

Germany's Support for Manufacturing and Export Performance

Meeting Global Challenges: US-German Innovation Policy

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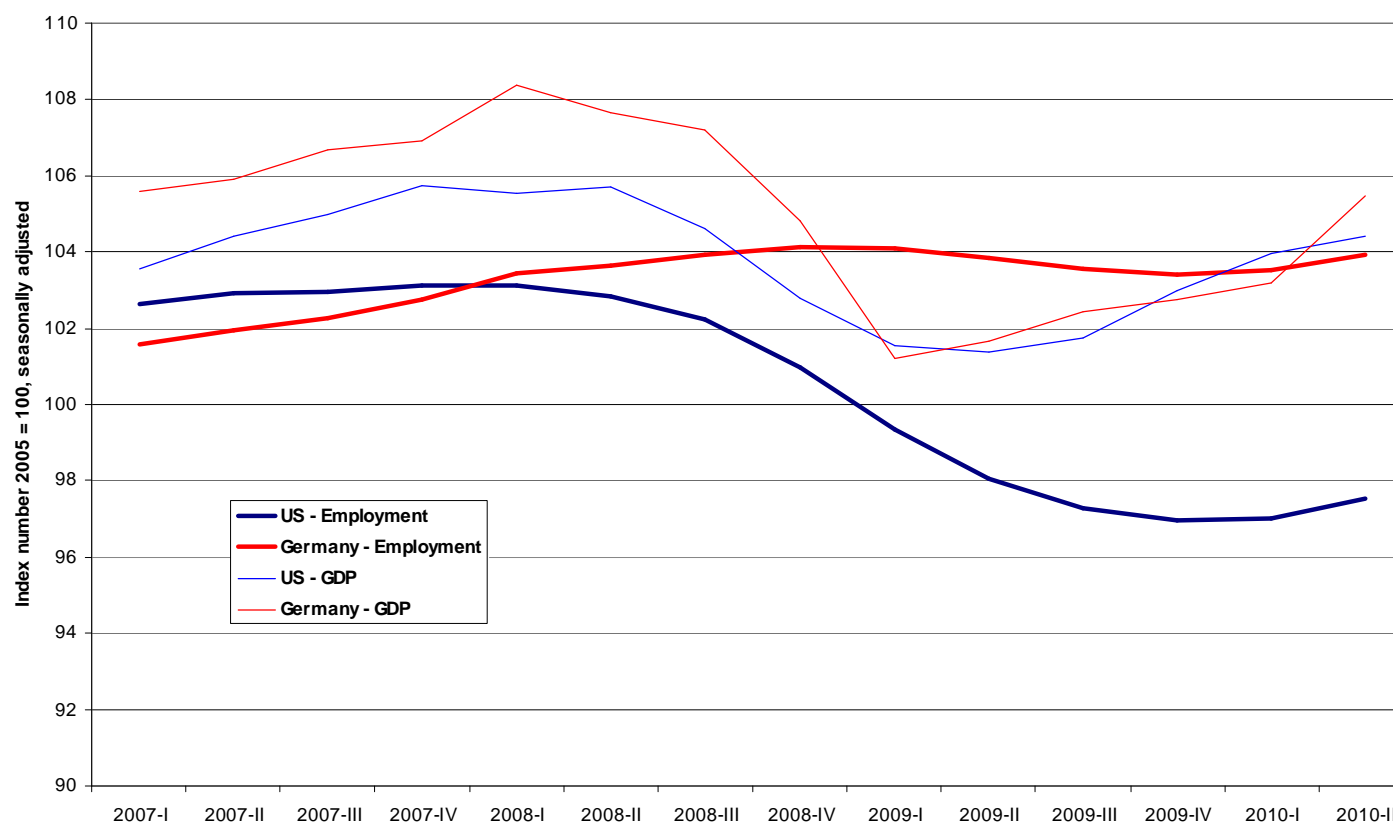
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Outline

