governments' perspective, de-risking through ASEAN should be one pillar of their firms' overall risk management. Building redundancies, spare capacities and inventories is not China-

specific. For example, recent events around the semiconductor firm Nexperia revealed that the German carmakers have only two weeks' worth of stockpiles. This is not in line with industry best practices; Hyundai's example shows that prudent risk management leads to enhanced profits.⁷² As geopolitical ruptures drive the transition from 'just-in-time' to 'just-in-case' logistics, secure and robust supply chains should be integral to the process. EU governments could and should more proactively require companies to adopt prudent risk management practices that reflect contemporary global developments.

China's economic footprint in Southeast Asia

Chinese companies are rapidly scaling up their investments to expand production in ASEAN countries. This chapter will shed more light on the patterns and trajectories of Chinese investment in ASEAN and their impact on the EU's economic engagement with the bloc.

China's manufacturing-led investment growth

Overall, inbound investment in Southeast Asia has boomed in recent years. Total inbound FDI to ASEAN countries averaged \$139 billion annually between 2015 and 2019. Between 2020 and 2024, this rose to \$200 billion.⁷³

As Figure 13 shows, in 2015, 6.7% of total FDI inflows into ASEAN countries originated from China; by 2024, this had increased to 15%.⁷⁴ This indicates that the recent growth of FDI from China has outpaced the already high overall increase in inbound FDI seen in the region. In 2022, over 11% of China's total FDI outflows went to Southeast Asia, underscoring the region's growing importance for Chinese firms.

The EU has fallen behind other major global players in terms of FDI flows into ASEAN. In 2024, 8.6% of total inbound FDI to ASEAN was from the EU, compared to 15% from China (including Hong Kong), and 18.3% from the US.⁷⁵ While the EU maintains an edge in overall FDI stock, trends indicate a growing position for China in ASEAN.

A significant portion of China's FDI to Southeast Asia has been in manufacturing. Analyses estimate that as much as 70% of Chinese FDI flows in recent years have gone into this sector, a share that has grown markedly.⁷⁶ In the mid-2010s, manufacturing FDI accounted for only 5-10% of China's total greenfield transactions in Southeast Asia. This suggests a major shift, with Chinese companies increasingly viewing ASEAN countries as manufacturing hubs.

China's manufacturing FDI has not been evenly distributed across the region. Before 2021, the majority of announced greenfield transactions were in Vietnam. While the country remains a significant destination, flows have become more geographically diversified in recent years. Indonesia and Thailand have emerged as major recipients of greenfield manufacturing investments.⁷⁷

Automotive manufacturing has expanded sharply since 2020 and now makes up more than half of China's manufacturing FDI in Southeast Asia. ICT and electronic equipment form the second-largest sector, with renewable energy equipment and consumer goods also accounting for substantial shares.⁷⁸

Indonesia has been the largest recipient of automotive manufacturing investments in recent years. Notably, CATL is building an integrated battery supply chain in the country and is expected to begin production in the region in 2026.⁷⁹ Meanwhile, FDI tied to tech, electronics, and consumer goods has concentrated in Vietnam and Thailand. Large Chinese electronics manufacturers such as Luxshare and Goertek have recently announced major expansions in Vietnam.

Figure 15

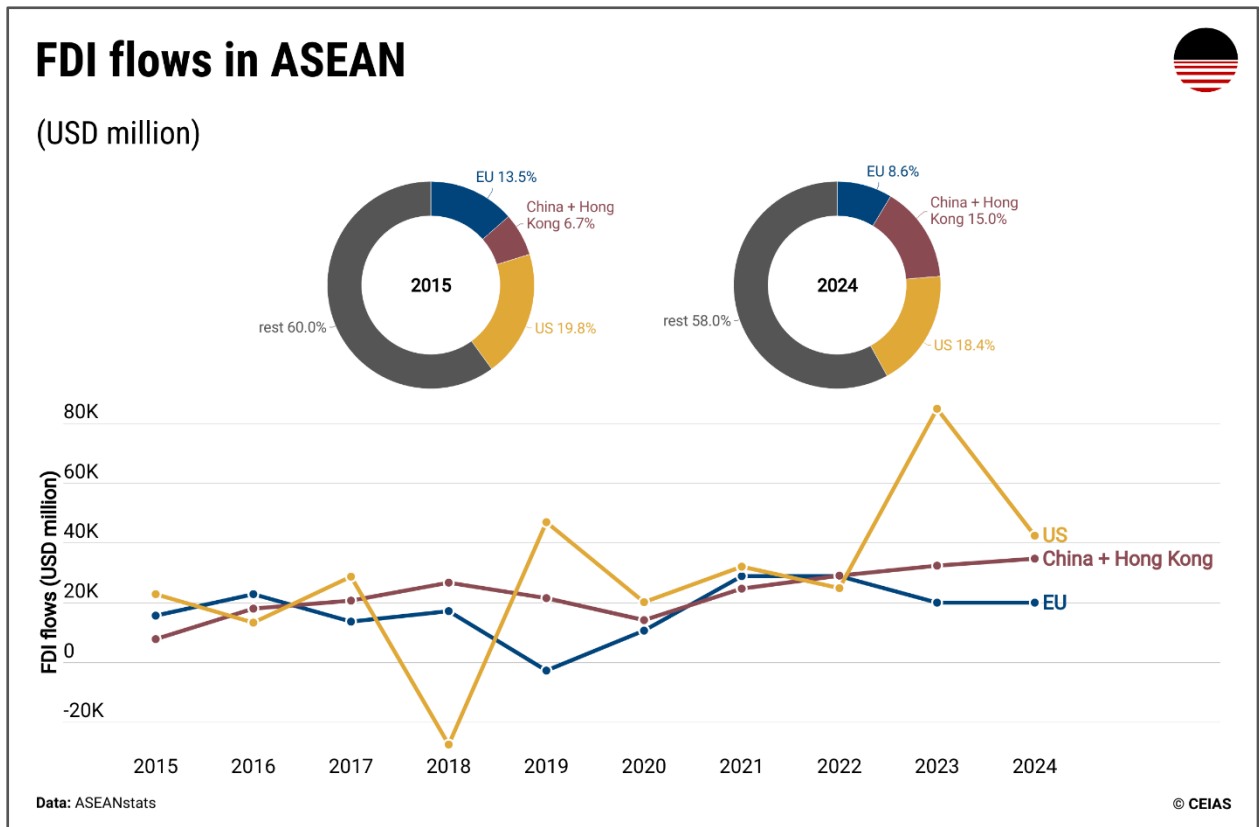
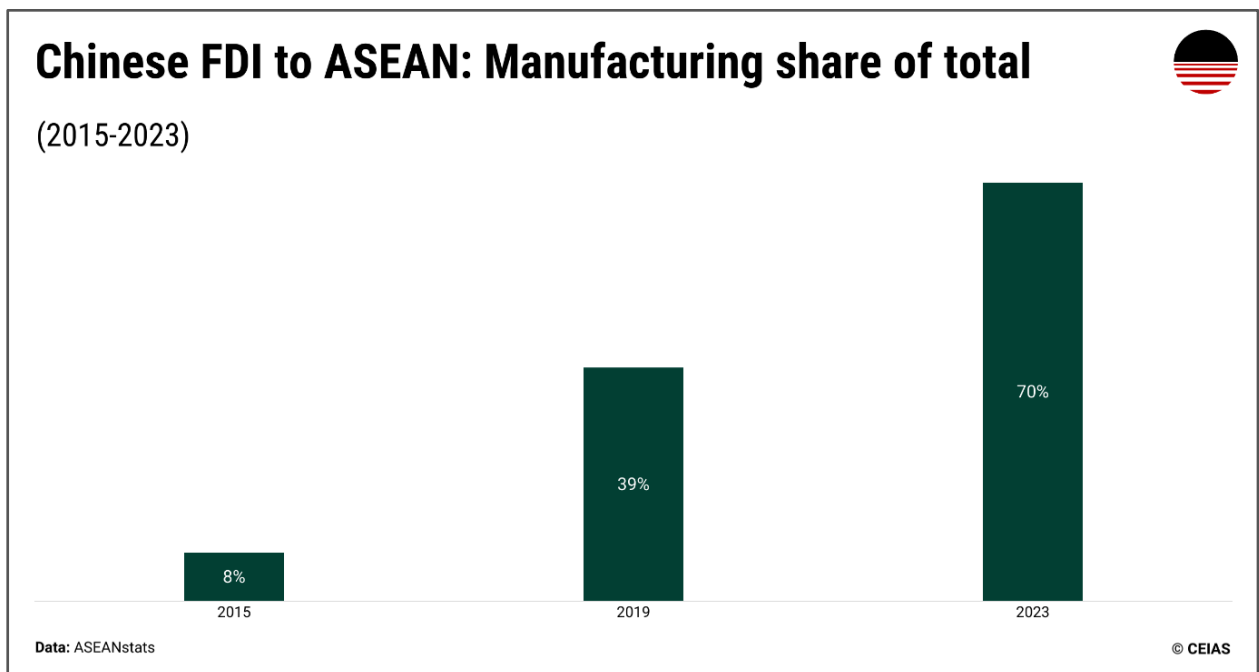


Figure 16



Chinese investors' growing focus on manufacturing marks a significant departure from the early 2010s, when Chinese FDI in Southeast Asia was largely driven by infrastructure spending under the BRI. BRI-related infrastructure investment peaked in the late 2010s and has since stagnated.⁸⁰ This is likely due in part to the gap between signed and implemented BRI projects: only a little more than a third of deals

made between 2015 and 2021 have actually been carried out.⁸¹ Political obstacles and implementation delays (challenges that large-scale BRI infrastructure projects are especially prone to) help explain this shortfall. In addition, it is important to recognize that BRI projects are often motivated by political objectives as much as commercial logic. As such, caution is warranted when comparing them with more traditional forms of investment, such as those behind most FDI flows.

