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Hedging Chaos:

How the EU, Japan and South Korea
Can Shape a New Type of Trading Power

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Summary

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Committing to a rules-based, multilateral order is no longer enough. The EU needs an expanded trading playbook to meet the geopolitical moment. And while a strong transatlantic trading alliance will always remain central to the EU's economic future, Brussels should not be purely reactive to policy shifts in Washington. Rather, the EU should develop flexible coalitions of trading economies, formed on an issue-by-issue basis. These coalitions—while anchored in trading relationships with Washington—should be conscious of the common challenges their members face due to the more transactional, and China-focused, US approach.

As a first step, Brussels's conception of the transatlantic alliance must be broadened into that of a trans-oceanic network, with an initial focus on Japan and South Korea. Both of these states and the EU face a US–China trade trilemma and all exhibit fundamental security dependencies on Washington. In this context, closer partnerships with Tokyo and Seoul will diversify EU trading risks and create a hedge against greater US conditionality. If developed in the context of US economic security and trading frameworks, these partnerships could also provide a common platform for navigating some of the US's demands with regard to de-risking from China.

Three principles are proposed. The first—*compartmentalisation*—refers to establishing mutually beneficial partnerships focused on sectoral issues, meaning partnerships which do not become distracted by the inevitable geopolitical disagreements in other areas. Several sectors are proposed for immediate further cooperation. The second—*something new, something borrowed*—holds that what is required is an evolution (and the extension) of existing agreements, rather than the creation of unnecessary new formats or institutions. The third principle is that these should be *partnerships based on both pragmatism and politics*, and therefore the extension of these agreements to like-minded partners should be a top priority. The UK should be the immediate focus, given London's geopolitical links to Europe, the US and Asia.

Keywords Trade – Transatlantic – Japan – South Korea – China – Economic security



The demise of the Atlantic age

Nothing defines the EU like its trade policy. To Brussels, trade represents more than just the collective economic strength of its 27 member states. It is—as a European competence—viewed as one of the greatest successes of the European integration process.¹ As the world’s largest single market area, trade is an integral component of how the EU views its position in the world, and how it is viewed externally by other states.

Traditionally, this European-level approach has been underpinned by a German economic model based on the principle of utilising EU-level trading agreements to secure ‘opportunities for German and European companies to trade worldwide’.² It is a model also based on ‘avoiding decoupling’ with key trading partners, including China.³ Yet, events over the past two decades—and much accelerated in recent years—have undermined the political and economic viability of this strategy.

The reality is that three pillars of the EU’s historical approach to trade have degraded significantly since 2000. First—and despite the EU’s best efforts—the WTO is no longer viewed by many states as an effective and impartial arbiter of global trade issues. Neither the US nor China view the WTO as an unbiased trade facilitator.⁴ For Washington, the WTO has become part of the wider geopolitical problem.⁵

Second, the longstanding European assumption that the US is a reliable trading partner has been thrown into doubt by successive US administrations. Washington’s utilisation of trade as a tool to achieve broader economic and security objectives continues to unnerve those in Brussels raised on a conventional, non-confrontational, multilateral approach. The reality is that Brussels is dealing with a US administration which has replaced trading certainty with a strategy of weaponising dependencies, with the aim of using these dependencies to negotiate for broader (and often unrelated) strategic goals.

Third, member state—and public—support for EU trade agreements has become increasingly conditional. Similar to the situation in the US, globalisation and trade

¹ The European Commission estimates that EU exports support 38 million jobs across the member states.

² G. Wolff, ‘Germany’s Foreign Economic Policy: Four Essential Steps’, *Bruegel*, 23 September 2021.

³ *Ibid.*

⁴ K. Rockwell, ‘Recent WTO Ruling Against the United States Highlights Challenges in Dispute Resolution’, *Wilson Centre*, 15 December 2022.

⁵ R. Lighthizer, *No Trade Is Free: Changing Course, Taking on China and Helping America’s Workers* (New York: Broadside Books, 2023).



have been utilised as ciphers for manufacturing decline, rural and small town depopulation, agricultural vulnerability, and a pervading sense of insecurity among huge swathes of the working and middle class. This is reflected in increasing political fragmentation, the growing popularity of political parties that advocate for more protectionist economic policies and an overarching distrust of the perceived benefits of traditional trade deals.