1. The crisis in Germany
2. Germany's foreign trade
3. What is stimulating German exports?
4. Policy issues

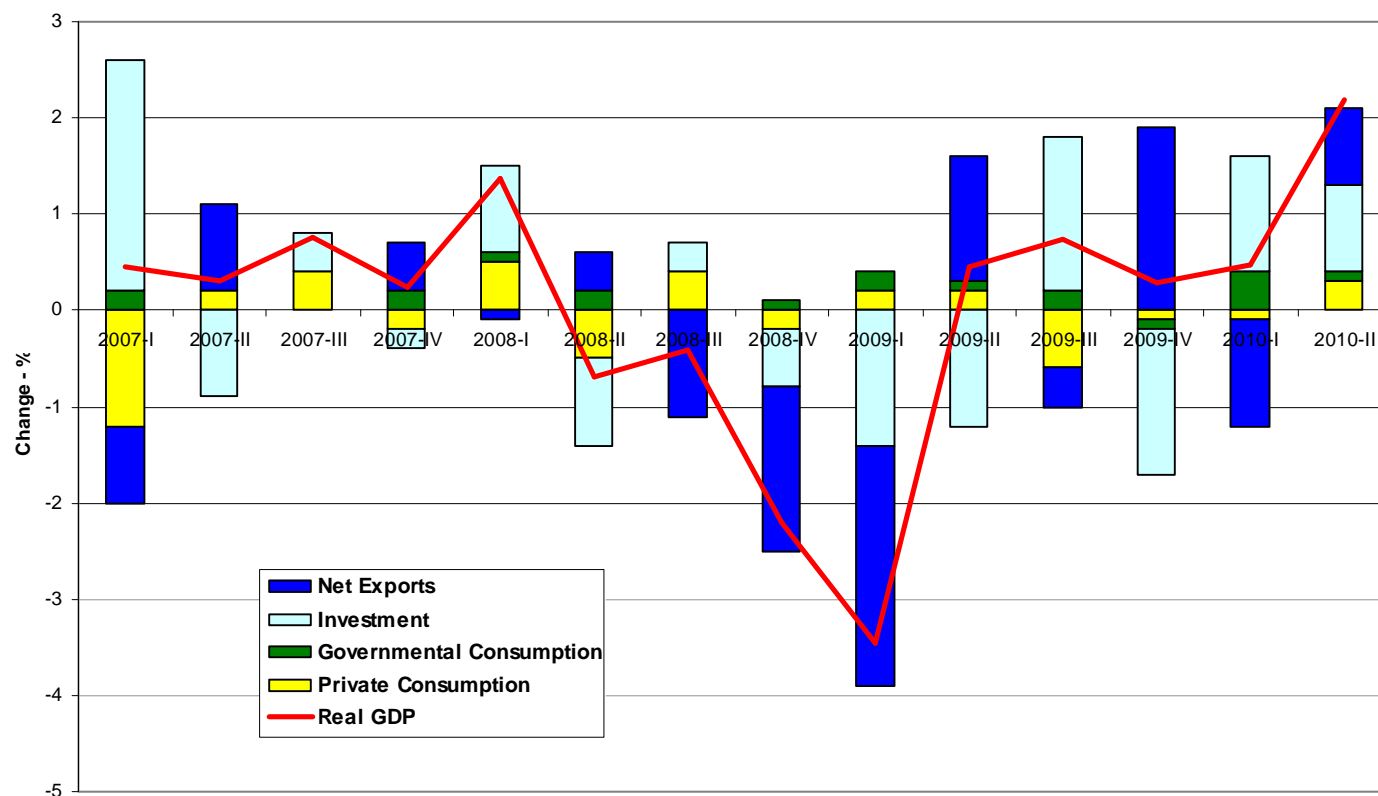
1. The crisis in Germany

GDP and Employment: United States vs. Germany



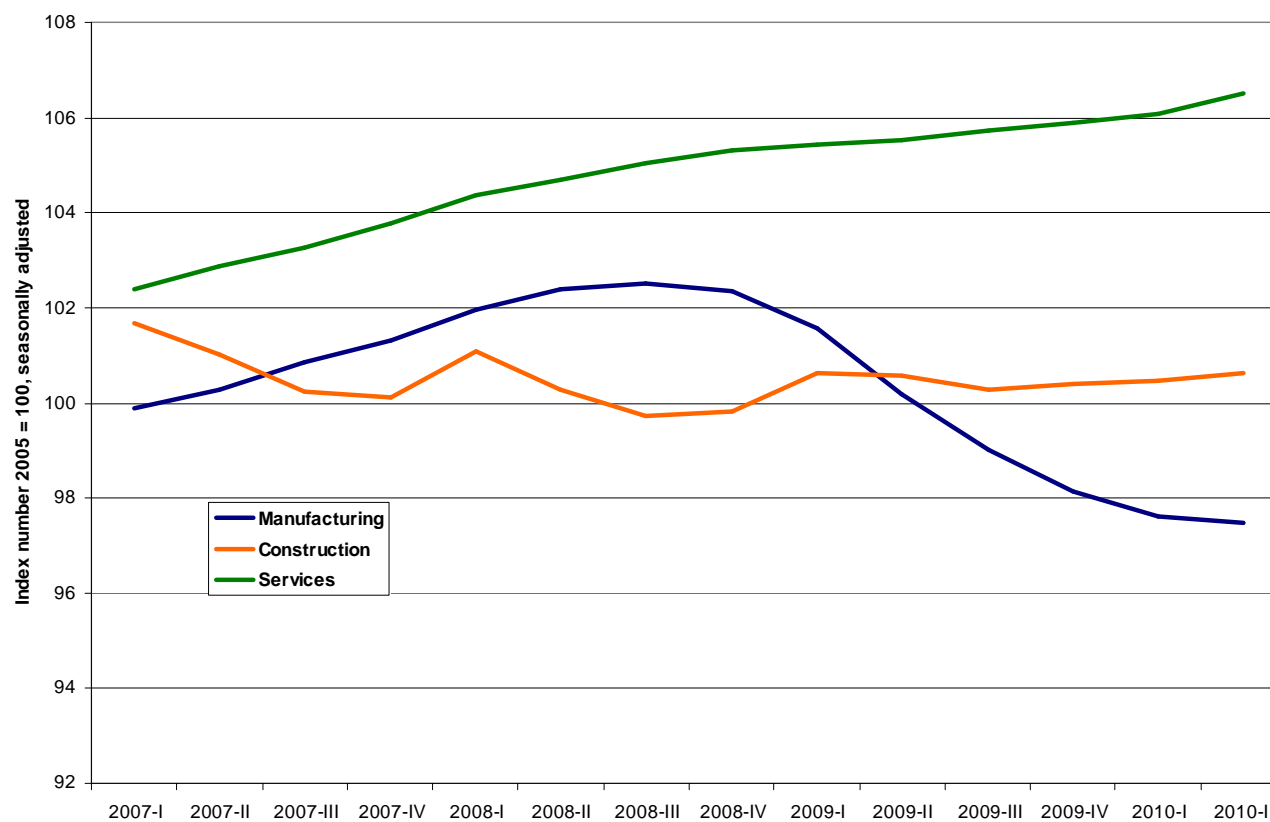