Chinese investment motivations

The rise of Chinese manufacturing FDI in Southeast Asia began in 2019.⁸² This coincided with the implementation of US tariffs on China during the first Trump administration. In 2018, the US imposed 25% tariffs on most Chinese goods. However, no similar actions were taken against imports from Southeast Asian countries until much later in 2023, when some sector-specific duties on solar panels from Cambodia, Thailand, Malaysia, and Vietnam were imposed to address Chinese tariff circumvention. As a result, starting in 2019, Chinese companies began rerouting their supply chains to the region to avoid the high US tariffs.⁸³

Since then, several other countries, including European ones, have imposed tariffs on some Chinese goods. Most notably, the EU imposed countervailing duties on Chinese electric vehicles ranging from 17.8% to 35.3% in 2024, depending on the manufacturer.⁸⁴ Further anti-dumping tariffs were imposed on products such as steel, aluminum, and mobile access equipment. As a result, incentives for Chinese firms to circumvent these measures have steadily increased in recent years.

Expanding manufacturing operations in Southeast Asia is an attractive option because most tariffs are based on a product's country of origin. If enough of a good's manufacturing takes place in a third country, it can legally be labeled as originating there rather than in China.⁸⁵ In this way, companies can avoid country-specific duties targeting Chinese exports.

While efforts to curb transshipment have been implemented, these measures are notoriously difficult to enforce.⁸⁶ They require regulators to estimate the value-added share of a product at each stage of its supply chain in each country. This is often challenging because goods such as cars and electronics contain hundreds or thousands of components. As a result, it is difficult to conclusively establish how much of China's expanding manufacturing presence in Southeast Asia reflects short-term attempts to avoid tariffs through transshipment rather than a longer-term shift in production.

The second Trump administration has increasingly sought to crack down on China's transshipment activities in the region. Many ASEAN countries that have seen significant Chinese FDI inflows in recent years have been targeted by high tariffs in 2025. These include Vietnam, Thailand, and Indonesia, which are now all required to pay 19–20% tariffs on their exports to the US.⁸⁷ Notably, trade agreements signed with these countries in 2025 include rates of up to 40% on goods transshipped from third countries, although it remains unclear how exactly this will be enforced.⁸⁸ Tariffs of up to 3,500% have also been imposed on goods from Vietnam in industries associated with Chinese dumping, such as solar panels, to prevent tariff circumvention.⁸⁹

Under its deal with the US, Malaysia has agreed to mirror US measures that impose trade barriers on third countries on national or economic security grounds.⁹⁰ Likewise, Vietnam has agreed to cooperate with the US on export controls and to address tariff evasion.⁹¹ This illustrates that such activities, particularly those from China, are among the major issues the Trump administration uses to assess its trade relations with Southeast Asian countries. However, the concrete announcements made to date are very broad in scope and raise questions regarding their enforceability and implementation.

While more limited in scope, the EU has also taken steps to prevent tariff circumvention through Southeast Asia. In 2025, it imposed measures against certain steel products from Vietnam. Anti-circumvention rules have likewise been applied to goods such as e-bicycles to prevent transshipment through countries including Cambodia, Indonesia, Malaysia, Thailand, and the Philippines.⁹²

These developments signal additional scrutiny across the West of imports from Southeast Asia and increasing awareness of Chinese transshipment activities. They hold important implications for the future of China's investments in the region. Indeed, much of the rise in Chinese FDI in recent years has been driven by tariff differentials between goods from Southeast Asia and those originating in China. If this differential becomes less consequential, ASEAN countries may become less attractive investment destinations for Chinese firms.

The interaction between Chinese and EU investment

China's and European FDI inflows into Southeast Asia differ significantly in sectoral and geographic distributions. Yet China's growing investment footprint in the region raises challenges for European firms operating or investing there. This requires policy attention, given that the EU has the third-largest FDI inflows into ASEAN countries after the US and China, with annual inflows of nearly \$19.9 billion in 2024.⁹³

Chinese and European companies are often in direct competition for industrial land, port access, and infrastructure contracts across the region. Several prominent examples illustrate this trend. Notably, in 2021, Malaysia announced plans to develop a single wholesale 5G network and awarded the contract to the Swedish company Ericsson. A few years later, in 2025, the government opened the door to other providers, and major telecoms announced rollouts with Chinese firms Huawei and ZTE.⁹⁴

Chinese and European companies have also simultaneously invested in some of the region's rapidly expanding industrial areas. For example, in 2024, BYD inaugurated an EV manufacturing plant in Rayong, Thailand, one of the country's fastest-growing industrial zones. One year later, BMW announced that it would also open a new factory in the city in 2025, expanding an established presence there.⁹⁵ In cases like this, Chinese and European companies directly compete for scarce space and infrastructure. Notably, Rayong is served by Laem Chabang Port, where China Harbour Engineering Company won a contract for additional concessions in 2024.⁹⁶

Chinese companies often receive significant government support and involvement. Notably, they benefit from Overseas Economic and Trade Cooperation Zones (OETCZs) designated by China's Ministry of Commerce, typically in cooperation with local partners. This bundle of land, permits, utilities, and one-stop services for Chinese tenants makes it easier for them to set up their activities and manage their logistics. In addition, OETCZs usually benefit from direct support from Chinese consulates and trade missions abroad.⁹⁷ Illustrative of this type of support, in Rayong, a BRI project established the Thai-Chinese Rayong Industrial Zone, developed jointly by Chinese and Thai conglomerates.⁹⁸

Similar programs are far less available to European firms seeking to expand their operations in Southeast Asia. Indeed, no EU-wide programs similar to Chinese OETCZs exist to this day. Instead, technical and financing support for European firms tends to be coordinated at the national level. This results in lower, more disparate levels of assistance than Chinese companies have access to. This represents a disadvantage for European firms seeking to expand in Southeast Asia, given the significant logistical challenges and cultural differences they face, which may fall outside their in-house comfort zones in terms of knowledge and expertise. Notably, European multinationals have called on the EU to do more to support their interests in the region.⁹⁹

In some ASEAN countries, Chinese firms have also consolidated control over critical supply chains essential to emerging industries, limiting European companies' ability to succeed. For example, Chinese firms are estimated to control 75% of Indonesia's nickel refining capacity, giving them significant leverage over the supply chains needed to develop EV batteries.¹⁰⁰ This has serious implications for European companies in the same supply chains, which often must establish partnerships or joint ventures with Chinese firms. For example, French mining company Eramet owns one of the world's largest nickel mines in Weda Bay, Indonesia, developed in conjunction with China's Tsingshan Steel Group.¹⁰¹ This reliance on Chinese partners exposes European actors to additional supply-chain risks in markets such as the US.

Finally, there are cases in which European companies operating in Southeast Asia are forced to rely on infrastructure funded or owned by China. For example, several German forwarding companies, such as DHL and DB Schenker, run intra-ASEAN services that rely on railways owned by Chinese stakeholders.¹⁰² European firms with an established presence in the region also depend on China-owned maritime port facilities. For example, BASF has a large-scale facility in Gebeng, Malaysia, that almost exclusively relies on Kuantan Port, which is partly owned by China. Notably, recent port expansions have been linked to a nearby Chinese–Malaysian industrial park.¹⁰³ Recent investments made by European automotive companies in areas such as Rayong, Thailand, also depend on nearby ports with significant and increasing Chinese ownership.

Conclusions

While the EU remains a major investor in ASEAN, China's rapidly deepening economic engagement in the region, particularly in manufacturing, is intensifying direct competition with European firms. EU companies face a significant structural disadvantage in ASEAN markets, as Chinese competitors are frequently backed by the Chinese state, both strategically and through dedicated financial and investment-support instruments. By contrast, EU firms often operate without comparable backing. To compete effectively for major projects and contracts, European companies require more targeted and coordinated support. This, in turn, necessitates stronger coordination among EU member states to reduce fragmentation, pool resources, and jointly support projects of strategic importance.

European companies operating in ASEAN are also exposed to growing vulnerabilities stemming from their reliance on Chinese-owned or Chinese-operated infrastructure. Decisions taken by Chinese stakeholders controlling critical infrastructure, such as ports, logistics hubs or energy assets, are guided primarily by their own strategic and commercial interests. Control over such chokepoints can be leveraged to undermine EU economic interests, placing billions of euros in European investments in Southeast Asia at risk. This challenge is particularly acute, given that many recent European investments in the region have been made as part of de-risking strategies, with governments and firms seeking to diversify manufacturing away from China. Continued dependence on Chinese-controlled infrastructure risks creating a false sense of security, as European actors expand their footprint in ASEAN while remaining exposed to the same structural vulnerabilities. To address this, closer strategic coordination between European investment and infrastructure development under the Global Gateway is essential to build a more resilient and autonomous EU economic presence in the region.

Moreover, to succeed in competition with China, the EU needs to provide a more attractive business case to ASEAN countries. EU companies should present themselves as partners in ASEAN countries' efforts to upgrade industry and increase value added. The EU should encourage companies to engage in projects that benefit ASEAN economies through joint ventures, technology transfer, workforce development, and other measures.