The Transatlantic Trade and Investment Partnership negotiations collapsed in 2016 in the midst of significant opposition in both Washington and Brussels. The Comprehensive and Economic Trade Agreement signed by Canada and the EU in 2016 remains unratified by 10 EU member states.⁶ The recently completed EU–Mercosur (Argentina, Brazil, Uruguay and Paraguay) trade agreement faces an even more uncertain future given the current opposition of some of Europe’s largest economies.⁷

This policy brief argues that a new EU approach is required. A framework is needed to guide both the future of EU trade policy and the interlinked direction of the transatlantic relationship. Part one of the brief contends that the EU should develop flexible coalitions of trading economies, formed on an issue-by-issue basis. Part two argues that Brussels’s conception of the transatlantic alliance must be broadened into that of a trans-oceanic network, with an initial focus on Japan and South Korea. Part three recommends a practical approach to closer coordination based on three underlying principles. Part four offers some broad conclusions.

Hedging chaos

While the aim of the EU remains ‘to keep the world’s trading system fair, predictable and based on common rules’, geopolitical realities render this a vision of a bygone, Atlantic age.⁸ The global economy of 2025 is far removed from the nascent Bretton Woods blossoming of Western democratic values.

In this context, the EU’s continued commitment to multilateralism must now also explicitly acknowledge that trade has been increasingly weaponised by less democratic regimes.⁹ Even Europe’s defenders of the WTO system acknowledge

⁶ Carleton University, ‘Ratification Tracker: Comprehensive and Economic Trade Agreement (CETA) Between Canada and the EU’.

⁷ Atlantic Council Experts, ‘Four Questions (and Expert Answers) About the EU–Mercosur Trade Deal’, *Atlantic Council*, 6 December 2024.

⁸ European Commission, ‘The EU and the WTO’.

⁹ P. Naas, ‘Democracy Requires Allied Competitiveness’, *German Marshall Fund*, 9 October 2024.



that the mismatch between the WTO framework and China's economic model has undermined the WTO's ability to mitigate the tensions arising from China's size and rapid growth.¹⁰

Trade policy no longer lives in technocratic isolation. Nor are the goals of increasing exports, reducing barriers and opening markets free from public scrutiny. The politicalisation of trade as a cudgel used for both ensuring economic security and facilitating broader bilateral bargaining renders a new European approach essential. This approach needs to be both pragmatic and practical, utilising trade as a driver—and a protector—of domestic political priorities.

The degradation of Europe's traditional trading pillars means Brussels must also adapt more quickly to the dominance of geopolitics and power maximisation in international relations.¹¹ In particular, the EU's potential economic exposure to a total collapse of the existing multilateral frameworks renders an evolution of trade policy both inevitable and unavoidable.¹²

Yet, the way forward for Europe is not to seek to replicate or revive the structures of the past. This is not a viable political approach. What is required is a more nimble, more pragmatic strategy which seeks to leverage the EU's great strength—a single market of over 400 million people—as a tool for increasing living standards, creating jobs and, perhaps most importantly of all, building a sense of economic security back into many of Europe's forgotten towns and cities.

This is not about the EU embracing protectionism or rolling back on its long-held commitment to global economic engagement.¹³ Rather, Brussels needs a new vocabulary for addressing the intertwining of trade, politics and economics. What Europe requires is a hedge against the potential chaos caused by trade conflicts and the further deterioration of multilateral conflict resolution.

A strong transatlantic trading alliance remains central to the EU's economic future. However, Brussels should not adopt a purely passive stance. Rather, this brief argues that the EU should seek to develop flexible coalitions of trading economies, formed on an issue-by-issue basis. These coalitions should be both reflective of and responsive to the world we live in today. These would be associations

¹⁰ A. Sapir and P. Mavroidis, *China and the WTO* (Princeton: Princeton University Press, 2021).

¹¹ R. Foroohar, 'Europeans Need to Learn Some Lessons About Power – and Fast', *Financial Times*, 8 December 2024.

¹² G. Felbermayr et al., *US Trade Policy After 2024: What Is at Stake for Europe?*, Kiel Institute for the World Economy, Policy Brief 178 (Kiel, 2024).

