ANALYSIS

A primer on economic strategy in the Indo-Pacific

FES Asia-Pacific

Friedrich Ebert Stiftung

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Friedrich Ebert Stiftung

A primer on economic strategy in the Indo-Pacific

Contents

Why trade and supply chains are at a turning point

In recent years, global trade has entered a period of profound change. Longstanding assumptions about open markets, multilateral rules, and the economic benefits of interdependence are being challenged. From the breakdown of dispute processes, to the return of unilateral tariffs by major powers, to the acceleration of industrial policy and self-sufficiency agendas, global commerce is being reshaped.

Nowhere is this shift more visible than in the Indo-Pacific. As the world's most economically dynamic region, the Indo-Pacific is home to both complex supply chain networks, rising economic powers, and escalating geopolitical tensions. China's growing economic assertiveness, the US turn toward unilateral trade policy, economic security and industrial policy, and the emergence of alternative regional groupings like the CPTPP and RCEP all point to a new phase in global trade governance. Competition, resilience, and geopolitical alignment increasingly rival efficiency and openness as considerations for commercial linkages between countries.

These changes matter given their impact on trade and investment flows, technological standards, labour rights, environmental outcomes, and diplomatic relationships. For policymakers and stakeholders, the Indo-Pacific is therefore a region of both opportunity and complexity – one that requires balancing economic interests with strategic considerations.

This primer provides a structured overview of how global trade is evolving in this context. It is designed to serve as a common reference point for workshop participants from a variety of backgrounds. Each section explores a key dimension of the current trade landscape:

- → **Section 1** outlines the foundational concepts and emerging terminology reshaping trade debates.
- → **Section 2** examines which actors are setting trade rules in today's multipolar environment.
- → **Section 3** looks at how supply chains are being restructured in response to geopolitical and economic security risks.
- → **Section 4** focuses on Germany's specific economic and political footprint in the Indo-Pacific, and how progressive actors might engage with emerging tensions.

Together, these sections aim to support informed discussion about the future of trade and economic policy in a shifting global order.

1. Trade basics

Understanding trade terms and tools in the modern global economy

What are tariffs and what are they used for?

Tariffs are taxes imposed on imported goods. They are one of the oldest tools in international trade policy, and governments use them for several reasons:

→ To protect domestic industries by making imported goods more expensive than locally produced ones.

→ To raise revenue, especially in developing countries where other forms of taxation may be limited.

→ To penalise other countries in response to perceived unfair trade practices or political disputes.

Tariffs increase the price of imports, which can affect consumer costs, business inputs, and employment across sectors. But they can also create incentives to localise production and/or diversify foreign suppliers, which is why they are central to current debates about economic resilience and geoeconomic competition. Their impacts, however, are uneven. Domestic firms exposed to import competition may benefit from temporary relief as tariffs raise the price of international competitors. But ultimately due to protection from tariffs, these firms will become less competitive internationally. This may lead to inefficient firms reliant on state protection and support to remain profitable. Furthermore, low-income households often bear the costs of tariffs through higher goods prices in sectors directly protected by tariffs but also in downstream industries that see increases in input costs.

While tariffs are the most visible trade instruments, many countries also rely on less direct but equally influential tools, known as non-tariff barriers, to regulate trade flows.

What are NTBs?

Non-Tariff Barriers (NTBs) are rules and procedures that restrict imports or exports without taking the form of a direct tax. These include:

→ Health and safety standards, technical regulations, and licensing requirements.

→ Quotas that limit the quantity of goods that can be traded.

→ Customs procedures that create delays or add cost.

While some NTBs are necessary (e.g. to protect consumer safety through food safety standards), they can also be used strategically to favour domestic producers (e.g. to support local industry through direct subsidies or local content requirements). NTBs have become more prominent in recent years as countries seek ways to strategically manage trade and economic relationships without openly violating international agreements.

As countries adopt more assertive and strategic trade measures, mechanisms for resolving disputes and countering perceived unfairness have taken on renewed importance within the multilateral system.

Multilateral trade remedies: Anti-dumping and countervailing duties

The international trade system includes tools known as trade remedies, which countries use to respond to unfair practices:

- → Anti-dumping duties are imposed when a country exports a product at a price below what it charges domestically or below production cost, harming the importing country's industry.
- → Countervailing duties are imposed to offset subsidies provided by foreign governments to their exporters, which distort international competition between firms.

These measures are legal under World Trade Organization (WTO) rules but must follow a formal investigation process. They are increasingly used in disputes over steel, solar panels, electric vehicles, and other goods where production is concentrated in a few countries and there is evidence of domestic subsidies or 'dumping' through heavily discounted exports. The EU has periodically introduced numerous anti-dumping duties on various steel products from China and other Asian steel exporters like Taiwan and Malaysia. This has helped prevent a growing concentrated import reliance on any one exporter, although other factors are more salient in determining steel imports to the EU. The major driver of EU steel import changes in the last few years has been Russia's invasion of Ukraine in 2022, which saw European imports of Russian steel fall dramatically and Asian exporters gain import shares across the board.

Even as countries contest trade rules, deeper shifts are reshaping the system, particularly in how production is organised and where vulnerabilities are emerging.