Source: Bureau of Labor Statistics; Bureau of Economic Analysis, Federal Statistical Office; own calculations

The German GDP and its Components



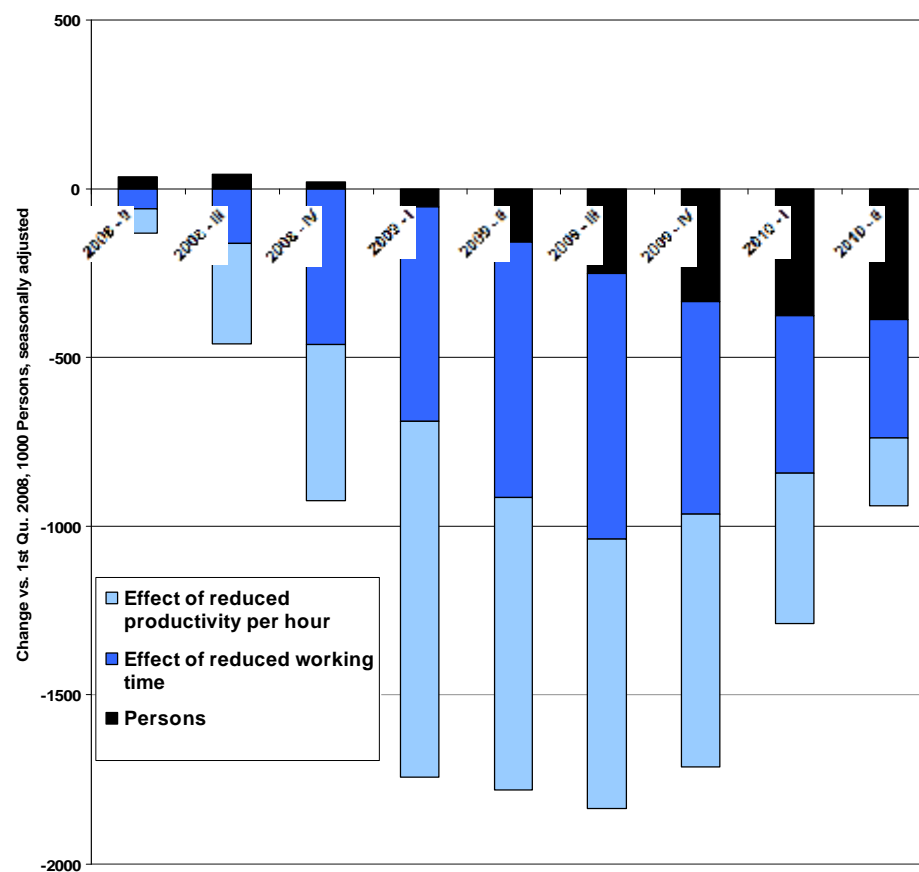
Source: Federal Statistical Office; own calculations .

