

## To the point!



Cross-Asset- and Strategy-Research

# Germany needs a new growth model

## Germany's export-driven growth model has come to an end

In Germany, people liked to pat themselves on the back for being the "export world champion". That may have been no small consolation to many that Germany seems to have made a habit of being eliminated in the preliminary round at actual World Cups.

In fact, Germany's export strength has increased massively since the turn of the millennium. In the 1990s, the share of goods and services sold to customers abroad was little more than 20%. Since 2010, the export ratio has been hovering around 45% of GDP. Such a structural shift toward greater export orientation is probably unprecedented among developed economies. Germany has clearly benefited more from globalization than other countries.

### What boosted Germany's export model

Two factors were the main drivers of this export success:

1. China joined the World Trade Organization (WTO) in 2001. This meant that a huge economy entered the world market as a consumer. And China's investment-driven economy needed precisely those goods in which Germany is particularly strong: equipment and vehicles. The China boom of the German economy could begin!
2. Euro. In 1999, the euro was introduced. This provided Germany with additional competitiveness because domestic companies could compete with a currency that was actually undervalued for Germany. Thus, German current account deficits at the time of euro adoption turned into steadily growing surpluses of over 7% of GDP in the decade after 2010.



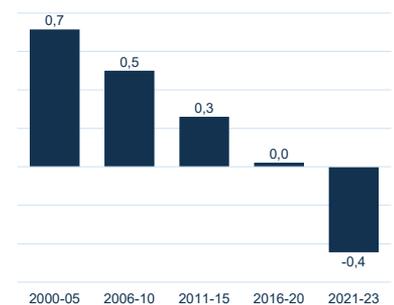
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## Germany as a winner of globalization

### Contribution of net exports to GDP growth (% points)



Source: LBBW Research, Destatis.  
Based on quarterly observations.  
Last observation Q1/2023

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But the wind has changed. The phase of ever deepening globalization is behind us. Instead, the world is becoming increasingly protectionist again. China is increasingly moving from being a buyer to a competitor. Also in other markets.

Consequently, the contribution of net exports (exports minus imports) to economic growth has continued to decline over time (see chart). In recent times, foreign trade even had a negative effect. This can happen when imports grow faster than exports. The war in Ukraine perhaps exaggerated this effect. But the negative trend is nevertheless undeniable.

## Reform backlog must be cleared now

Again and again I get the question about the "deindustrialization" of Germany. After all, our export hits were mainly industrial products. The share of industry in total value added has been declining for decades. But in Germany it is still very high at almost 20% (Euro area as a whole: 15%, France approx. 10%). Therefore, the phasing out of Germany's export model is actually likely to further reduce the level of industrialization.

To cushion this trend, overdue structural reforms are needed now more urgently than ever to boost productivity. The usual litany of deregulation, digitalization, education policy, infrastructure expansion and so on and so forth. The sweet age of quasi-automatic growth through foreign demand is over. Now the foundations for economic development must be laid by the country's own efforts.

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The export model no longer carries

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Don't delay structural reforms any longer!

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