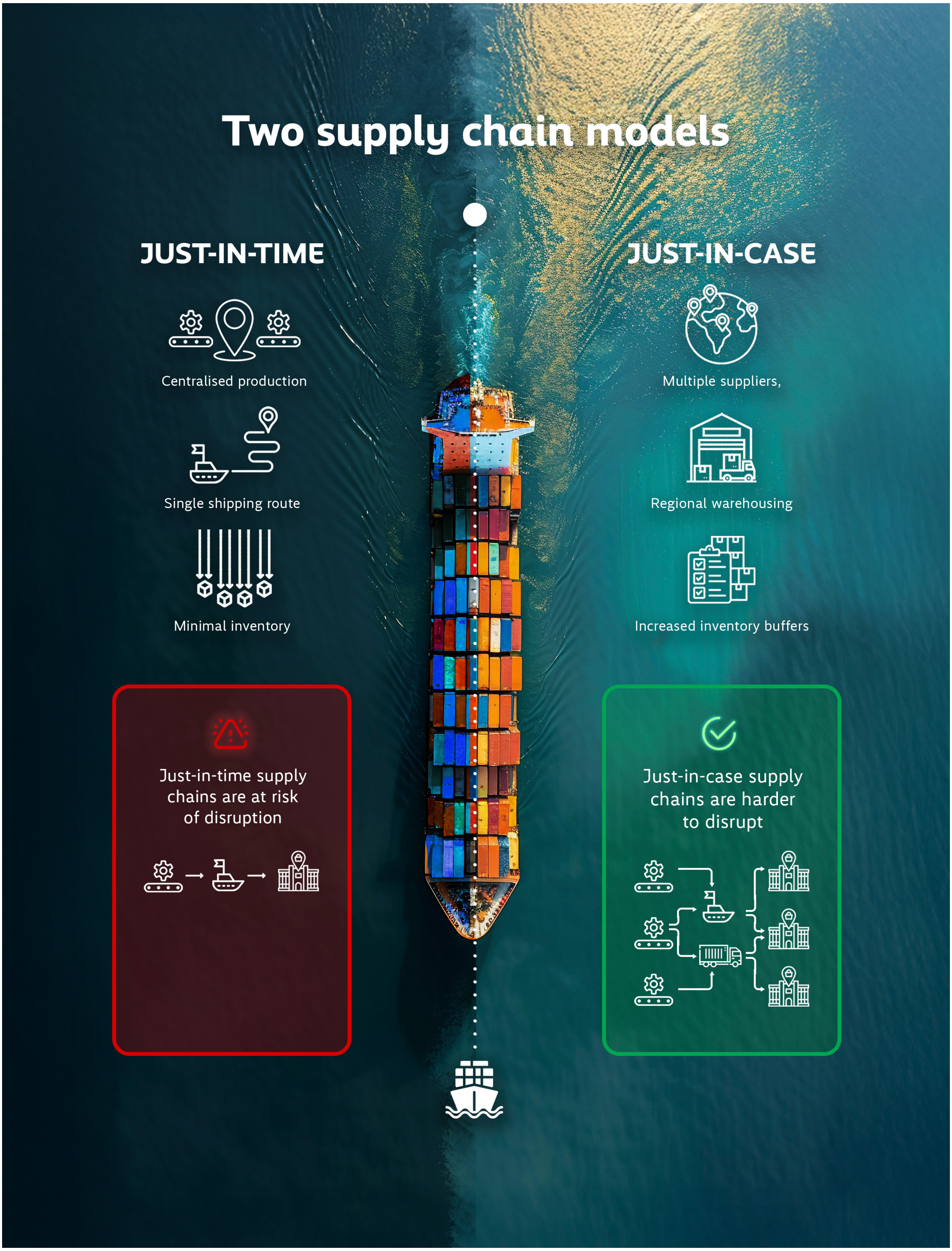
Changing models of trade and production

For decades, global supply chains have been organised around the principle of efficiency – with goods produced in the lowest-cost locations and delivered "just in time". This reduced costs but created new vulnerabilities. In recent years, disruptions caused by the pandemic, natural disasters, and geopolitical tensions have prompted companies and governments to shift toward a model with greater emphasis on risk reduction – the "just-in-case" supply chain.

- → "Just-in-Time" approaches rely on minimal inventories and tightly coordinated delivery schedules.
- → "Just-in-Case" approaches involve stockpiling, supply chain diversification, and bringing production closer to or within home markets.

This shift reflects a broader trend: supply chains are no longer just economic tools, but also seen as matters of national security, economic resilience, and strategic interest. This shift has created both winners and losers. Vietnam, for example, has emerged as a key beneficiary of supply chain diversification efforts – particularly from firms pursuing 'China + 1' strategies to reduce overexposure to Chinese production. Companies such as Apple and Samsung have expanded operations in Vietnam, attracted by its favourable investment conditions, a relatively skilled workforce, and significant government support for both local supplier firms and multinationals establishing supply networks. While the drivers of this shift are complex and still evolving, Vietnam's experience highlights how regional economies can reposition themselves amid changing global supply chain strategies.

Fig. 1


Two supply chain models
JUST-IN-TIME
Centralised production
Single shipping route
Minimal inventory
Just-in-time supply chains are at risk of disruption
JUST-IN-CASE
Multiple suppliers,
Regional warehousing
Increased inventory buffers
Just-in-case supply chains are harder to disrupt

Box 1

When the first Trump administration introduced tariffs against China in 2018, supply chains began expanding and diversifying into other regions like Southeast Asia and North America. Countries like Vietnam and Mexico have benefited the most. This resulted in China's US import share declining, while others gained.