Employment by Sectors in Germany



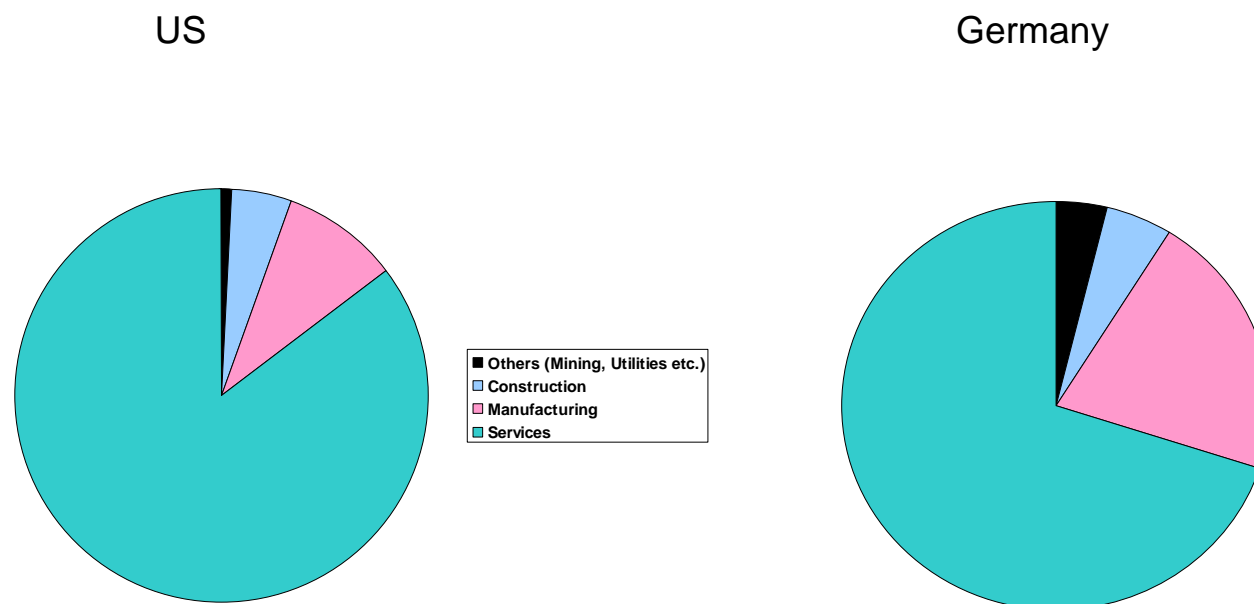
Source: Federal Statistical Office; own calculations

German Manufacturing: Crisis and Employment



Source: Federal Statistical Office; own calculations

Structure of Employment in the US and Germany 2009



Nonfarm Employment.

