Analyses OSW

CENTRE FOR EASTERN STUDIES 4.11.2026 www.osw.waw.pl

An Asian Plan B: Merz in the Indo-Pacific

Aleksandra Kozaczyńska, Lidia Gibadło , Paulina Uznańska

From 26 to 30 October, Chancellor Friedrich Merz visited Singapore, Japan, and South Korea, accompanied by a business delegation that included the heads of Airbus, Siemens, Lufthansa and Deutsche Bank. In Singapore, Merz and Prime Minister Lawrence Wong adopted a joint work plan for 2027–2028, which encompasses security, economic cooperation, and other areas. During his Singapore Lecture, the chancellor advocated for enhanced cooperation among 'middle powers'. He argued that the war in Ukraine had revealed shared threats to both NATO and the Indo-Pacific countries, citing the involvement of North Korean troops in Russia's aggression and the role of Chinese companies in helping Moscow to circumvent sanctions. Merz reaffirmed Germany's commitment to the One China policy, emphasising that Berlin would determine how to implement it. He also outlined four principles guiding Germany's Indo-Pacific policy: investing in global alliances, strengthening domestic resilience, upholding the rules-based international order, and maintaining openness to dialogue and diplomacy.

In Tokyo, Merz and Prime Minister Sanae Takaichi adopted a declaration addressing economic security, critical raw materials, and cooperation in high technologies. During the visit, companies and research institutions from the two countries signed 21 agreements. Both sides also committed to deepening security and defence cooperation. In Seoul, Merz and President Lee Jae-myung elevated bilateral relations to an enhanced strategic partnership. The chancellor also attended the 19th Asia-Pacific Conference of German Business (APK).

The visit to Asia forms part of Germany's efforts to establish a 'network of global partnerships' aimed at safeguarding free trade, upholding international law, and diversifying and securing supply chains. It also reflects criticism of China's industrial and trade policies and signals Berlin's intent to pursue alternative economic partnerships. This strategy aligns with the interests of Japan and South Korea, which regard Germany as an advocate for their positions within the EU, including in shaping the Industrial Accelerator Act (IAA), a proposed EU regulation aimed at boosting the competitiveness of European industry.

Between confrontation and dialogue

The chancellor's visit confirms Berlin's increasingly assertive stance, first explicitly outlined in early October in a *non-paper* jointly prepared with France. Both countries advocate for stronger protection of the EU market against unfair competition from China. In this context, closer cooperation with Japan, South Korea and Singapore is intended to reduce Germany's economic dependence on China, particularly regarding imports of *critical raw materials* and strategic technologies, including semiconductors, batteries and raw materials processing.

China remains Germany's largest trading partner. In the first half of 2026, bilateral trade totalled approximately €125.5 billion, with Germany recording a deficit of €52.7 billion. This reflected rising imports from China (up 8.8% year-on-year) and declining German exports to China (down 12.2% year-on-year). The growing trade imbalance underscores the declining competitiveness of the German economy and motivates Berlin to pursue competitive advantages through cooperation with other partners.

Simultaneously, Germany is seeking to avoid an escalation of tensions with Beijing. Merz's message was balanced by a concurrent visit to China by President Frank-Walter Steinmeier, who met with Chinese Communist Party General Secretary Xi Jinping, Premier Li Qiang, and other officials. In a speech at Peking University, Steinmeier stressed Russia's responsibility for the war in Ukraine, which threatens Beijing's economic interests. He also stated that Europeans did not seek economic decoupling from China, but "China having greater autonomy must not mean […] that others are increasingly dependent on China and vulnerable to it". His remarks are consistent with the EU's de-risking policy, which seeks to reduce strategic economic dependencies on China without severing trade ties altogether.

Security as the cornerstone of partnerships

Security is emerging as a key area of cooperation between Germany and Indo-Pacific countries. Berlin views Singapore, Japan, and South Korea as confronting similar challenges, as they all depend on free trade, secure supply chains, and the US military presence in the region, while also facing pressure from China. Merz therefore sees European and Indo-Pacific security interests as closely aligned. This perspective, supported by the Bundeswehr's participation in military exercises in the region (such as the Keen Sword drills in Japan in October), is intended to persuade Germany's Asian partners that the war in Ukraine is also affecting their security and to encourage increased support for Kyiv.

According to the Kiel Institute for the World Economy (IfW), by August 2026, Japan had allocated €14.4 billion in aid to Ukraine (€12.6 billion in financial assistance, €1.7 billion in humanitarian aid, and €0.9 billion in military assistance), representing the highest contribution among Asian countries and ranking ninth globally in the IfW assessment. South Korea contributed €0.6 billion, while Singapore was not included in the ranking.