Figure 2
United States goods and services import shares

Source: CEIC

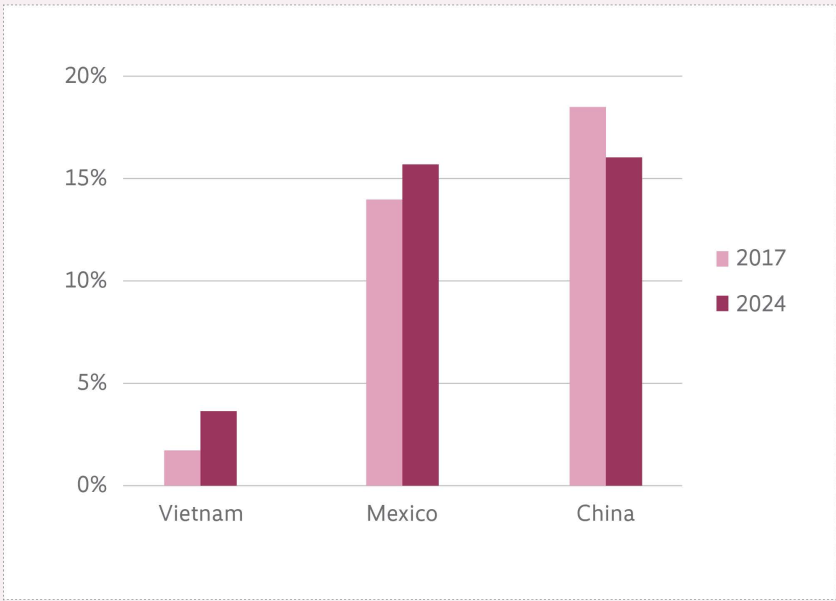


Figure 2.1
Vietnam's US imports shares for top 3 imports

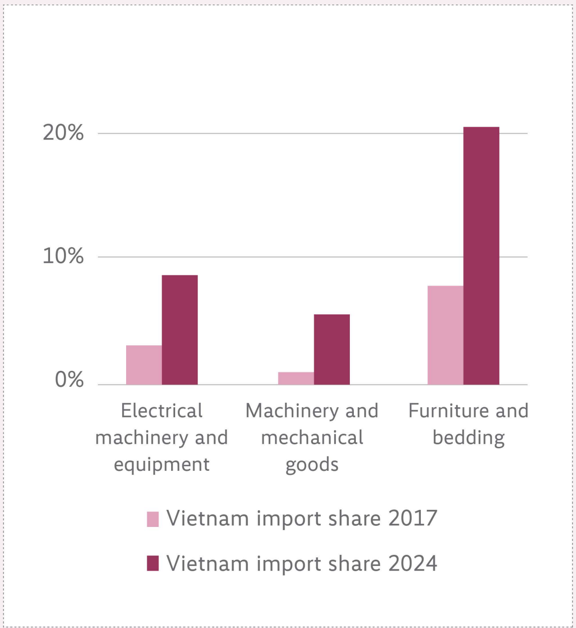
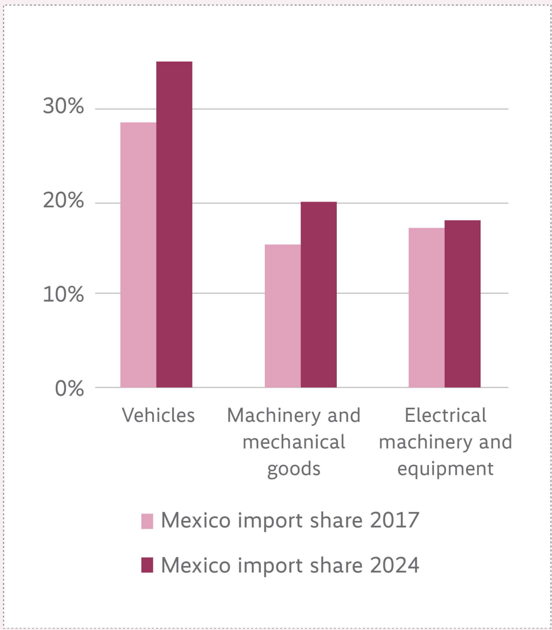


Figure 2.2
Mexico's US imports shares for top 3 imports



Source: International Trade Centre

Box 1, cont

When just-in-time supply chains failed during the Covid pandemic and geoeconomic competition between China and the United States began to accelerate, firms had to adjust their business strategies and begin stockpiling goods, seeking out more than a single supplier and sometimes even seeking suppliers closer to home.

This combination of diversified supply chains, stockpiling becoming an important risk reduction strategy, and less certainty in supply over longer geographical distances all came together to create the just-in-case supply chain model. Vietnam became an example of 'China+1' strategies, where firms sought to strategically hedge against overreliance on China. Mexico became an example of 'near-shoring' where supply chains moved closer to the US market to hedge against supply chain disruptions over geographical distances.

Table 1

TERM	DEFINITION
Nearshoring	Moving production closer to domestic or regional markets to reduce transport risks and improve responsiveness. Example: move production to Mexico to supply the United States
Friendshoring	Prioritising trade and investment with politically aligned or trusted countries, especially in critical sectors. Example: United States critical mineral investments in Australia
On-shoring	Bringing production back to the home country to reduce reliance on foreign supply chains. Example: Re-establishing semiconductor production in Germany or the United States.
Strategic hedging	Maintaining trade relations with multiple partners to reduce dependence on any one country or bloc. Often used by middle economies navigating US-China competition. Example: Vietnamese 'bamboo diplomacy' with China and United States, its most important trading partners

The reconfiguration of global supply chains — from just-in-time to just-in-case— is reshaping the way trade tools are deployed. These instruments, from tariffs to subsidies and standards, are increasingly used not only to manage economic flows but to influence where and how production takes place. As countries respond to supply shocks and strategic vulnerabilities, the question becomes not just what tools are available, but who sets the terms of their use.