¹³ A. Gonzalez Laya et al., 'Can American Abandonment Help Europe?', *Foreign Affairs*, 6 January 2025.



of economies that are anchored in their trading relationships with Washington but conscious of the common challenges their members face in navigating the more transactional approach of US policy. They would be formed of economies which recognise that confronting China requires a collective response—or at least consistency of cooperation—to be effective on critical issues.

From transatlantic to trans-oceanic

To navigate these geopolitical uncertainties, Brussels's conception of the transatlantic alliance must be broadened into that of a trans-oceanic network. Global trade requires a global strategy. The initial focus should be centred on Japan and South Korea. Together with the EU and the US, this partnership would include 3 of the 5 largest economies in the world, and 6 of the top 12.¹⁴ Such strength could shape a new type of global trading power. This is the level of economic power required to effectively combat the expansive geopolitical aims of Beijing.

Currently, the US, the EU, Japan and South Korea are key trading and security allies. The scale of their economic interdependencies should not be underestimated. In 2022 US exports (goods and services) to these states were more than four times (\$801 billion) greater than those to China (\$192 billion).¹⁵ Japan remained the largest source of foreign direct investment into the US in 2023, with a further 8 of the largest 15 contributors coming from the EU27 and South Korea.¹⁶ The US is the EU's most important markets for goods exports.¹⁷

The purpose of this report is not to analyse the criss-crossing nature of the trading agreements linking the US, the EU, Japan and Korea. Yet, the depth of these existing agreements is significant. The US–Japan Partnership on Trade of 2021 (following on from the US–Japan Trade and Digital Agreement of 2019) is complemented by the US–Korea Free Trade Agreement signed in 2012. Similarly, the EU–South Korea Free Trade Agreement of 2011 is matched by the EU–Japan Economic Partnership Agreement of 2019. The latter has already been

¹⁴ *Forbes India*, 'The Top 10 Largest Economies in the World in 2025', 10 January 2025.

¹⁵ Office of the United States Trade Representative, 'Countries & Regions'.

¹⁶ United States Trade Administration, 'Sources of FDI Into the United States'.

¹⁷ Council of the European Union, 'EU–US Trade'.



strengthened in areas such as digital trade and economic security.¹⁸ The two most notable gaps remain the lack of an overarching EU–US trade agreement and the absence of a settlement between Tokyo and Seoul.¹⁹

Like the EU, both Japan and South Korea are facing the shifting policies in Washington with a mixture of trepidation and resignation. As core trading partners of the US, they are already following a broadly similar playbook in seeking to minimise conflict with the new US administration. From aiming to build personal relationships with President Trump, touting multi-billion dollar investments into the US and seeking (at least on paper) to deliver rapid increases in defence spending, these historical American allies have much in common with each other. They also have much to lose from US-centric trade barriers designed to curb Chinese leadership in key emerging sectors.

But it is not just trade that makes the EU, Japan and South Korea natural global partners. Perhaps even more importantly, they are all dependent on security guarantees underwritten—either directly or indirectly (i.e. through NATO)—by Washington. These guarantees include the presence of US military installations and personnel in the EU, Japan and South Korea. For Brussels, Tokyo and Seoul, Russia, China and North Korea pose existential threats. These arrangements with the US have underpinned the evolution of their respective states into democratic, globally trading economies that are deeply integrated into US supply chains and markets.

Yet, it is these security dependencies which render Brussels, Tokyo and Seoul uniquely vulnerable to US pressure. The reality is that these trading groups have to balance their embedded role in US trading patterns with Washington's wish to decouple from China in strategic sectors. How the EU, Japan and South Korea balance these US expectations with domestic economic realities is the key challenge facing policymakers today.

Strength in numbers

From a European perspective, Japan and South Korea are already central to Brussels's objectives of supporting Ukraine and maintaining energy independence from Russia. Poland has already purchased almost one thousand tanks in addition to hundreds of pieces of artillery and even FA-50 light fighter jets from South

¹⁸ European Commission, 'EU and Japan Strengthen Cooperation on Digital Trade and Economic Security' (27 June 2023).

¹⁹ Trade talks on a Japan–Republic of Korea Economic Partnership Agreement were suspended in 2008.