Japan: the premium partner

Japan is Germany's key partner in East Asia. Alongside China and India, it is the only Indo-Pacific country with which Berlin holds intergovernmental consultations, with the next round scheduled for 2027 in Berlin. During the visit, both sides agreed to resume meetings of their foreign and defence ministers in the '2+2' format. Japan's Mitsubishi Chemical Corporation and Panasonic Connect signed letters of intent with Germany's Quantum Systems on cooperation in composites, ruggedised mobile computing solutions, and associated equipment for unmanned systems. Additionally, four agreements were concluded between companies and institutions in the space sector, covering areas such as space security and in-orbit services. Further cooperation may be facilitated by Japan's relaxation of arms export restrictions in April 2026.

A significant development would be Germany's participation in the Global Combat Air Programme (GCAP), a project to develop a sixth-generation fighter aircraft jointly pursued by the UK, Italy, and Japan. This would replace Germany's involvement in the Future Combat Air

System (FCAS) programme with France, which the German defence ministry decided to terminate in May 2026. The German government is currently exploring this option.

The partnership on raw materials is also particularly important, encompassing joint investments and diversification of critical raw material supplies. Japan's raw materials policy, led by the state agency JOGMEC, serves as a valuable model for Berlin. Enhanced cooperation with Tokyo could facilitate the adoption of selected Japanese solutions within Germany's system for securing raw material supplies. Japan is also Germany's second-largest trading partner in Asia after China, with bilateral trade amounting to €21.2 billion in the first half of 2026. Additionally, Japan is the largest Asian investor in Germany in terms of foreign direct investment stock, which stood at €47.6 billion at the end of 2024.

Berlin caught between 'Made in Europe' and 'Made with Europe'

The convergence of German, Japanese and South Korean positions on the Industrial Accelerator Act (IAA) reinforces expectations in Tokyo and Seoul that Berlin will advocate for their interests within the EU. The IAA is a proposed EU regulation intended to enhance the competitiveness of European industry, including by introducing preferences for EU-made products in public procurement and establishing support mechanisms. All three countries favour defining the scope of these preferences as broadly as possible to include non-EU countries covered by relevant trade agreements (thereby excluding Chinese components) and to provide EU companies with reciprocal market access. This approach is known as the 'Made with Europe' concept.

The October agreement between Germany and France regarding the regulation's application to the automotive sector prompted criticism from Japan and South Korea. Berlin accepted Paris's demand for a narrow interpretation of the provision, limiting preferences to products manufactured in the EU and selected European countries (the 'Made in Europe' approach). In return, France agreed to relax EU CO_2 emissions requirements for combustion-engine vehicles. If adopted by the EU in this form, the measure would decrease the participation of Japanese and South Korean suppliers in European supply chains.

The chancellor pledged to raise both countries' concerns at the next European Council summit, although Paris appears unlikely to soften its position. Germany will continue to advocate for a broad interpretation of the IAA provisions in other industries, considering the interests of its small and medium-sized enterprises (SMEs), which are essential to the German economy and would face significantly higher costs if their access to non-EU suppliers were restricted.

China's criticism and efforts to soften Berlin's stance

From Beijing's perspective, Merz's visit to Asia highlights three trends that are disadvantageous to China: Germany's expanding defence cooperation in the Indo-Pacific, Berlin's continued efforts to reduce its dependence on China, and its gradual abandonment of its traditional role as the main obstacle to a tougher EU trade policy towards Beijing.

In response to the chancellor's visit, China's foreign ministry emphasised the complementarity of the Chinese, German, and EU economies, as well as the mutual benefits of economic cooperation. Concurrently, Chinese media strongly criticised closer military cooperation between Germany and Japan, referencing their historical alliance as Axis powers during the Second World War. Furthermore, Merz's assertion that Berlin

independently determines the implementation of the One China policy was met with significant criticism in the Chinese media.

At the same time, Beijing welcomed Steinmeier's concurrent visit to China, using the occasion to highlight the enduring industrial ties between the two countries. The visit also provided an opportunity to discuss the war in Ukraine. According to the German president's subsequent television interview, Xi Jinping stressed the need for European involvement in peace negotiations and denied that China was preparing a trilateral summit with Russia and the United States on the issue. However, official Chinese sources did not confirm these specific details of the talks.

China will seek to soften Berlin's stance, including by exerting influence on German businesses, whose evolving attitude towards China has been one of the main drivers of Germany's tougher policy. This shift has stemmed from a declining balance between the benefits and costs of cooperating with China, as well as growing competition from Chinese manufacturers. Beijing is therefore likely to combine selective trade concessions, such as the October agreement with the European Commission on restricting imports of hybrid vehicles into the EU, with proposals for enhanced technological cooperation and investment in Germany.

Additionally, Beijing may leverage German industry's reliance on Chinese components, particularly permanent magnets, to put pressure on Berlin. Such measures are intended to weaken Germany's resolve to pursue a tougher trade policy towards China and, consequently, impede the adoption and subsequent implementation of new EU instruments to protect the single market.