This shift has placed trade governance itself under pressure. Longstanding institutions are being sidelined as new regional blocs and informal groupings gain prominence. Across the Indo-Pacific, where supply chains are most deeply embedded, countries are navigating an increasingly contested landscape of standards, incentives, and alliances that are reshaping trade flows and investment decisions.

Box 2

Why this matters in Asia?

- The Indo-Pacific is central to global supply chains — from low-cost manufacturing in Southeast Asia to advanced inputs like semiconductors in Northeast Asia.
- Trade tools such as tariffs, subsidies, and standards are increasingly used to shape these supply chains for strategic or resilience reasons.
- Shifts in trade policy (e.g. tariffs on China, reshoring incentives) are directly affecting investment decisions and trade flows across the region.
- Asian economies like Vietnam, Thailand, and India are emerging as key beneficiaries of diversification, while others may face pressures to alter their production economies.
- Understanding how trade policy tools work is essential to making informed decisions on due diligence, labour standards, and regional partnerships.

2.
Who is trading and who is setting the rules?

The rise of competing trade blocs and strategic alignments in global trade governance

A shifting trade environment

Global trade has undergone a significant transformation in recent years. The World Trade Organisation (WTO), once the primary forum for negotiating trade rules and resolving trade disputes, has seen its influence diminish. The paralysis of its dispute settlement mechanism – caused by US refusal to appoint new judges to its appeals court – has weakened its ability to enforce rules and resolve conflicts. As a result, new platforms and partnerships have emerged to fill the vacuum.

In the Indo-Pacific, governments are pursuing regional trade agreements to shape global flows of goods, services, and investment. These are redrawing the map of economic influence and changing who sets the rules of regional trade. Countries are negotiating and finding common ground with new, smaller groupings to protect supply chains, advance geopolitical interests, and secure market access. This has become known as 'minilateralism'.

The major minilateral groupings that have since been created in the Indo-Pacific therefore differ in subtle but important ways. The Regional Comprehensive Economic Partnership (RCEP) was designed as a relatively low-commitment agreement, aimed at broadening membership by relaxing accession requirements on domestic trade and investment policies. By contrast, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) evolved from the original US-led Trans-Pacific Partnership (TPP), which sought to establish a high-standard trade agreement with stronger provisions on liberalisation and regulatory coherence. After the US withdrew from the TPP in 2017 under the first Trump administration, the remaining members proceeded to conclude negotiations under a new agreement without US involvement, dubbed the CPTPP. The Indo-Pacific Economic Framework (IPEF) was launched under the Biden administration as a non-traditional initiative to deepen economic engagement between the US and Indo-Pacific partners. It deliberately avoided the structure of a formal trade agreement, in part to sidestep US domestic political resistance to further trade liberalisation. Although negotiations made incremental progress, momentum stalled following the election of a second Trump administration in 2024. Finally, BRICS+ – encompassing Brazil, Russia, India, China, South Africa and, since 2024 various other emerging economies – originated as a diplomatic forum among large emerging economies. While it is not a trade agreement per se, it has increasingly evolved into a platform for promoting non-Western institutional alternatives. This includes proposals for a multilateral development bank and an international payments system, signaling broader ambitions to reshape global economic governance.

Box 3

Minilateralism *refers to cooperation among a small number of countries, often centered on specific shared interests or goals. It offers flexibility in a world where multilateral consensus is breaking down and the United States is withdrawing from multilateral institutions. But minilateralism could also have unintended consequences such as accelerating and reinforcing the breakdown of the multilateral trading system.*

These new 'minilateral' blocs shape who benefits from trade and which rules apply—often behind closed doors and without clear enforcement on labour or environmental standards. The most important Indo-Pacific minilateral groupings are outlined in Table 2.

Table 2

BLOC	DESCRIPTION	FOCUS	NOTES
CPTPP	A high-standard regional trade agreement linking economies bordering the Pacific	Tariff elimination, labour/ environmental rules, digital trade	Built to maintain liberal trade ties after U.S. withdrawal from predecessor agreement, the Trans-Pacific Partnership (TPP)
RCEP	The largest trade agreement by population, linking ASEAN with China, Japan, Korea and others	Regional supply chain integration, lower tariffs	Emphasises inclusiveness to encourage broader trade integration
IPEF – now effectively defunct	A U.S.-led economic initiative launched in 2022, focused on non-tariff cooperation	Supply chain resilience, digital standards, climate, anti-corruption	No market access or tariff provisions – negotiations halted after reelection of Donald Trump
BRICS +	A political-economic bloc of major emerging economies	Investment, finance, de-dollarisation, South-South trade and investment cooperation	Evolving into a platform for alternatives to Western led institutions and norms

How today's minilateral trade groups reflect shifting dynamics in the global trading system

In the post-pandemic world, a series of structural shifts in the geopolitical environment have become increasingly dominant and are now reshaping how regional economic ties will evolve. The US appears to be pulling back from multilateral trade rules, especially under the second Trump administration. This is occurring as China seeks to influence international institutions more through diplomatic and economic heft, while also promoting and supporting institutional alternatives to US and western led ones. This is ultimately creating a more fractured trade and political landscape that middle and small powers must navigate. What is becoming increasingly clear is that these smaller countries have little desire to choose between US and China, leading to strategies that promote flexibility. These trends are outlined below:

1. **Retreat of US leadership** The US has been undermining the international trading system it was central in setting up. This is most recently exemplified by the Trump Administration's reimposition of U.S. tariffs, including against allies, which has prompted partners to seek trade ties elsewhere and become more wary of deepening economic ties with the United States.