China's expanding economic footprint in ASEAN also has broader implications for EU trade policy. The recent surge in Chinese foreign direct investment into Southeast Asia is partly driven by efforts to circumvent rising trade barriers on Chinese-origin goods in major export markets. As the EU has increased tariffs on selected Chinese products in recent years, this trend risks undermining the effectiveness of EU trade defense instruments. It may also expose European firms to heightened competition from Chinese companies engaging in dumping practices via ASEAN-based production. As China further expands its manufacturing base in Southeast Asia, the EU will need to intensify scrutiny of trade flows originating from the region and invest more heavily in regulatory monitoring and enforcement to safeguard fair competition.

Zooming in on the automotive sector

To better understand ASEAN's potential for European de-risking efforts and the interplay between the EU and China's economic engagement in the region, we zoom in on the automotive industry, a major sector for the EU and the German economy.

The importance of the automotive sector

Automobiles and automobile parts are among the most widely traded products, accounting for \$1.3 trillion or 4% of global trade in 2024. Cars are complex products that integrate components and supply chains, reflecting industrial strength, technological innovation, and cost optimization. The industry has undergone several stages of transformation, including the pursuit of fuel efficiency following the 1970s oil crisis and the globalization boom of the 1990s.¹⁰⁴ In recent years, digitalization and electrification have taken the driver's seat, with the adoption of clean energy and new functionalities.¹⁰⁵ The developments have created winners and losers in each transformation.

The automotive sector has been one of the major engines of the European economy, with its turnover representing 7% of the European economy, and directly and indirectly employing almost 14 million people across the bloc.¹⁰⁶ European carmakers, especially those from Germany, maintain a strong foothold in production and exports, despite challenges from competitors such as Japan, Korea and, more recently, China.

For the EU, Germany is the largest economy, with a significant reliance on exports of automobiles and auto parts at the national level, being the biggest exporter of passenger cars within the bloc (Figure 15). This exposure makes the ongoing changes in supply chains particularly important to the EU, especially for German carmakers, with implications for corporate growth, but more broadly also overall economic competitiveness and jobs. The EU will not be able to have successful de-risking without considering the automotive sector. Moreover, elevated geopolitical tensions can lead to China's economic coercion on both the demand and supply sides, especially amid its industrial policy and push toward self-reliance.

The German-ASEAN trade relationship is also closely tied to the automotive sector, which is the fourth largest export category after electrical machinery, general machinery, and optical instruments (Figure 16). One notable trend is the increasing demand in ASEAN for electric vehicles (EVs), including both Battery Electric Vehicles and Plug-in Hybrid Electric Vehicles, which now account for 58% of Germany's passenger car exports to the ASEAN-6 countries: Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam (Figure 17).

Figure 17

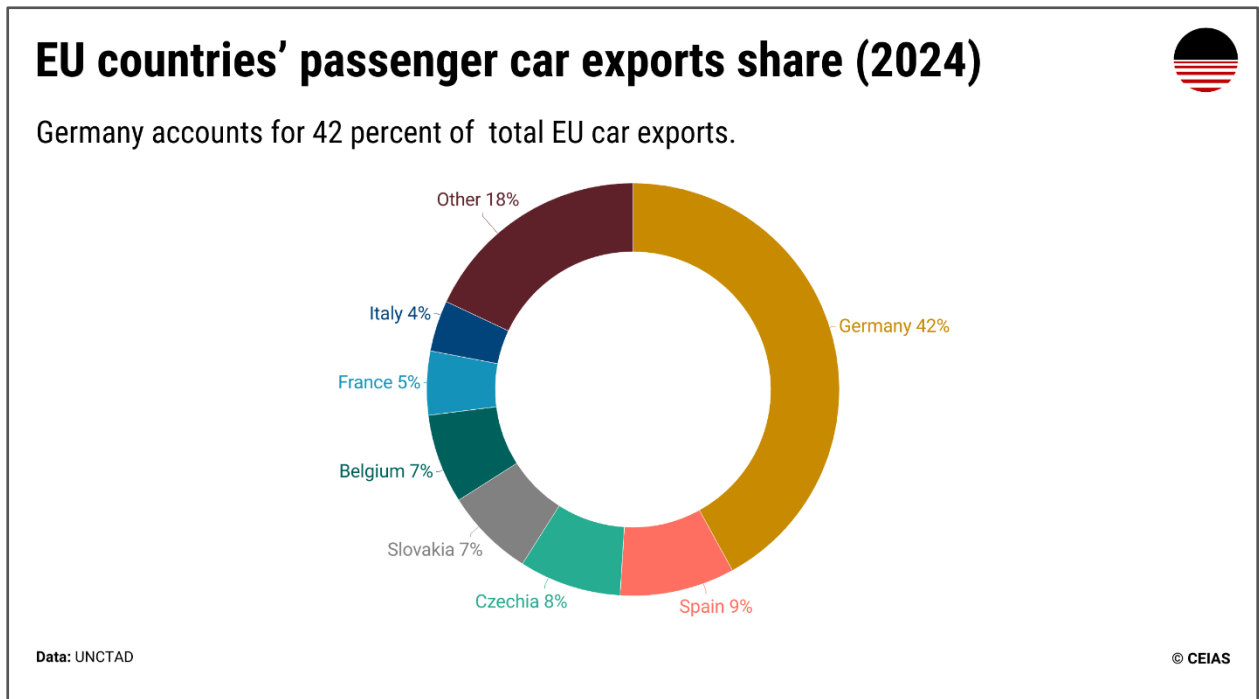


Figure 18

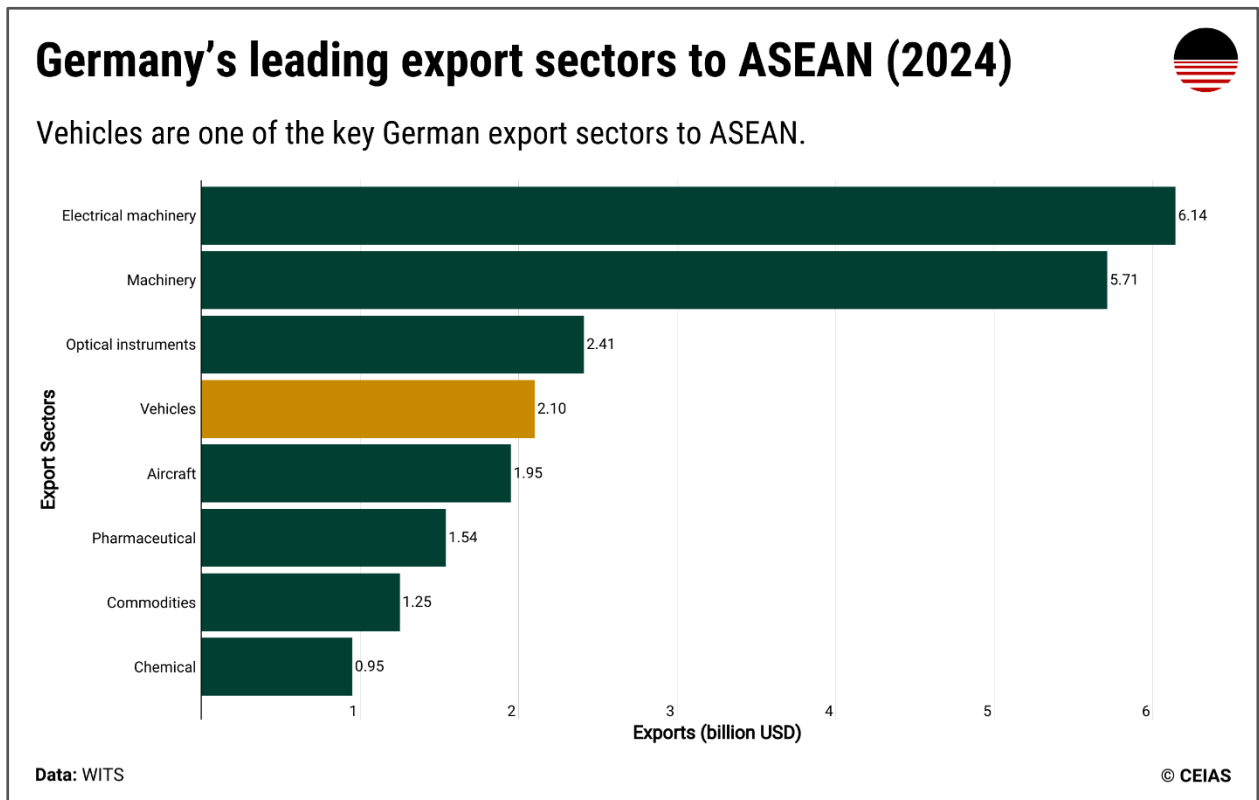
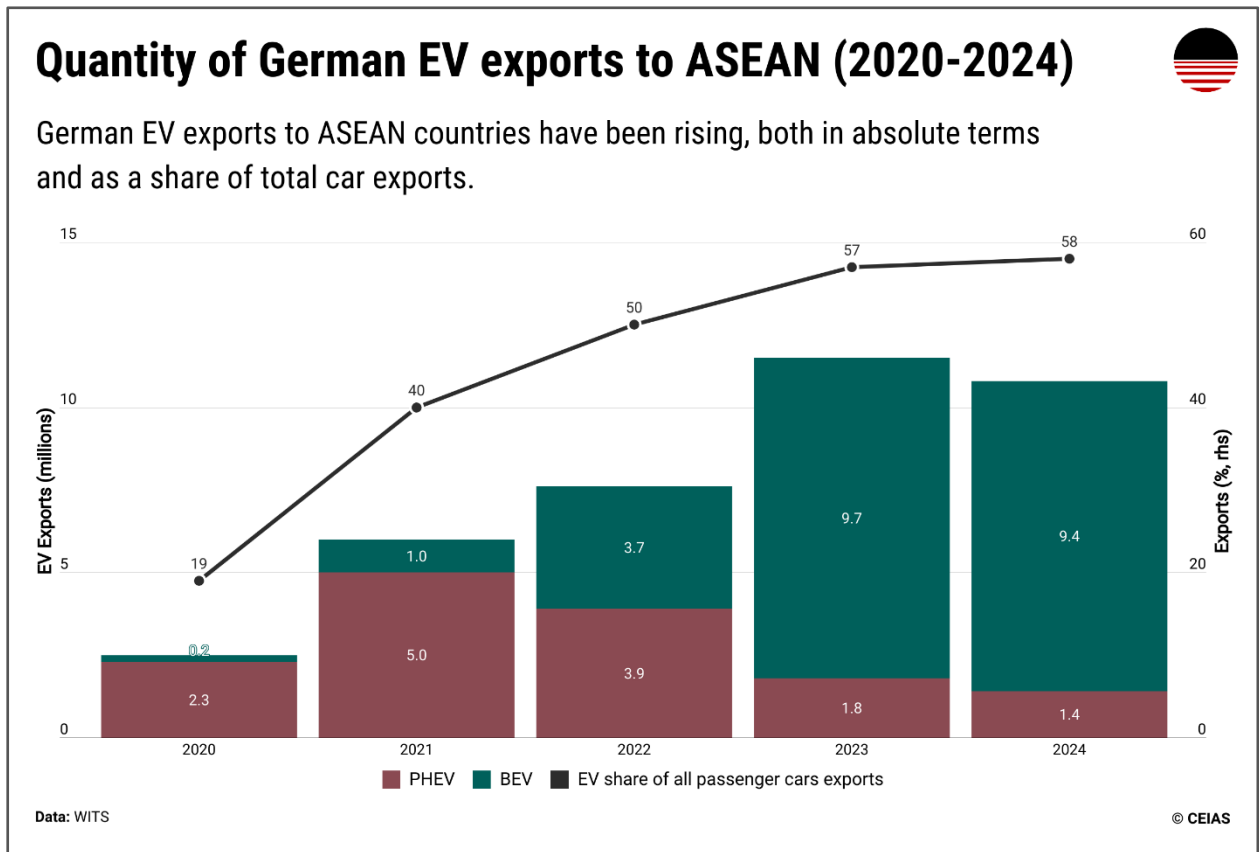


