Jannsen, Nils; Kooths, Stefan

Article

German trade performance in times of slumping euro area markets

Intereconomics


This Version is available at: http://hdl.handle.net/10419/106769

Terms of use:
Documents in EconStor may be saved and copied for your personal and scholarly purposes.
You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.
If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.
Economic Trends

German Trade Performance in Times of Slumping Euro Area Markets

While the global financial crisis had a strong impact on economic activity in Germany, the impact of the euro area crisis on economic activity in Germany has so far been relatively mild. Trade flows by region reveal that German firms have recently redirected their exports towards the remaining growth spots of the world economy, in particular to Asia’s emerging economies. However, a continued crisis in the euro area is likely to put a considerable dent in German exports. While market forces have already triggered the rebalancing of intra-European trade flows, German exporters may play a helpful role in this process if firms in distressed countries circumvent high entry costs by integrating themselves into the global value chains of German exporters.

The export sector is traditionally of very high importance to the German economy. Exports accounted for more than 50 per cent of overall GDP in 2011. While Germany showed strong export growth in the run-up to the recent global financial crisis, the dramatic decline of exports in the wake of the worldwide recession (and the sudden slump in global investment spending, in particular) was one of the main triggers that pushed the German economy into a sharp recession. Likewise, as the world economy recovered, German exports gained momentum again. As a consequence, the V-shape in Germany’s business cycle was particularly pronounced.

However, with the onset of the crisis in the euro area and the abrupt slowdown of economic activity in the most affected member countries, a distinct export-led bust pattern in Germany can so far not be found. While the euro crisis led to a drag on German exports (export growth has slowed since mid-2011), the dampening effect remained relatively mild given that the euro area is Germany’s most important export market. The German trade surplus even continued to increase, so that foreign trade has contributed positively to GDP growth in 2011 and will presumably become the main contributor in 2012. The improving trade balance during the euro crisis has been astonishing insofar as the relatively favourable domestic macroeconomic fundamentals in Germany in conjunction with the much less positive situations in many of Germany’s euro area trading partners would seem to have pointed to the opposite picture – rising imports and less dynamic export activity in Germany.

Germany’s Trade Balance by Region

Differentiating Germany’s trade balance by region provides a hint as to why German export growth has recently been so robust and why foreign trade has continued to contribute positively to GDP growth since mid-2011 (see Figure 1). While net exports to the euro area have decreased considerably since 2011, net exports to the rest of the world at the same time have increased and more than compensated for the decreases vis-à-vis the euro area. This divergence started already with the onset of the global financial crisis. Since 2007, the trade surplus with the euro area has decreased by nearly 50 per cent, while the trade surplus with the rest of the world has increased by roughly the same percentage. Rising net exports to the rest of the world are mainly due to trade with emerging economies and with Asia in particular. While Germany’s trade surplus with Asia had traditionally shown a deficit, it started to improve considerably in mid-2011 and in the beginning of 2012 turned into a surplus for the first time in the history of these trade data.

Trends in Germany’s External Trade by Region

The more recent regional adjustments in German exports can be interpreted to some extent as an acceleration of the longer-run regional trends that set in at the beginning of the century. Overall, the relative importance of customers from advanced economies has been diminishing,
while the importance of other regions, in particular emerging economies in the Asian region, has been increasing. The share of German exports going to euro area countries has decreased from more than 46 per cent in 1999 to less than 40 per cent most recently (see Figure 2a). Also, the shares of other advanced economies like the United States and the United Kingdom have decreased considerably since 1999. Conversely, the share of German exports going to Asian countries has increased from about 10 per cent in 1999 to more than 16 per cent today (see Figure 2b). This shift in the regional export structure reflects to a large extent the fundamentally higher growth rates of emerging economies, which typically also lead to stronger import demand. Moreover, emerging economies are by their very nature in particular need of capital goods, a specialty of German manufacturing firms. Overall, the regional diversification has increased considerably since 1990 (see Figure 3). As a consequence, Germany’s aggregate exports have become more resilient to specific regional shocks in trading partner countries.

Similar long-run regional trends can be observed for German imports. While industrial countries are losing market shares in Germany, emerging economies and in particular countries from the Asian region are successively gaining market shares. The share of goods originating from the euro area decreased from more than 45 per cent in 1999 to roughly 38 per cent in mid-2012. In contrast, the share of goods originating from Asian countries increased from less than 15 per cent to more than 18 per cent in the same period. These regional trends for Germany reflect to a large extent the overall developments in world trade, in which emerging economies are successively gaining market shares due to their high price competitive-
ness, mainly in labour-intensive goods. However, in more recent years, the regional pattern in German imports has deviated somewhat from the regional pattern in German exports. In particular, since mid-2010 the euro area has stabilised its share in Germany’s imports, while the share of German exports going to euro area countries has decreased further by more than three percentage points.

**Main Drivers of Germany’s Export Performance**

Germany’s traditionally strong export performance accelerated after the adjustment processes in foreign trade in the course of German reunification began to phase out. Not only has aggregate export growth been quite strong, but Germany’s export firms have also been able to gain market shares in their customer countries (see Figure 4). This export performance has been driven by several factors, the most important ones being: (1) improving price competitiveness, (2) high non-price-competitiveness, and (3) specialisation in a favourable product portfolio.\(^1\)

(1) The price competitiveness of German export firms has improved considerably since 1996. By relocating labour-cost intensive stages of production to countries with lower wage levels, German firms have increasingly integrated themselves into international supply chains. This shows up in the noticeably upward trend of the import content of German exports.\(^2\) Moreover, price competitiveness has been strengthened by the relatively moderate wage growth since 2004, correcting the massive wage-cost push in the post-reunification era of the early 1990s. (2) Most German export firms exhibit a high degree of non-price-competitiveness. Taking the share of R&D-intensive products in total exports as a proxy, Germany outperforms many of its advanced competitors.\(^3\) Moreover, the general business environment in Germany is relatively favourable compared to other euro area countries.\(^4\) Also, the specialisation of German export firms in top quality segments gives them a relatively high pricing power.\(^5\) As a result, the impact of price competitiveness on exports in Germany is lower than in other industrial countries like France, Italy, Spain and the United States.\(^6\)

---

\(^1\) For an overview, see Projektgruppe Gemeinschaftsdiagnose: Bestimmungsgründe des deutschen Außenhandels, Gemeinschaftsdiagnose Frühjahr 2011, pp. 60-63.