2. **China's institutional push** China plays a central role in RCEP, is applying to join CPTPP, has expanded its influence through infrastructure lending and state-backed investments as part of the Belt and Road Initiative, and is the leading convening nation of BRICS+.

3. **BRICS as an alternative** BRICS has shifted from a discussion forum to a coordination platform for finance, development, and trade-aligned agendas. The recent expansion from 5 countries to 10 demonstrates its wide appeal.

4. **Middle power hedging** Countries like India, Vietnam, Indonesia, and Malaysia are engaging across blocs to seek trade ties without exclusive alignment.

Therefore, the emergence of minilateral trade blocs has ultimately meant that countries have been able to pick and choose which minilateral groupings align with their interests and suit their political and economic priorities. This has led to a system of overlapping and complex relationships across the various blocs.

Table 3 outlines some key statistics that can be used to compare these trade blocs, the size of the economies involved, the share of global exports, the combined populations of member countries, and whether the US and China are members. Figure 3 visualises the overlapping complexity that has emerged in the Indo-Pacific region. The patterns in membership and overlap across blocs point to a trade landscape defined by strategic calculation rather than institutional coherence. These arrangements shape how states engage with production systems, allocate influence, and respond to emerging pressures in the global economy.

Fig 3

World map of bloc memberships

Highlights the overlapping groupings that shape how states engage in today's geopolitical order

BRICS+
Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Indonesia, Iran, United Arab Emirates

RCEP
Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam, Australia, China, Japan, New Zealand, South Korea

IPEF
Australia, Brunei, Fiji, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Thailand, United States, Vietnam

CPTPP
Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, United Kingdom

Table 3

	Number of members	Share of Global GDP (US$ current)	Share of Global Exports	Population	Is the US a member?	Is China a member?
CPTPP	12	14%	17%	612,687,000	No	No
RCEP	15	28%	30%	2,255,223,000	No	Yes
BRICS+	10	27%	28%	3,866,813,000	No	Yes
IPEF	14	41%	25%	2,597,134,000	Yes	No

Source: World Trade Organisation Stats, International Monetary Fund World Economic Outlook 2025 Database.

Box 4

Why this matters in Asia?

- → The Indo-Pacific is becoming a central arena for new trade rule-making, with competing blocs seeking to shape divergent standards and norms.
- → Asian countries are members of overlapping initiatives (e.g. RCEP, CPTPP, IPEF), each with different strategic and economic priorities – creating both opportunities and tensions.
- → Minilateralism offers flexibility but risks fragmenting trade governance, which could complicate due diligence, compliance, and enforcement for firms and policymakers.
- → Understanding these alignments is essential for navigating trade risks, investment strategies, and the political economy of supply chain regulation across Asia.

3.
Supply chains

How economic statecraft is reshaping production and trade

The Indo-Pacific has become central to global supply chains and therefore efforts to reshape them. At the heart of these networks is China, which for decades has served as a leading manufacturer and exporter. From electronics to critical minerals, regional and global production systems are deeply tied to the Chinese economy. But disruptions from COVID-19, growing geopolitical tensions, and rising concerns over economic coercion have led many governments and firms to re-evaluate economic dependencies on China. This section explores how China is leveraging its economic position, and why diversification and resilience are now central priorities in regional trade and industrial strategies.

China's growing influence through supply chains

China's industrial strategy is reshaping regional and global supply chains. Broad and substantial industrial policy subsidies and support are leading to an imbalanced domestic economy, with oversupply and vertical integration across strategic supply chains resulting in control over critical raw materials. Chinese economic policies are therefore increasingly becoming levers for geopolitical influence and a source of trade tensions with others.

Several key features define this subsidy-led industrial approach:

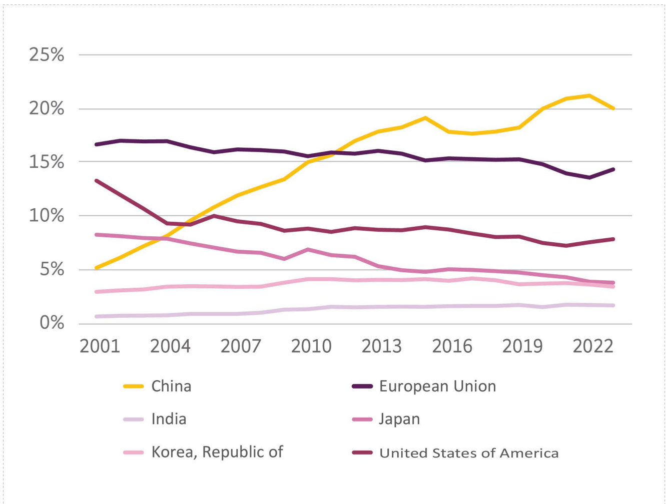
→ Export dominance: China's state-backed industries have grown immensely since China joined the World Trade Organisation in 2001, turning the country into the leading supplier of global manufactures (Figure 1). Now strategic sectors such as solar panels, electric vehicles, steel, electronics, and chemicals often produce beyond domestic demand. The resulting surpluses are exported at hyper-competitive low prices, undercutting global competitors and sometimes prompting retaliatory trade actions.

→ Subsidies and industrial policy: Strategic sectors receive financial support, tax relief, and land-use incentives that distort competition. For example, China is investing over US$ 140 billion in the domestic semiconductor industry[1]. These practices have triggered multiple trade investigations, including those led by the EU and US.