Figure 19



Strong potential growth, but not enough for immediate replacement

As a new growth driver from a low base, ASEAN can be an essential market for German carmakers to diversify their revenue streams. Due to data limitations and the relevance justified by market size, we will mainly focus on Indonesia, Malaysia, and Thailand in this chapter for more granular analysis. The three countries are among the largest car markets in ASEAN, but with different economic characteristics, which should provide sufficient depth for understanding the trade bloc, including divergent GDP per capita across countries. While Indonesia leads in total vehicle sales (Figure 18), Malaysia has the highest vehicle-per-capita rate (Figure 19).

As shown in Figure 19, vehicle intensity (the number of vehicles owned per 1000 people) is positively correlated with GDP per capita from an international historical perspective. As ASEAN economies continue to grow and their middle classes expand, the potential for growth in car ownership demand is clear. At the same time, the EV sales penetration rate in ASEAN remains lower than the global average (Figure 20). It means there is further room for growth as the EV adoption accelerates. "

Figure 20

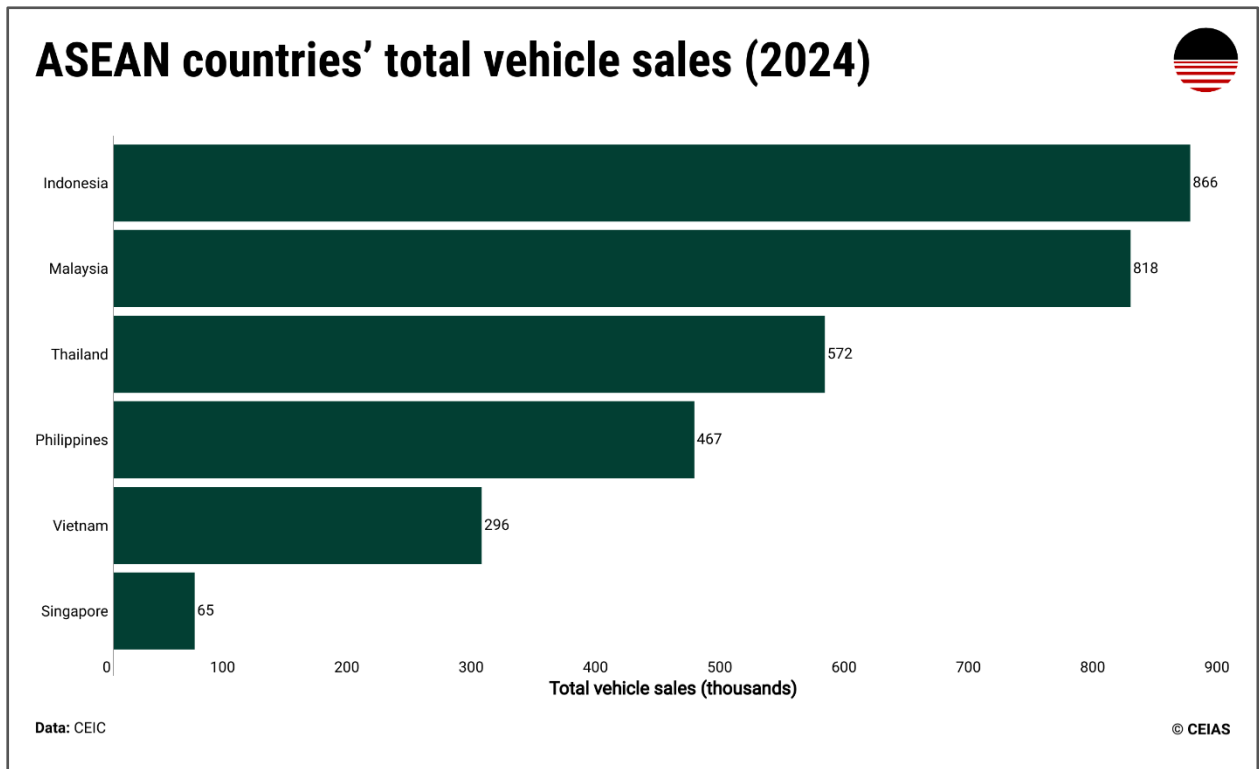
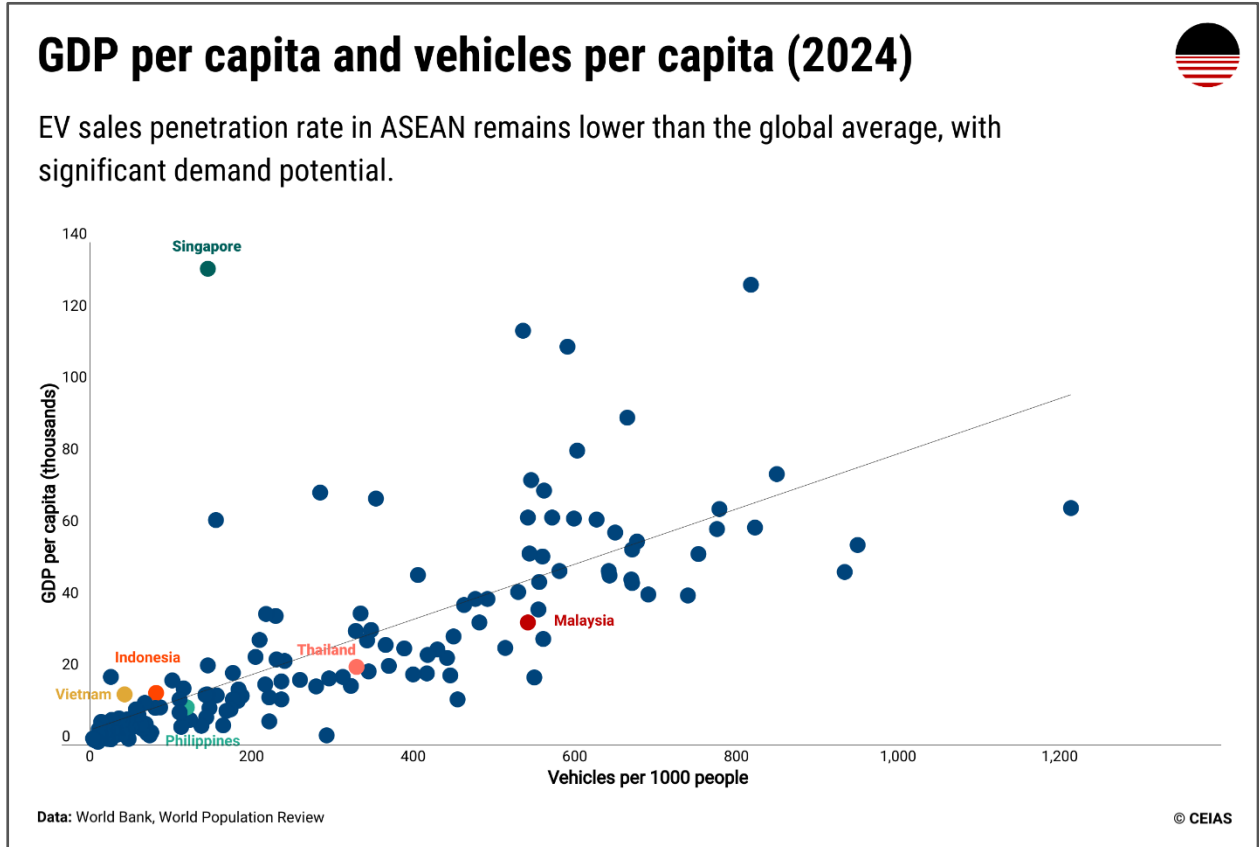


Figure 21



However, it would be unrealistic to expect ASEAN-6 to provide a direct alternative to the Chinese demand and production, at least not in the short term. Despite the greater potential for growth, there is a significant consumption gap between ASEAN-6 and other key markets, as ASEAN-6 accounts for only 3.8% of global car sales in 2024 (Figure 21). From a population perspective, ASEAN-6 will not surpass China, at least until 2100, based on calculations using UN forecasts.¹⁰⁷ This will be mainly driven by the sharp reduction in China's population, as ASEAN-6 will also see a moderate decline by then. The most likely scenario is that ASEAN-6 will gain a higher market share in global car sales, becoming a partial alternative to China's demand but not a full replacement.