German export performance since 2000.\(^7\) Empirical studies find the strong market position of German export firms the opportunity to benefit from the high growth potential in these countries. Not surprisingly, empirical studies find the strong market position in emerging economies to be a main driver of the strong German export performance since 2000.\(^7\)

Aspects of the Recent German Export Performance During the Euro Area Crisis

The regional trends in the most recent German export performance reflect diverging economic developments in its trading partner countries: While economic activity in the euro area has slowed down considerably during the current crisis, it has remained relatively robust in other regions, such as Asia. Moreover, the depreciation of the euro since mid-2011 has considerably enhanced the price competitiveness of German export firms outside of the euro area. As a consequence, German export growth has remained relatively robust and the share of German exports going to the euro area has declined rapidly.

However, while the roles of diverging economic activity in Germany’s trading partner countries and exchange rate variations in the most recent German export performance are widely acknowledged, export volumes are not only a matter of demand pull effects and exchange rate fluctuations that are both exogenous from the perspective of a single firm. Germany’s export performance is the result of both demand and supply factors, with entrepreneurial efforts playing an important role for the latter.\(^8\) Selling non-standardised industrial goods in foreign markets is quite different from selling commodities at global commodity exchanges, because there is no anonymous global market for heterogeneous goods where individual firms can offer their products. Thus, customer relations are of paramount importance. This holds true in particular for custom-made products like highly specialised capital goods. Successful firms in these markets need deep market knowledge and sophisticated distribution channels. Both are typically the result of experiences in long-run customer and market relations (learning-by-trading effect). Therefore, turning a domestically oriented company into a successful exporter cannot be accomplished overnight.\(^9\) The strong market positions of German firms in many countries resulting from the long-term trends in German external trade therefore enable them to cope with the currently slumping euro area markets. Empirical research has shown that German foreign trade is dominated by firms that trade multiple goods with multiple countries.\(^10\) This increases their resilience when it comes to negative demand shocks with a regionally limited scope. In times of crisis, entrepreneurial efforts become particularly important. When trading with nearby partners becomes more difficult (as is currently the case with distressed euro area countries), more entrepreneurial efforts to increase sales can be expected to be directed towards more distant markets that would otherwise be less attractive.\(^11\)

Nevertheless, while the factors discussed above have made German exports more resilient to regionally limited slumps in demand, they would not be able to completely compensate the dampening effects if economic activity in the euro area were to continue to worsen.

A Note on the Problem of Rebalancing Intra-Euro Area Trade

With respect to the current debate on rebalancing intra-euro area trade flows, noticeable market-driven adjustments are already taking place, as the German trade


\(^8\) It is worth noting that there is no such thing as “export demand” in the system of national accounts. The expenditure approach to GDP, of which external trade flows are a subcategory, just records the turnover in goods and services in cross-border transactions. These transactions reflect the market results while saying nothing about their driving forces.


\(^11\) This is in line with the results of gravity models of trade in international economics. These models state that bilateral trade, among other factors, is also driven by bilateral trade barriers relative to the average level of trade barriers with other countries. J.E. Anderson, E. van Wincoop: Gravity with Gravitas, in: The American Economic Review, Vol. 93, No. 1, 2003, pp. 170-192.
balance with the euro area has shown. Growth in compensation per employee in most euro area countries has been slower than in Germany in the past two years and is likely to remain so in the next years, leading to a relative improvement in the price competitiveness in these countries. Moreover, the more restrictive access to credit in many countries in the euro area lessens their ability to import from Germany. Although the current stance of the Eurosystem’s monetary policy is still accommodative with respect to credit creation in the distressed countries and has prevented an even faster rebalancing of intra-euro area trade, the rebalancing process is likely to continue. The expertise of German export companies in international markets may play a helpful role in this process, since it makes them interesting co-operation partners for those firms in the distressed European countries that intend to strengthen their export activities. By integrating their business models into the international value chains of already successful global firms, they might find a short-cut to target foreign markets that would otherwise remain beyond their scope due to high entry costs.

Conclusion

With its huge export sector and its specialisation in capital goods, Germany remains highly vulnerable to downswings in the global business cycle. However, the increasing diversification of their trade relations and their high competitiveness both in terms of cost and non-cost categories allows German exporters to compensate to some extent for regionally limited slumps in demand. The impact of the current euro area crisis on economic activity in Germany has so far been relatively mild, not only because German exporters have been able to take advantage of the depreciation of the euro but also because they have been able to make use of their strong market positions in emerging economies to intensify their entrepreneurial efforts to increase their sales in these economies. Nevertheless, if the economic slowdown in the euro area were to continue to worsen, it would put a considerable dent in German exports. While market forces have already triggered the rebalancing of intra-euro area trade flows, the German export sector may play a helpful role in this process if firms in distressed countries seeking to export decide to integrate themselves as suppliers into the global value chains of German exporters.