Korean producers. Romania is spending almost \$1 billion on South Korean-made K9 howitzers, following on from Estonia's purchase of the same equipment. Japan is a founder member (together with the UK and Italy) of a next-generation fighter-jet partnership that is currently being expedited to achieve delivery within the next decade.²⁰ Korean military hardware will soon be produced in Poland.²¹

Structurally, Japan and the EU exhibit many similarities in their economic structures. For example, breakdowns of their research and development spending, heavily concentrated in the automotive sector, are 'virtually indistinguishable'.²² Both economies have historically depended on a small number of 'national champions' to drive their global trade flows.²³ Japan is also Europe's learning peer when it comes to showing how demographic change impacts socio-economic performance.

Japan and Korea also possess a wealth of knowledge and experience in trading with China while simultaneously making themselves indispensable to the US's achievement of its geopolitical objectives. For Brussels, the Japanese operation of its economic security strategy offers obvious lessons, particularly in the area of reducing dependencies on China for critical raw materials.²⁴ Similarly, Korea's success in developing an indigenous armaments/defence industry is of immediate relevance to the EU's expansion in this area. Likewise, the obvious potential of the Japanese and South Korean nuclear and electric vehicle sectors offers an excellent opportunity for further collaboration and partnership.²⁵

Brussels, Tokyo and Seoul are also all facing a Trump administration which has decided to demonstrate its power 'not by confronting America's adversaries but by subduing Washington's allies'.²⁶ Former President Biden's refusal to sanction Nippon Steel's takeover of US Steel exacerbated an existing malignancy in how the US's closest allies are addressed.²⁷ This followed President Trump's earlier comments on turning South Korea into a 'money machine' for the US (itself a

²⁰ E. Drea, 'Asia Can Shape a Weak and Divided Europe Like Never Before', *Nikkei Asia*, 8 November 2024.

²¹ Poland, Department of National Defence, 'K2 Tanks Will Be Produced in Poland' (20 June 2024).

²² A. Dugo, 'South Korea Versus Japan: What Can the EU Learn From the Two Countries?', *European Centre for International Political Economy*, October 2024.

²³ R. Katz, *The Contest for Japan's Economic Future* (Oxford: Oxford University Press, 2024).

²⁴ J. Cernicky et al., *EU-Japan Critical Raw Materials Alliance*, Konrad-Adenauer-Stiftung and Nakasone Peace Institute (Berlin, 2024).

²⁵ E. Drea, 'The EU Can Learn From Japan and South Korea on Trading With China', *Nikkei Asia*, 31 December 2024.

²⁶ I. Krastev, 'The Key to Dealing With Trump Is for Europe Not to Play the Victim', *Financial Times*, 16 January 2025.

²⁷ L. Lewis, 'An Anti-Japan Tirade Takes the US Back in Time', *Financial Times*, 16 January 2025.



repetition of his late 1980s' comments on Japan).²⁸ Such sentiments mirror his years of criticising Europe for taking economic advantage of the US.²⁹

In this environment, it is a strategic imperative for the US's closest allies to intensify their cooperation. Increased coordination between the EU, Japan and South Korea could help to mitigate the uncertainty emanating from Washington. Forging closer coordination in key areas could diversify risk and ultimately act as a hedge against the chaos of potential future trade wars.

Perhaps even more importantly, an increase in the depth and breadth of EU–Japan–South Korea relations could provide a common platform for US allies when navigating US policy uncertainty. It could also serve as a tool to jointly embed the involvement of Brussels, Tokyo and Seoul in Washington's strategic thinking and, potentially, facilitate US formation of effective sector-specific strategies for confronting China's expansive trading goals.

This paper proposes that this expanded trans-oceanic partnership be based on the following core principles.

Compartmentalisation

The first principle refers to the idea of establishing a mutually beneficial partnership that is focused on a small number of integral geopolitical issues. It should be a macro-level partnership which does not become distracted by the inevitable disagreements in other areas caused by domestic political imperatives. This *compartmentalisation* of trade policy will require a shift in mindset from the European Commission, whose focus has historically been on the completion of all-or-nothing free-trade agreements with ultimate recourse to the WTO. However, in the current environment this is not (always) a feasible political strategy, nor a timely one.