Regarding car manufacturing, ASEAN's role is also currently limited (Figure 22), while we can see the rapid growth of China's share of world production in recent years. In 2024, ASEAN-6 accounted for only 3.7% of the global market share. However, ASEAN-6 has a better chance of gaining greater importance in global supply chains, given lower labor costs and reduced trade barriers in third markets. To be a real competitor to China, ASEAN-6 will probably need to work with India to develop a larger supply chain cluster and consumer market, that is comparable in population size and resources. ASEAN excels in battery materials and transferable experience in electronics, while India can produce cost-efficient components and maintain strong software engineering capabilities. However, such a scenario would first require significant progress in intra-ASEAN supply-chain regulation, which remains weak, as evidenced by the low value added in ASEAN exports, as analyzed in Chapter 1.

Figure 22

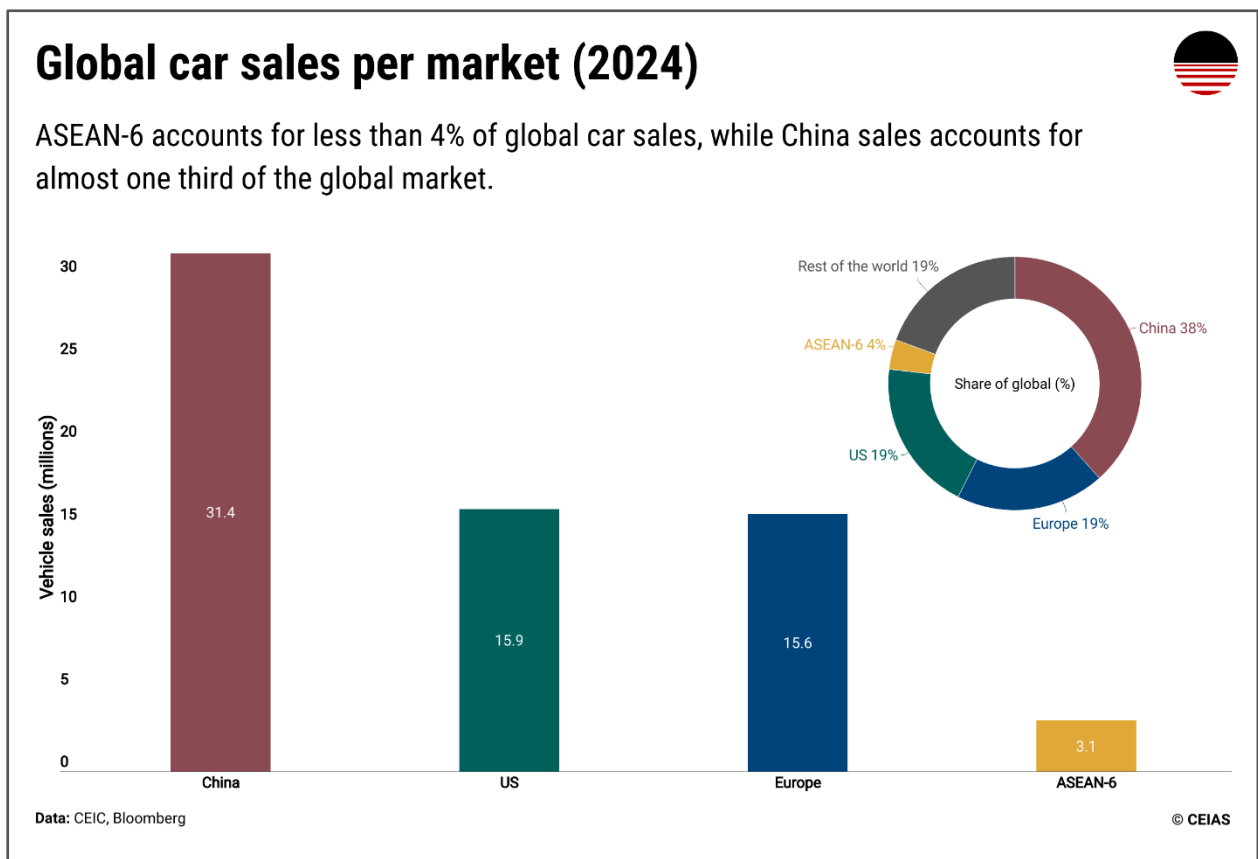
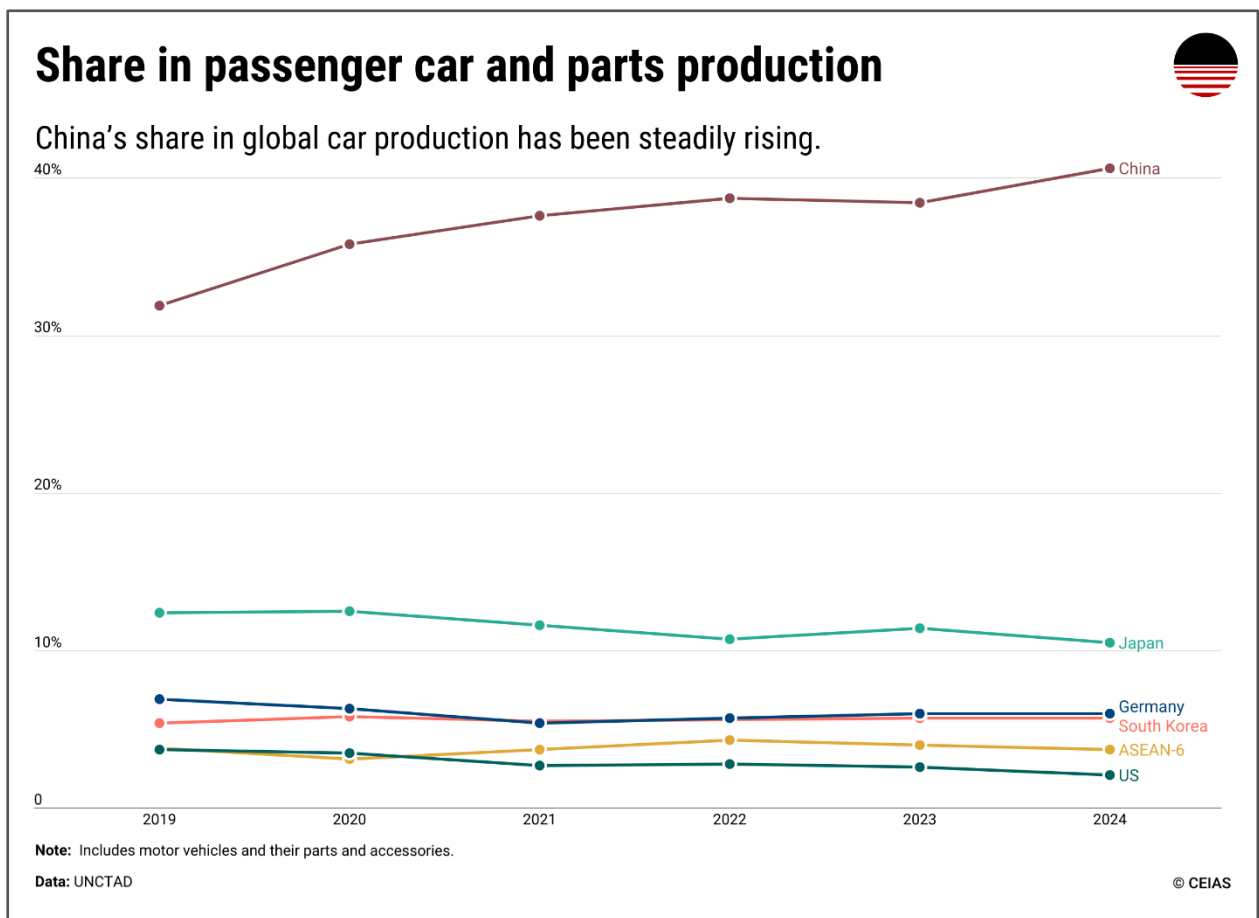


Figure 23



Competition from China, ranging from inexpensive to premium EVs

Although ASEAN car demand looks promising, there is uncertainty about who will capture the revenue. China has developed strong comparative advantages in producing EVs through technological advancement and cost efficiency.¹⁰⁸ With a first-mover advantage and strong government support for EV infrastructure, Chinese carmakers have leveraged their large domestic market and reinvested earnings in R&D to drive product innovation over the past decade. The result is that China has a well-developed supply chain, extending from upstream battery and related components (such as anodes and cathodes) to downstream EV manufacturing.¹⁰⁹ Such a combination of factors has made Chinese EVs more competitive than traditional internal combustion engine (ICE) cars, both locally and globally.

