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Germany and the Indo-Pacific: The Resilience of Supply Chains

The third edition of the Indo-Pacific Roundtable highlighted the need to address the nuances of supply chains and reshape relations with the Indo-Pacific to build a sustainable recovery strategy

Speakers: Dr. Jan Cernicky, Friedolin Strack, Jun Kazeki

In the autumn of 2020, Germany released its Policy Guidelines on the Indo-Pacific and thus entered its bid to engage with this fast-evolving region and to shape the narrative accompanying it. Having acquired a stake in this global political enterprise, it will have to be prepared for close scrutiny of its activities in the seven key areas defined by the guidelines: multilateralism, climate change, security, rule of law, free trade, digitalization and education. The Konrad-Adenauer-Stiftung (KAS) and the European Council on Foreign Relations (ECFR) jointly host an Indo-Pacific roundtable series to promote the political exchange on Indo-Pacific policy with stakeholders from the German Bundestag, line ministries, embassies and policy think tanks.

The Politicisation of Supply Chains: A Reflection of the US-China Power Struggle

In the wake of the COVID-19 pandemic and mounting geopolitical rivalries, the objective of the third edition of the roundtable was to evaluate the challenges to global supply chains. The speakers - representing the Konrad-Adenauer-Stiftung, the Federation of German Industries and the Japanese Ministry of Economy, Trade and Industry - addressed the nature of Germany and Japan's supply chains and their politicisation. Specifically, the discussion explored role of both economies in keeping global supply chains diverse and preventing single-source dependency, especially through greater cooperation with countries of the Indo-Pacific and providing alternatives to them.

The increasing politicisation of supply chains is both a manifestation and reflection of a growing struggle for power and global supremacy between the US – and more broadly, the West – and China. As China is actively working towards eliminating its own vulnerabilities in key areas such as semiconductors and microchips on one hand and increasing foreign dependency on its goods on the other, there is concern that changing power structures will be accompanied by new political demands (such as protectionism) that may negatively impact global supply chain structures. In this context, the success of China's endeavours needs to be critically evaluated and responses to its growing power considered.

Threat Posed by China Not Urgent

China faces key economic dependencies and vulnerabilities in meeting the needs of its domestic markets, most crucially in the field of semiconductors and chips. Internally, China is also highly dependent on the production capabilities of foreign companies for chemical products. Consequently, at present, China heavily relies on essential technologies from abroad, making the risk of an imbalance of dependency in favour of China neither urgent nor likely for the foreseeable future.

Nevertheless, it was argued that China has been making rapid advancements and active efforts to improve its technological capacities and manufacturing abilities in these areas, to decrease its dependence on other countries in critical industries, while at the same time increasing the dependency of foreign countries on China. It is therefore essential for countries like Germany and Japan to actively work towards ensuring that global industry stays both competitive and innovative.

China is making active efforts to decrease its dependence on other countries, while increasing the dependency of foreign countries on China.

The Need to Diversify Germany's Supply Chains

At the start of the pandemic, when China was badly affected by lockdown and other restrictions, many countries faced serious shortages due to their dependence on Chinese goods. Since then, they have been considering ways of overcoming an excessive reliance on Chinese products. For Germany, on the other hand, only a small percentage of imported goods are brought in from China; on the other hand, approximately 73% are imported from within the EU. According to one of the speakers, the challenge for Germany, then, is different; while Germany's supply chains are not very dependent on China, they are not diversified enough and need to be globalised further, particularly in Asia. The development of closer cooperation with Asian countries will help counteract China's growing influence in the region.

Germany's supply chains are not as diversified as they should be.

German-Japanese Politico-Economic Cooperation

In order for Germany (and Europe) to establish itself as a region that trades with all other regions, improved scope for discussion with ASEAN and other regional bodies is one way forward. Further, as Germany and Japan are comparably strong manufacturing economies with a similar outlook in the technological sector and commitment to democratic ideals, cooperation and an exchange of ideas/best practices in logistics and digitalisation between the two would be beneficial to counter the growing supply dependency on China in the Indo-Pacific region.

This should be pursued through ensuring free and open trade in the region and offering alternative markets and sources to Asian countries. In Japan, the Ministry of Economics, Trade and Industry has launched a government-wide Economic Security Policy as a key growth strategy that is based on a dual promotion and protection approach. It is essential for both countries to adopt protective tools to safeguard elements of the market without adopting China's protectionist model and while continuing to promote competition and innovation in the region.

Conclusion: The Indo-Pacific is here to stay

China's political and economic influence is growing rapidly through concerted efforts of the Chinese government to advance its technological and manufacturing capabilities to both decrease its own

dependence and simultaneously increase foreign dependence on China. However, the success of these efforts is limited by its vulnerability in key industries and its protectionist system that inhibits innovation.

Countries like Germany and Japan have a vital role to play in containing the threat of growing global dependencies on China. Several measures can be taken in this direction, most importantly by recognising the importance of the Indo-Pacific region in preventing a global imbalance of dependencies from weighing strongly in favour of China. A multilateral approach of greater cooperation with the region is essential as way forward, through discussions with ASEAN and other regional economic bodies.

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