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The floor is yours, Jean-Pierre.

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Thanks a lot for this very kind introduction and thank you to Thierry de Montbrial and IFRI for inviting me again to this august conference at which I have learnt a lot on other topics such as AI and semiconductors, which are very much related to the topic we are going to talk about. We are actually located at the Western end of the Indo-Pacific region, which is a very vast region that includes maybe two-thirds of the world population and maybe more than half of the world GDP, so it is a very important region of the world. Of course, in Europe we are focused on our own region and Ukraine, as well as the Middle East for obvious reasons and I would not say we neglect the Indo-Pacific, but it may not be at the top of the agenda for most European leaders and governments.

There are a number of things I would like to tell you about very briefly to start. I am based in Hong Kong, which is part of China as you may have realized and first I would like to talk about the new environment in the Indo-Pacific, particularly the economic environment that the region is developing today. The economic environment is much slower than before with economic growth in China slowing to 3% and the economy is facing a number of issues in the housing sector and local governments are in the red. The post-Covid recovery has also been quite disappointing after working well in the first term of this year, it has now slowed down and there are some concerns. There are also some concerns about employment with an official unemployment rate of 21% and it could be as high as 40% among young people., so there is a sense of malaise. There is an article by Evan Osnos in *The New Yorker*, which tells you quite a bit about the mood among quite a number of Chinese today and I can see that among my many Chinese students in Hong Kong.

Second, geopolitics is having an impact on the economy of the region, including the Chinese economy. It is not disrupting everything, I do not think we are witnessing a complete decoupling of the Chinese from the US or Western economies but it is disrupting and it complicates trade flows in a number of sectors, such as semiconductors. China has also retaliated against sanctions imposed by the US and started to use some economic tools to put pressure on the other side, including restricting exports of gallium, germanium, and graphite to the US and other countries. It is interesting in this new context to look at two trends taking shape. One is a kind of reduction of some countries' dependence on China, for example,

South Korea, and we may come back to that. The other is countries like India, which despite the tension you alluded to on the border, is still doing a lot of trade with China: its trade deficit with China is huge and keeps growing, to the point that India now trades more with China than the US. We are not really witnessing any decoupling and if you look at the trade figures between China and the US or the EU, trade is still very strong.

The slowdown in China also has other consequences, such as the fact that the BRI, the Belt Road Initiative, now has less steam in its engine, with less money being invested in it today. I think this gives other players an opportunity to play a bigger role in the Indo-Pacific region and the Global South as a whole and I am alluding here to a number of initiatives taken by the US like the B3W, Build Back a Better World, the European Union's Global Gateway, or the G7's infrastructure projects.

There are a number of opportunities here, which should not be neglected but there are also security challenges and I will be brief because we will come back to that. It does not mean that every country is aligned with this new bipolarity that is emerging in the region between the US and China. I think there is still a lot of leeway for a lot of countries and the best example may be India, which is a very active member of the BRICS while also being much closer to other partners in Asia through the Quad, the quadrilateral security forum between India, Japan, Australia and the US. Therefore, we see India playing a very diverse role in the region. However, US-China bipolarity now dominates the Indo-Pacific region as we are witnessing growing tensions between the US and China. Of course, the question for other actors, including the European Union, is how they can play a role in that context.

In a sense, the good news that there are tensions but for the time being, China is playing within the limits of what we call the grey zone strategy. That means that China is putting pressure in particular on the other claimants in the South China Sea, on Taiwan and even on Japan around the Senkaku Islands in the East China Sea, but it does not go beyond the threshold of war. The grey zone strategy is not without risks and I think there is a growing risk of incidents and, perhaps, military crises, which will need to be managed. However, I think we have precedents in that regard, one of the best-known being the EP-3 incident in 2001 between the US and China, which was negotiated by the foreign ministries on both sides. Even if today one of the issues, which I am sure Doug will come back to, is the lack of military-to-military relations between the US and China, I think those will resume sooner or later and I think that both sides will find a way to communicate if there is a crisis.

That is by way of background. Of course, quite a number of people are alarmed by the growing tension in the Taiwan Strait and for good reasons. I do not think that the TSMC and the semiconductor industry in Taiwan is an efficient shield against an attack from China, I do not believe in this so-called silicon shield. However, I think there are a number of factors that have led China to think twice about starting a military adventure against Taiwan. The war in Ukraine is clearly playing a role but, at the end of the day, I think it is important to bear in mind that both China and the US are nuclear powers and in the event of a crisis in the Taiwan Strait the US will probably intervene and that raises the stakes. The fact that we have here two nuclear powers equipped with nuclear weapons, in this sense is a factor for peace rather than war because it will make both sides think twice before starting a war in the Taiwan Straits. I want to emphasize that reality here and maybe we can come back to the issues later.

John Andrews

Thank you very much, Jean-Pierre.