Brussels, Tokyo and South Korea should seek to deepen their relationship in strategic areas—initially bilaterally and, if possible, jointly in the future. This long-term goal recognises the historical complexities of the Tokyo–Seoul relationship

²⁸ J. Ryall, 'South Korea Shocked by Trump's "Money Machine" Plan, *DW News*, 22 October 2024.

²⁹ S. R. Kim and L. Ibssa, 'A Closer Look at Trump's Years of Criticizing NATO, Particularly on Defense Spending', *ABC News*, 21 February 2024.



and how the ongoing political turmoil in South Korea may impact the recent improvement in Japanese–Korean relations.³⁰

In effect, the EU, Japan and South Korea should become *partners in areas of mutual interest*. The modernisation and extension of existing agreements should include, but not be limited to:

- Critical raw materials, with a specific focus on developing a critical raw materials alliance. The Japanese Organization for Metals and Energy Security provides the obvious basis for a European model.³¹
- The utilisation of existing expertise on nuclear energy.³²
- Pharmaceuticals, including medical technology.
- The automotive sector, with a specific focus on electric vehicles and hybrid and solid-state battery technologies.
- Technology standards and data governance.
- Research and innovation, with a particular focus on globalising expertise in science and technology through Horizon Europe.³³
- Military hardware: including manufacturing and operability. This should include increasing synergies in ongoing combat air programmes with the direct input of industry partners.³⁴

Such sectoral engagement should reflect a more flexible EU trading playbook. It should follow a mixed strategy that is *open to trade-only and sectoral deals*. And if developed in the context of US economic security frameworks, these sectoral partnerships could also provide a common platform for navigating some of the US's demands on de-risking from China.

For example, in January 2025 the Office of the United States Trade Representative published specific guidance on the role of sectoral trade agreements. The research

³⁰ A. Lipke and E.-K. Pohlkamp, *Triangle of Opportunity: How Improved Relations Between South Korea and Japan Open Doors for the EU*, European Council on Foreign Relations, Commentary (Berlin 2024).

³¹ See note 23.

³² S. Jung-a et al., 'South Korea Pushes to Export Nuclear Reactors to Europe', *Financial Times*, 29 August 2024.

³³ South Korea joined in January 2025.

³⁴ S. Pfeifer, 'Airbus Chief Urges Closer Ties Between Europe's Rival Fighter Jet Projects', *Financial Times*, 15 January 2025.



notes that ‘sectoral agreements can provide a robust framework for the United States and like-minded partners to strengthen their industrial bases and reinforce shared values [and] to collaborate and coordinate on trade policies that support critical sectors’.³⁵

Similarly, the research also notes that sectoral deals can ‘facilitate fair, market-oriented trade between partners [and] promote investment in U.S. and allied supply chains by incentivizing secure sources of supply and demand for fairly produced and traded products’.³⁶ This approach is consistent with expanded EU partnerships with both Tokyo and Seoul.

The Trump administration’s more robust trade policy pledges to ‘review existing United States trade agreements and sectoral trade agreements and recommend any revisions that may be necessary or appropriate to achieve or maintain the general level of reciprocal and mutually advantageous concessions’.³⁷ It also commits to seek new agreements (either bilateral or sectoral) which obtain market access for American exports.³⁸ Again, these principles are not necessarily inconsistent with the more flexible, sectoral approach being proposed by the EU, Japan and South Korea. Indeed, as previously noted, increasing the depth and breadth of EU–Japan–South Korea sectoral agreements could help to provide a common platform for navigating US policy uncertainty. It is thus an obvious hedge against future inconsistency in Washington.

Intertwine: something new, something borrowed

The second principle—*something new, something borrowed*—holds that what is required is an evolution (and extension) of existing agreements, rather than the creation of unnecessary new formats or institutions. As highlighted, a multitude of trade agreements, framework agreements and advisory frameworks already link Washington, Brussels, Tokyo and Seoul. Additional institutions are not required.

In this context, variations of the Transatlantic Trade and Technology Council, the G7+ grouping and the OECD are suggested as possible mechanisms for developing more flexible trading partnerships. And while each format boasts its own particular set of advantages and disadvantages, it is important to highlight

³⁵ Office of the United States Trade Representative, *Strengthening Supply Chain Resilience Through Sectoral Trade Agreements*, Policy Paper no. 6, 48–52.