Fig. 4

China's manufacturing export dominance since joining the WTO in 2001

Share of global manufacturing exports %



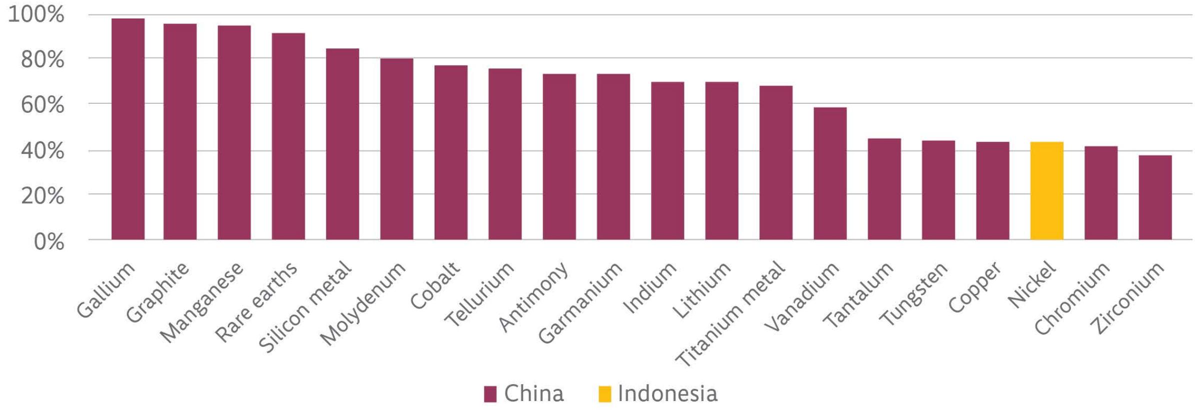
Source: World Trade Organisation
Note: European Union trade data is for extra-EU exports

→ Critical mineral leverage: China has consolidated dominance in the refining and processing stages of mineral supply chains essential to the green transition and defence and technology sectors. This gives Beijing outsized influence over global production. In fact, China is the largest refiner in 19 out of 20 energy-related critical minerals (Figure 2). This provides China leverage over essential inputs to goods like renewable energy or defence technologies. Given rising geopolitical tensions, this dependence on China is seen as a vulnerability and this has largely been confirmed by rare earth export controls introduced as a retaliation for Trump's rising tariff levels on China. This licensing system has restricted rare earth exports, which now threaten European and US car manufacturers' production lines given the importance of rare earth magnets for modern vehicle manufacture.

Fig. 5

Critical mineral refining is heavily concentrated in China

Share of global refining %



Source: International Energy Agency Critical Mineral Outlook 2025

Box 5

What are Critical Minerals?

Critical minerals are raw materials that are essential to the functioning of high-tech, clean energy, and defence applications, but are vulnerable to supply disruptions due to their geographic concentration and lack of substitutes.

They include:

- → Lithium (batteries, EVs)
- → Cobalt (batteries, aerospace)
- → Nickel (batteries, stainless steel)
- → Graphite (battery anodes)
- → Rare earth elements (magnets, wind turbines, EV motors, military systems)

Rare earths—a group of 17 elements—are particularly strategic. Though not geologically rare, their extraction and processing are environmentally intensive and technically complex. China accounts for over half of global rare earth mine production and more than 92% of refining capacity. This gives Beijing significant leverage over supply chains crucial for clean energy technologies and advanced defence systems. China has previously used export controls to restrict exports of gallium and germanium, and has now expanded export controls to 7 other rare earth elements in response to United States tariffs.

Understanding these alignments is essential for navigating trade risks, investment strategies, and the political economy of supply chain regulation across Asia.

Strategic responses emerging

In response to these risks, governments are actively seeking to reduce dependence on China through several means:

- Diversification: Efforts are underway to secure inputs from new partners and build capacity locally or in allied countries.
- Stockpiling: Strategic reserves of key minerals are being expanded.
- Industrial policy: Other countries are introducing their own industrial policies to support domestic firms and offset the advantage Chinese firms enjoy from extensive domestic subsidisation.
- Minilateralism: Countries are creating new groupings of strategically aligned partners to support each other and compete with China collectively. The Mineral Security Partnership (MSP) seeks to co-finance critical mineral supply chain investments among trusted partners and the CPTPP trade agreement does not include China.
- Trade remedies: Some governments are exploring tariffs, investment screening, and export controls to shape supply chain flows. For instance, the US has introduced a series of export and technology controls designed to restrict China's access to advanced semiconductors and the technologies required to produce them.

It remains to be seen how effective such methods will be, and China continues to dominate global manufacturing as a producer and exporter, while also steadily increasing its hold on critical mineral refining. This concentration of industrial and resource control has prompted external economies to reassess their trade exposure and deepen strategic engagement in the Indo-Pacific.

Box 6

Why this matters in Asia?

- China is Asia's largest economy and is at the centre of global manufacturing and critical materials supply chains.
- Many regional economies rely on Chinese inputs, refining capacity, and capital goods.
- Disruptions caused by export controls, export surges, or shifts in Chinese industrial policy directly affect other regional economies given China's economic size and industrial scale.
- Moves to diversify supply chains inevitably have to address China's presence in the region's economy, as reshaping trade patterns across the Indo-Pacific will be impossible without considering its largest country.