Still, Chinese carmakers are facing significant challenges. Due to the inflation gap since 2020 and the proactive but controversial supply-side policy, the overcapacity dilemma has also kept producer prices lower than in other markets. Chinese carmakers have been selling more cars, but they are not earning more profit. With a lower industrial utilization rate in the automobile industry, firms have ended up in a price war to compete for market share, a phenomenon also known as “involution.”

With the involution trend, a term used to describe fierce competition that creates a downward price spiral to drive out competitors, more Chinese carmakers are looking overseas for growth.¹¹⁰ As a result, the exports of Chinese EVs and batteries have ballooned. China is no longer just an assembly base, but has become a hub for innovation in the sector.¹¹¹ Still, supply-side government policies aimed at boosting production and a mentality of maximizing market share rather than profitability have led to

fierce domestic competition. Despite improved product competitiveness and quality, overcapacity and deflationary pressure have forced Chinese carmakers to lower export prices since 2023.

In ASEAN, most markets have seen an increase in Chinese brands' market share, especially in EVs, mainly at the expense of Japan (Figures 23 and 24). The primary reason is the growing adoption of EVs, and China can offer affordable options with a good value-for-price ratio. While the countries have a relatively low EV adoption rate, the market share of Chinese EV makers has reached 59%, 69%, and 90% in Malaysia, Thailand, and Indonesia, respectively.

When comparing the three markets, there are strategic differences. These originate from divergent long-term government policies enacted since the 1980s, a period when all three countries adopted developmental state models but pointed them in different directions. In Malaysia, the strong centralized leadership of former Prime Minister Mahathir Mohamad prioritized building a national car brand as an industrial symbol.¹¹² This ambitious national car project led directly to the establishment of Proton in 1983 and then Perodua in 1993. Thailand, in contrast, chose a different path. It focused on integrating into regional value chains by opening its market, a strategy that successfully attracted significant foreign investment and positioned the country as a regional automotive hub.

Indonesia attempted to follow Malaysia's national car strategy, yet its ambitions were thwarted by weak institutional follow-through. Projects such as the Timor car manufacturer in the 1990s collapsed amid the Asian Financial Crisis and a WTO ruling against its protectionist policies.¹¹³ Another initiative, the Esemka, has not achieved significant national success.¹¹⁴ This history has resulted in Malaysia being the only one of the three with large, domestically established car manufacturers. This unique market structure presents a distinct investment landscape in which foreign companies find it more strategic to partner with local brands, a move that shares investment risk while providing invaluable local market knowledge.¹¹⁵ For example, Japan's Daihatsu, a Toyota subsidiary, has long been a vital technology partner for Perodua.¹¹⁶ China's Geely acquired a 49.9% stake in Proton in 2017 to serve a similar vital role.¹¹⁷ Beyond the large players, there is also a growing number of Chinese EV makers establishing manufacturing facilities in Malaysia, including XPeng.¹¹⁸

The experiences in ASEAN and the successful approaches of China and Japan point to the importance of local partnerships and of catering to the political and regulatory realities in each country within the region. This lesson is increasingly relevant for German carmakers if they want to expand production and market share in ASEAN, especially in projecting themselves as a reliable partner for industrial upgrading and an alternative to China.

One point to note is that countries with lower GDP per capita, such as Thailand and Indonesia, tend to see a larger increase in Chinese market share, suggesting that price competitiveness can be a core factor in consumer decision-making. Still, it does not mean there are no challenges for the premium markets, which have traditionally been dominated by European carmakers. German carmakers manage to maintain a stable or slightly declining overall market share in ASEAN. However, their market share in EVs has come under significant pressure despite still-stable or growing sales volumes in some countries.

The trend can be attributed to China shifting its traditional market focus from low-cost, economy models to more expensive segments. As of 2025, 33% of China's existing car models (both ICE and EV) are classified as above low-cost and economy, but the ratio is expected to increase to 40%. This is compared to Germany, where only 3% of car models are classified as low-cost and economy. In EVs specifically, Chinese models above low-cost and economy models already account for 37% of the total, and this share is set to increase to 45% (Figure 26).