³⁶ *Ibid.*, 51.

³⁷ The White House, ‘America First Trade Policy’ (20 January 2025).

³⁸ *Ibid.*



that all of these mechanisms could—if the political will existed—be utilised by like-minded states for the purpose of focusing on specific issues or sectors. They also provide ideal formats for greater information sharing, cooperation and coordination (where possible).

The longer-term potential of two particular formats is highlighted. First, the OECD is an existing intergovernmental body with a long history of providing economic research and policy guidance with the overarching aim of creating global standards. The vast majority of EU member states, Japan and South Korea are already members. It has latent capacity to act as a forum for expanded Brussels–Tokyo–Seoul cooperation in the future.

Second, and more politically complicated, is the possibility of having Washington directly included in the engagement among Brussels, Tokyo and Seoul on trade issues of mutual importance. Again, existing mechanisms already exist, with a series of EU–US–Japan trilateral trade ministers’ meetings having been held during the first Trump administration. However, the revitalisation of this process would require renewed political commitment from Washington and an update of the underlying terms of reference. Similarly, in 2023 President Biden hosted the first ever trilateral leaders’ summit of the US, Japan and the Republic of Korea. Notwithstanding the current political landscape, direct intergovernmental meetings are mechanisms which should not be fully discounted.

Partnership based on both pragmatism and principles

The third principle is that the *partnerships are based on both pragmatism and principles*. The extension of these agreements to like-minded partners—such as the UK, Australia, Singapore and Canada—should be actively promoted, while recognising the historical complexities of many of the bilateral relationships. In the first instance, deeper trading relations with the Anglosphere—particularly the UK and Australia—should be prioritised by Brussels.

Although often poorly understood by the EU, the UK remains a vital global economy which, in many ways, links Europe to both Asia and North America. For example, Tokyo’s determination to avoid alienating Washington at all costs has driven a decades-long engagement with the UK. Even ‘Brexit has not fundamentally changed the situation for Japan, as projects such as the development of the next-generation fighter jet are being carried out with London. Despite the affront to a member state



of the EU, Tokyo is also very supportive of AUKUS³⁹ and hopes to participate in its non-nuclear technological pillar, emphasising the Anglo-Saxon angle.⁴⁰

Britain remains not just a vital trading partner for the EU and an integral partner in supporting a free and democratic Ukraine, but, just as importantly, an essential element in wider Indo-Pacific security strategies—for both Washington and Tokyo. As a result, it is an obvious partner for Brussels, Tokyo and Seoul in seeking to hedge against the chaos of global geopolitical uncertainty. Indeed, the biggest impediment to future EU–UK cooperation lies in the domestic political situation in Britain, and in the inability of the Labour government to set out strategic priorities for its future engagement with the EU.

Conclusion

Trade policy no longer lives in technocratic isolation. Nor are the goals of increasing exports, reducing barriers and opening markets free from public scrutiny. The politicalisation of trade as a cudgel used for both ensuring economic security and facilitating broader bilateral bargaining renders a new European approach essential. This approach needs to be more flexible, nimble and sector-specific, as well as being both pragmatic and practical in utilising trade as a driver—and a protector—of domestic political priorities.

To navigate these geopolitical uncertainties, Brussels's conception of the transatlantic alliance must be broadened into that of a trans-oceanic network. Global trade requires a global strategy. The initial focus should be centred on Japan and South Korea. Like the EU, these states face a US–China trade trilemma, and all exhibit fundamental security dependencies on Washington.

In this context, increased partnerships with Tokyo and Seoul will diversify EU trading risks and hedge against greater US conditionality. If developed in the context of US economic security and trading frameworks, these partnerships could also provide a common platform for navigating some of the US's demands with regard to de-risking from China.

³⁹ ANKUS is the strategic defence alliance between Australia, the UK and US, initially to build a class of nuclear-propelled submarines, but also to work together in the Indo-Pacific region.

⁴⁰ V. Niquet, *Ambitions and Limits: The Deepening Security Dialogue Between Japan and the European Union*, Wilfrid Martens Centre for European Studies (Brussels, 2024), 10–11.



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