4.
Germany and the Indo-Pacific

Balancing economic interests and progressive trade values

Germany's trade exposure to the Indo-Pacific

Germany is increasingly embedded in Indo-Pacific supply chains. As Europe's largest economy and a leading exporter of high-value industrial goods, Germany's trade with Asia-Pacific countries will continue to grow into the future.

Key areas include:

→ Semiconductors and electronic component imports, primarily from China, Southeast Asia, and Taiwan.

→ Critical minerals and refined metal imports from China, Australia and others.

→ Machinery and transport equipment trade with countries like China, Japan, and the United States.

In 2023, Germany's extra-EU trade was heavily concentrated in the Indo-Pacific. This reflects both the region's industrial importance and Germany's strategic position as a manufacturing powerhouse.

Germany's top Indo-Pacific trading partners include:

→ China: Germany's largest single trading partner overall.

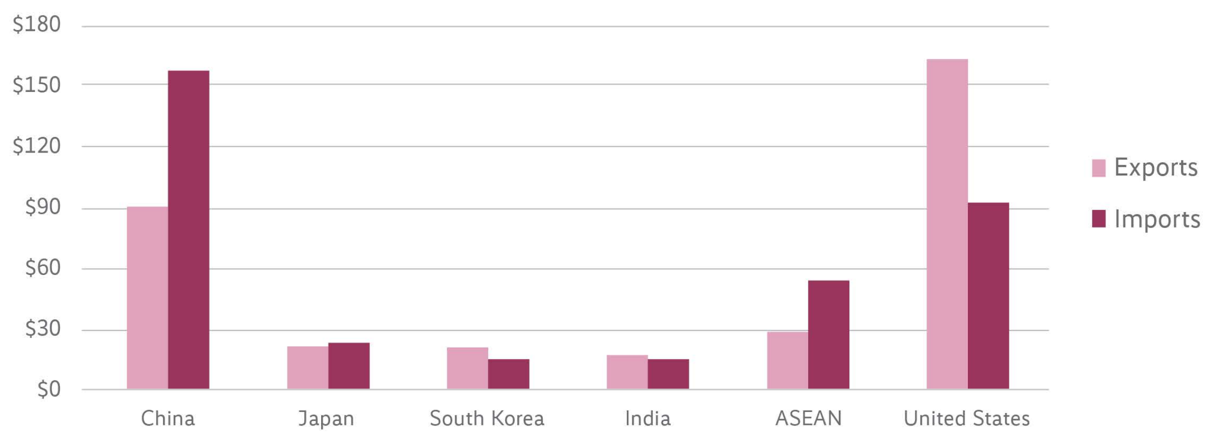
→ Japan and South Korea: key markets for technology and capital goods.

→ India and Southeast Asia: increasingly seen as alternatives in diversified supply strategies as well as growing consumer markets.

→ The United States: a key two-way trading partner, especially for automotives and machinery.

Germany's Indo-Pacific trade partners 2024 trade figures, €bn

Fig 6



Germany's relationship with the United States is typically considered through the transatlantic lens, however the United States is undoubtedly an Indo-Pacific power and so is included here for comparison with other countries in the region.

Source: CEIC Data

The role of progressive trade politics

Trade policy is not neutral. For progressives in Germany, the Indo-Pacific represents both opportunity and challenge. On one hand, deeper integration with the region supports economic resilience and diversification. On the other, it risks entrenching supply chains that lack enforceable labour standards, environmental protections, or democratic oversight.

Germany's progressive agenda in trade involves:

→ Advocating for human rights and environmental due diligence laws (e.g., the German Supply Chain Act and the proposed EU Corporate Sustainability Due Diligence Directive).

→ Supporting just transition principles in global value chains, including fair wages, union protections, and climate-resilient trade.

→ Promoting rules-based engagement through multilateral and regional partnerships, particularly in ASEAN and with democratic partners like Japan, Australia, and India.

However, applying these principles in the Indo-Pacific is difficult given the region's heterogeneity. For example:

→ China and Vietnam are critical to Germany's industrial supply chains but present major challenges in terms of labour rights and authoritarian governance.

→ Indonesia also poses risks despite being a democratic state, with lax environmental and labour standards and questionable indigenous rights protections.

→ Many other Indo-Pacific economies are reluctant to impose regulations in line with EU and German requirements given perceptions that these are costly and could jeopardise export competitiveness if other countries do not also apply them.

Navigating strategic tensions

Progressive actors in Germany must also grapple with structural tensions between values-based trade and geopolitical strategy. These include:

→ Climate vs. competitiveness – Decarbonisation goals may conflict with the short-term competitiveness of industries reliant on low-cost, carbon-intensive imports from Asia.

→ Human rights vs. economic security – Restricting imports from countries with poor labour standards could increase costs or disrupt supply chains, especially in sectors like electronics or apparel. It may also reduce Germany's ability to influence labour standards in these countries in the future.

→ China dilemma – Reducing dependency on China is a growing political priority, yet few substitutes match its scale, infrastructure, and supply capacity. Now, with the growing trade and political tensions with the United States under a Trump Administration, German-Sino relations may represent an important way to hedge against United States policy uncertainty.

This creates a need for coordinated policy responses:

→ Developing diversified trade ties with middle powers like India, Vietnam, and Indonesia despite concerns about democratic credentials and labour and environmental standards.

→ Supporting supply chain traceability tools and multilateral enforcement mechanisms while also acknowledging emerging economy partners' capacity constraints in supporting rigorous standards and enforcement.

→ Investing in strategic resilience at home — such as raw material stockpiles, onshore production of critical components, and R&D partnerships in green technology.