Figure 24

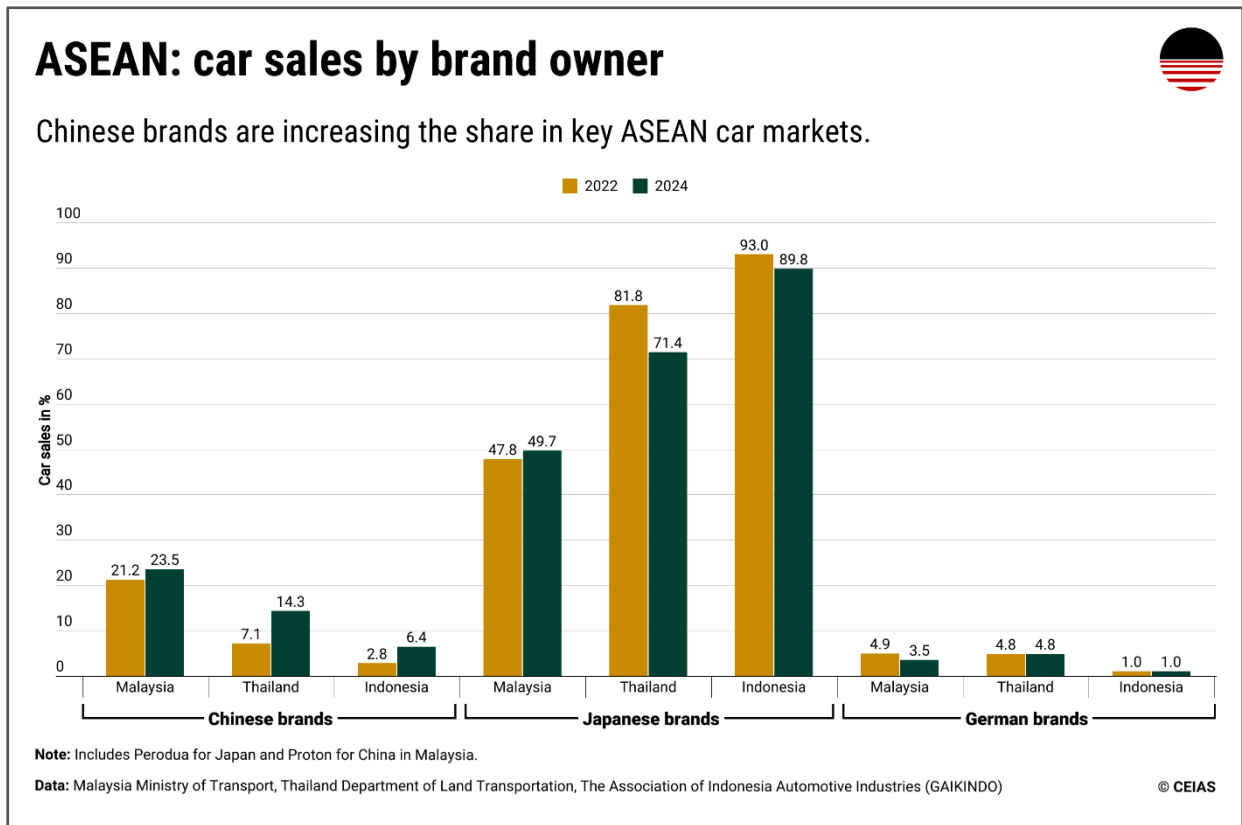


Figure 25

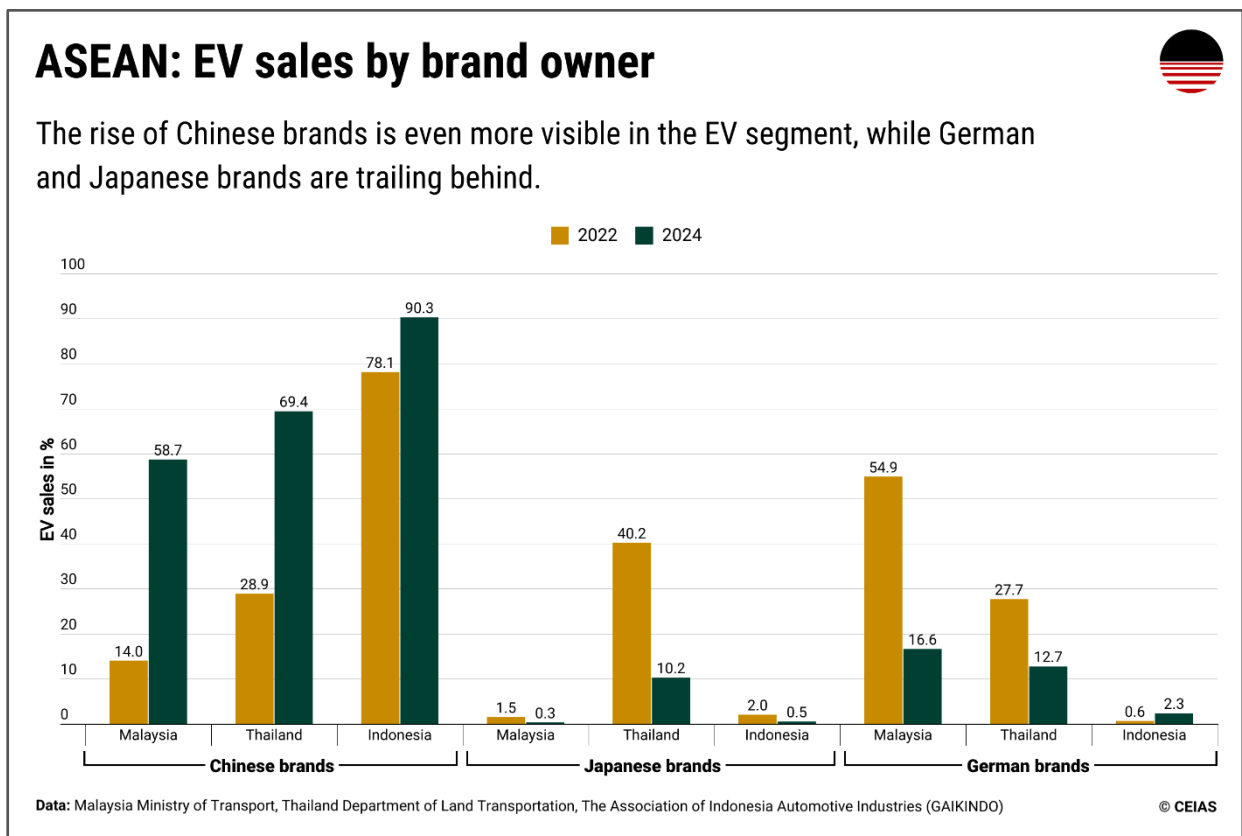


Figure 26

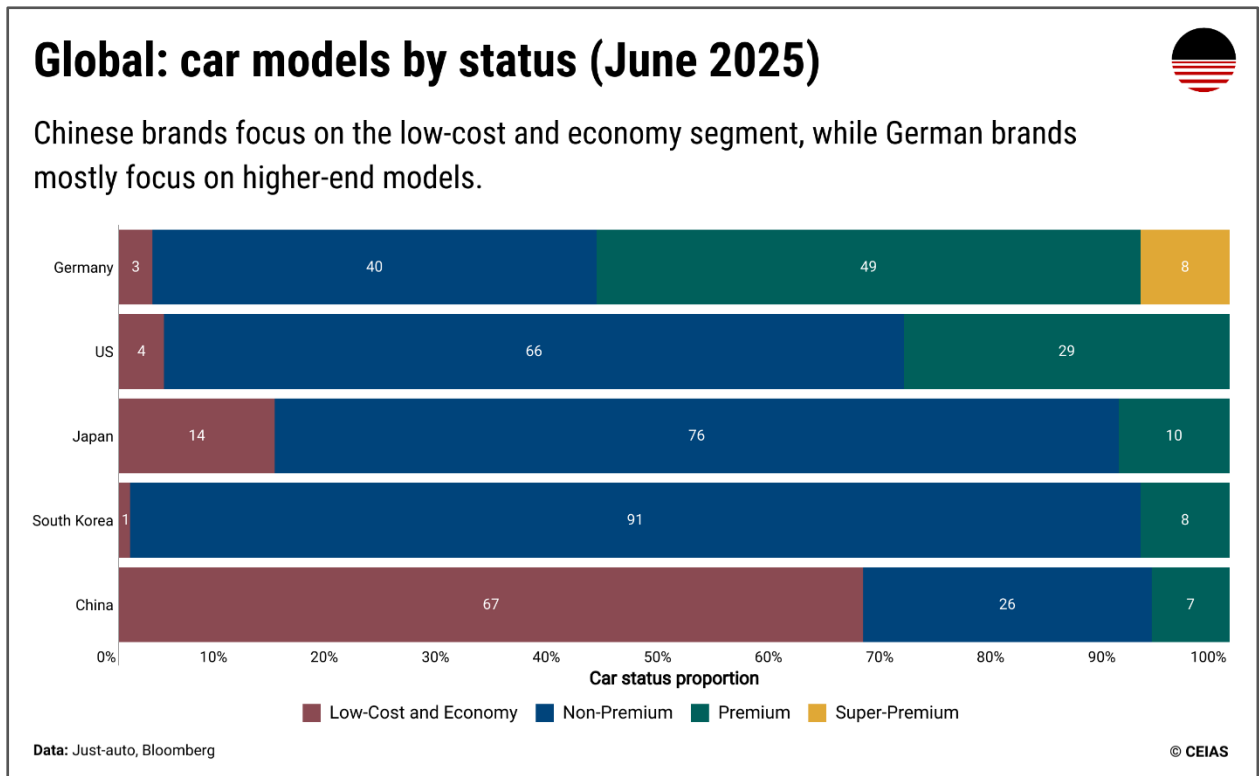
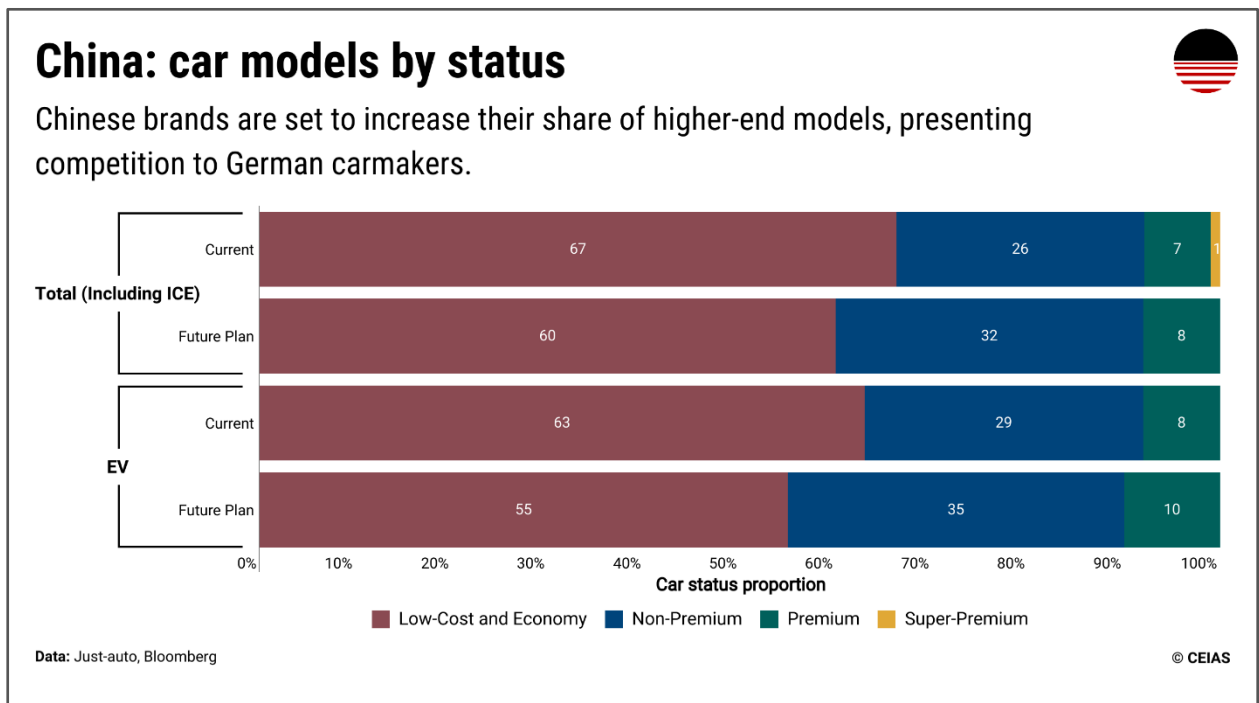