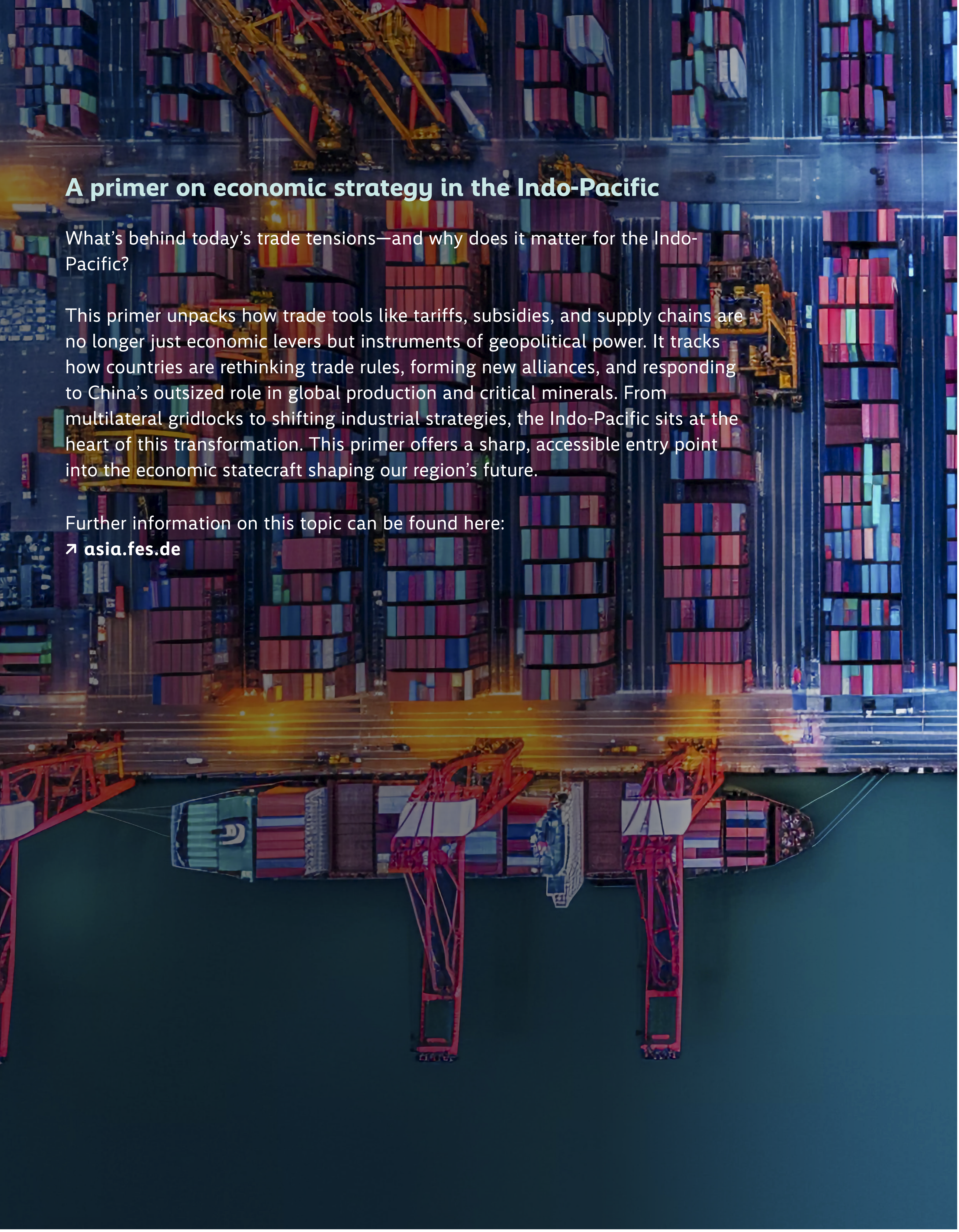
5. Conclusion

A progressive Indo-Pacific strategy

Germany's economic interests in the Indo-Pacific are clear. But trade cannot be decoupled from values. For progressives, the priority is not to retreat from trade — but to shape it. This means engaging actively in Indo-Pacific dialogues, forging alliances with likeminded countries, and insisting on social and environmental standards that underpin a fairer, more sustainable global economy. This will also require support and engagement with countries that are not meeting the rigorous and high standards set by the EU and German progressives.

Without this, Germany will likely face a regional economy that is increasingly misaligned with German progressive priorities. Will this make trade and investment between Germany and the Indo-Pacific harder in the future? Or will this ultimately lead to the sidelining of progressive values in Germany's economic relationships?

Given what is at stake, Germany's approach should be multifaceted: expand and reinforce partnerships with likeminded countries while ensuring engagement, negotiation, and support for other countries that may not currently have the same commitment to progressive values. Without a broader approach of engagement Germany risks losing its relative economic and political influence in a region that is increasingly charting its own course and is seeking partners willing to support its development ambitions.



A primer on economic strategy in the Indo-Pacific

What's behind today's trade tensions—and why does it matter for the Indo-Pacific?

This primer unpacks how trade tools like tariffs, subsidies, and supply chains are no longer just economic levers but instruments of geopolitical power. It tracks how countries are rethinking trade rules, forming new alliances, and responding to China's outsized role in global production and critical minerals. From multilateral gridlocks to shifting industrial strategies, the Indo-Pacific sits at the heart of this transformation. This primer offers a sharp, accessible entry point into the economic statecraft shaping our region's future.

Further information on this topic can be found here:
↗ **asia.fes.de**

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