Figure 27

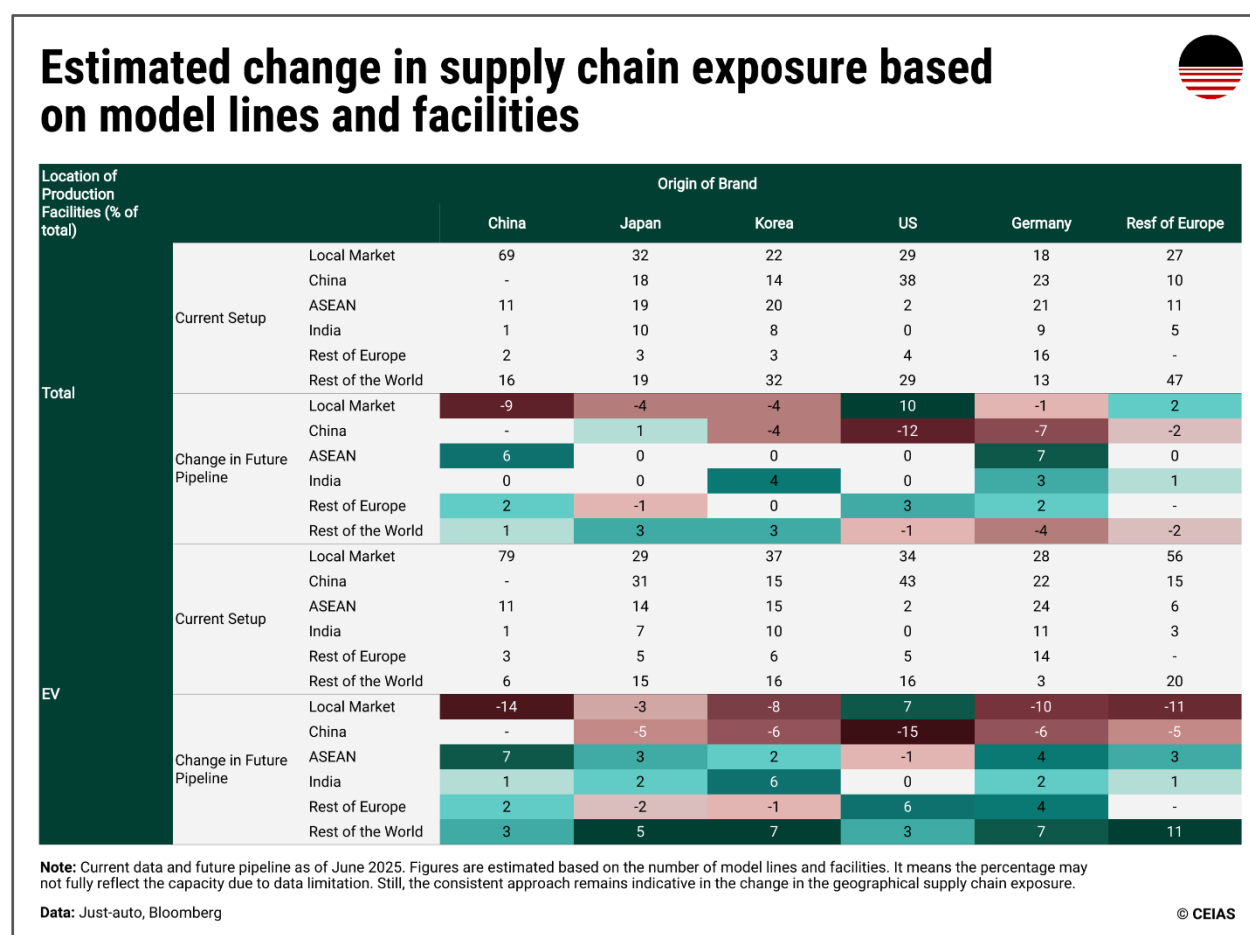


Product localization and diversification

Beyond demand, ASEAN also serves as an important base for supply-side de-risking in the automobile sector. However, data on exact production capacity and investment for individual firms and countries are not readily available or timely enough. Therefore, we have decided to use the following methodology to estimate the change between the current supply chain setup and the planned change.

First, our analysis is based on the just-auto database, which contains information on car brands, models, power types (ICE or EV), and the locations of production facilities, including existing factories and future plans as of 2025.¹¹⁹ Second, we remove duplicate models that vary only in drive type (e.g., no distinction between all-wheel drive and front-wheel drive) to reduce the excessive influence of features. Third, we count the weight if a car model is produced at a particular factory in the cleaned list. With this approach, we assume that each car model in every production line has the same output and carmakers have not significantly increased the number of car models between now and the future. While some factories may have higher output than others, it is still a valuable method for capturing the geographical exposure of car brands in vehicle production.

Figure 28



Due to the limitation, the interpretation is more meaningful in terms of changes in exposure than in the exact share indicated. At the overall car market level (including ICEs), there is a clear pattern: China is more reliant on domestic production than other countries. Japan, South Korea and Germany have relatively diversified approaches to factory setup internationally. Meanwhile, the US is an exceptional case with higher reliance on China, not only for Tesla but also for other forms of joint ventures.

Regarding future plans, most brands are being pushed to invest more outside their domestic markets, a trend driven by foreign government incentives and restrictions that push supply chains toward their own spheres of influence or territories. For China, the barriers to entry in foreign markets and the costs of exporting from the domestic market to the world are increasing due to tariffs. Thus, Chinese carmakers have been the most proactive in expanding overseas to reduce the tariff risks and potential geopolitical tensions.

If we only focus on EVs, more countries have an even stronger reliance on domestic manufacturing bases, which may be explained by the fact that the industry is still relatively new compared to other car products. For the case of China, there is a clear shift in focus from producing in China towards diversification and localization in markets with stronger demand growth

For Germany, the production in the pipeline focuses on ASEAN, India, and the rest of Europe. ASEAN has been a key production base for German carmakers for decades. The region's large population and fast-growing economy are very attractive, bolstered by supportive government policies, such as the ASEAN Free Trade Area, which lowers regional tariffs, and the ASEAN Industrial Cooperation scheme, which promotes industrial activities and cooperation among firms.¹²⁰ After Thailand opened its economy in the 1970s, prominent German firms such as BMW, Mercedes-Benz, and the supplier Bosch entered the market, building assembly plants to serve the entire ASEAN region and gain local production advantages.¹²¹ High import tariffs in countries like Malaysia further encouraged this localization. As of 2025, 21% of all German auto factories are in ASEAN, representing the largest share of Germany's international car production. The share is poised to increase by 7 percentage points when accounting for planned production, potentially overtaking China's share, according to our estimate based on the number of facilities.

Still, German carmakers face enduring challenges in ASEAN, particularly due to ongoing trade barriers, including differing rules for local parts and vehicle approvals. These different rules make it hard to operate efficiently across ASEAN. Manufacturers cannot easily build the scale needed to lower their costs. This is why German carmakers are also relying on India and the rest of Europe, but for different purposes.

India is a market with significant growth potential and low labor costs, despite the challenges of navigating bureaucratic hurdles in business operations. The stronger emphasis on production in Europe by German carmakers is more about consolidating their existing advantages in the home market and ensuring supply chain security, while also considering the cost. Simultaneously, German carmakers are reinvesting in Europe to secure their supply chains, a move supported by the Industrial Action Plan for the European Automotive Sector and by new laws such as the European Chips Act, which protect the supply of essential parts.

Conclusions

The automotive industry is too big to ignore for EU de-risking, given its impact on economic growth and job creation. Among all markets, ASEAN has long been integrated into the European automotive production networks and supply chains. Currently, European producers struggle to maintain their position amid rising competition from China in the EV space. However, due to the favorable demographic position, which increases demand potential, ASEAN can be an essential part of the EU's de-risking strategy in the automotive sector by diversifying sales, even though its size alone will not be sufficient to offset the entire Chinese market. Compared to consumption, ASEAN can play an even greater role in production, given its low labor costs and abundant raw materials, which can help the EU in maintaining supply chain security. By expanding into other markets, such as India, the EU can diversify its revenue sources and production bases.

One of the key hurdles for European carmakers is the tariff and non-tariff barriers in ASEAN. The EU should expedite the finalization and ratification of FTAs with its ASEAN partners, including those covering mutual market access, while maintaining a balance between climate commitments and human rights. The EU should also support ASEAN regional integration to lower market-entry costs, such as those related to automobile and carbon-emission standards. Amid the push by foreign governments for localization, the EU can act as a partner willing to pursue synergies with ASEAN countries' goals for industrial upgrading. In fact, the EU carmakers already have one of the largest exposures to ASEAN as measured by the number of facilities, and this is set to rise.

The EU carmakers cannot de-risk solely by finding an alternative market. Unlike in traditional ICE engines, EU carmakers lack the advantage across the upstream and downstream of EV production, such as battery production and recycling, and raw material processing. Asia has long been the global hub for electronics manufacturing and assembly, with transferable skills and supply chains for EVs. Therefore, the EU should collaborate with like-minded countries, such as South Korea and Japan, to invest in ASEAN and jointly establish EV clusters. Such cooperation can create competitive, non-Chinese EV ecosystems rooted in ASEAN to recreate the economies of scale, learning effects, and cost optimization.

EU carmakers are effectively competing not just with Chinese companies, but with the Chinese state itself, given the extensive government backing through subsidized financing, direct support, and early-stage protectionist measures that helped domestic EV firms scale and withstand competition. For example, China did not grant subsidies to Korean battery makers in 2016, and its domestic firms have grown rapidly since then.¹²² Therefore, the EU should use the European Investment Bank to support the development of the EV supply chain in ASEAN, with possible collaboration with the Export-Import Bank of Korea and the Japan Bank for International Cooperation on industry cluster projects, especially in upstream EV sectors. It can also involve funding and investment from the EU Global Gateway in sectors such as rare earth production.

Lastly, beyond increasing the supply under its own control, the EU should mandate additional measures to strengthen supply risk management practices for critical materials and components in the automotive sector. While the automotive industry invented the "just-in-time" model, European car makers should adopt a "just-in-case" approach with minimal inventory levels.

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About authors

MARTIN ŠEBEŇA • Former Chief Economist, CEIAS

Martin Šebeňa, Ph.D., is a lecturer at the Department of Politics and Public Administration, University of Hong Kong and a visiting lecturer at the Department of Government and International Studies, Hong Kong Baptist University. He has published research in the areas of global value chains, trade flows, geoeconomic policy, and supply chain finance.



sebena@hku.hk



[LinkedIn](#)

GARY NG • Research Fellow, CEIAS

Gary Ng is a Research Fellow at CEIAS. He is also the Senior Economist for Asia Pacific at Natixis, specializing in economic and thematic research. His research links the Asia Pacific macroeconomy with international trade and supply chain, industrial and government policies, technology and innovation. He is also active in international media, including but not limited to Bloomberg, CNBC, Financial Times, Nikkei Asia, and South China Morning Post.



ng@ceias.eu



[LinkedIn](#)

KARA NĚMEČKOVÁ • Research Fellow, CEIAS

Kara Němečková is a Research Fellow at CEIAS. Kara's research looks at EU-China relations, China's influence in Europe and Africa, and foreign interference. She holds a Master's degree in International Security from the School of International Affairs at Sciences Po. As part of her studies, she spent one year at Fudan University in Shanghai.



nemeckova@ceias.eu



[LinkedIn](#)

BENJAMIN TOETTOE • Research Fellow, CEIAS

Benjamin Toettoe is a Research Fellow at CEIAS. He is a Ph.D. Candidate in Political Science at the University of Montreal. Previously, he completed a B.A. in Quantitative

Economics and Politics at New York University and an M.A. in Comparative Economics and Policy at UCL. His main research focuses on the field of International Relations and the constraining effects of economic flows from China on the foreign policy orientations of recipient states.



toettoe@ceias.eu



[LinkedIn](#)

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Getting de-risking from China right: What ASEAN can and cannot do for Europe

Authors: Martin Šebeňa, Gary Ng, Kara Němečková, Benjamin Toettoe

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Dunajská 37 81108 Bratislava Slovakia
www.ceias.eu
office@ceias.eu

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