Source: Bureau of Labor Statistics; Federal Statistical Office; own calculations

The German Miracle

- § Astonishingly mild response of the German labor market to the severe demand shock induced by the crisis
- § Several factors played an important role:
 - Short-time work created scope for buffering capacity within firms
 - Recent labor market reforms and behavior of social partners
 - Firms face a shortage of qualified workers: dismissals would entail a significant loss of firm-specific human capital
- § As a results, firms followed a strategy of massive labor hoarding
- § Crisis mainly affected export-oriented manufacturing firms, which were engines of growth before the crisis. Nearly 50% of manufacturing industry's turnover are export sales.
- § By contrast, comparatively high employment protection legislation, and stimulus packages did not play a major role

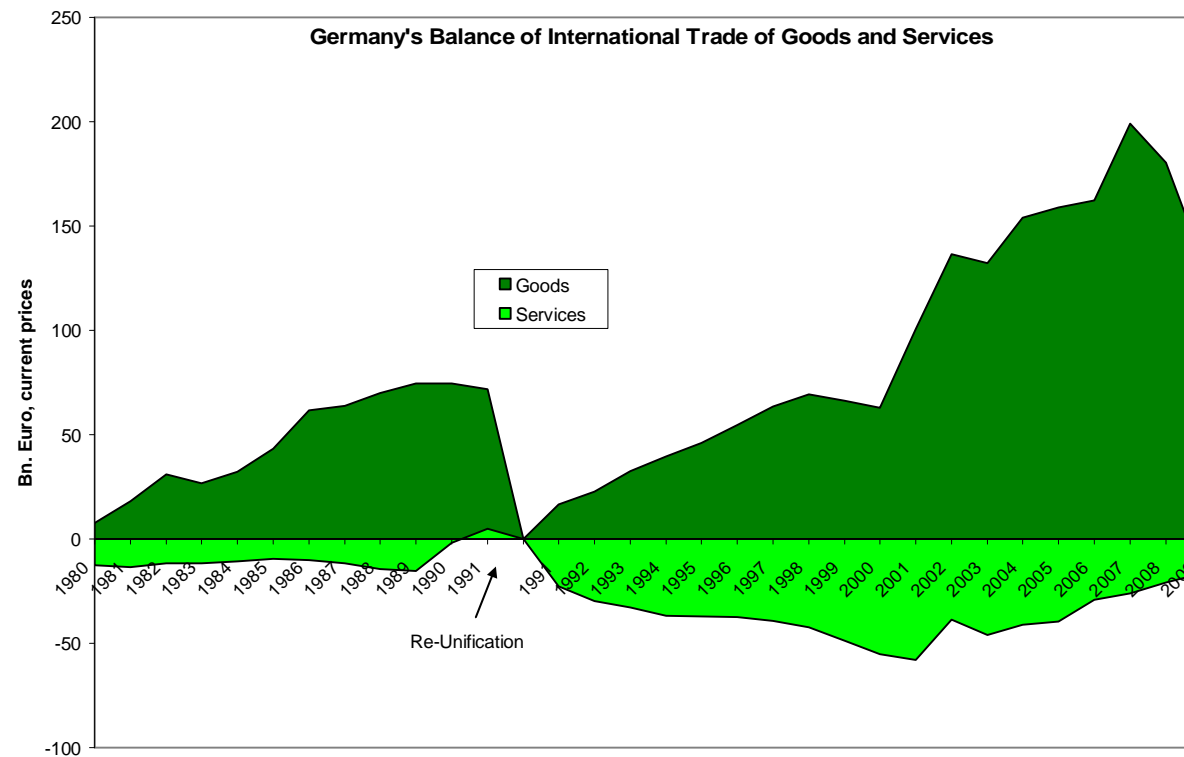
2. Germany's foreign trade

Surplus in Trade of Goods since 1952...



Source: Federal Statistical Office; own calculations

... And Mostly a Lower Deficit in the Trade of Services



Source: Federal Statistical Office; own calculations

Back to the Old Strength



Source: Federal Statistical Office; own calculations

Germany's International Trade: Growth at an ever Decreasing Speed

Averaged Annual Growth Rates of International Trade
%, current prices

	Goods		Services	
	Exports	Imports	Exports	Imports
1970 to 1980	10.7	12.5	8.4	9.4
1980 to 1991	7.5	6.0	9.9	5.5
1991 to 2001	6.4	5.1	6.6	7.7
1999 to 2009	4.9	4.4	6.9	3.0

Source: Federal Statistical Office; own calculations

A Strong Focus on the Internal European Markets



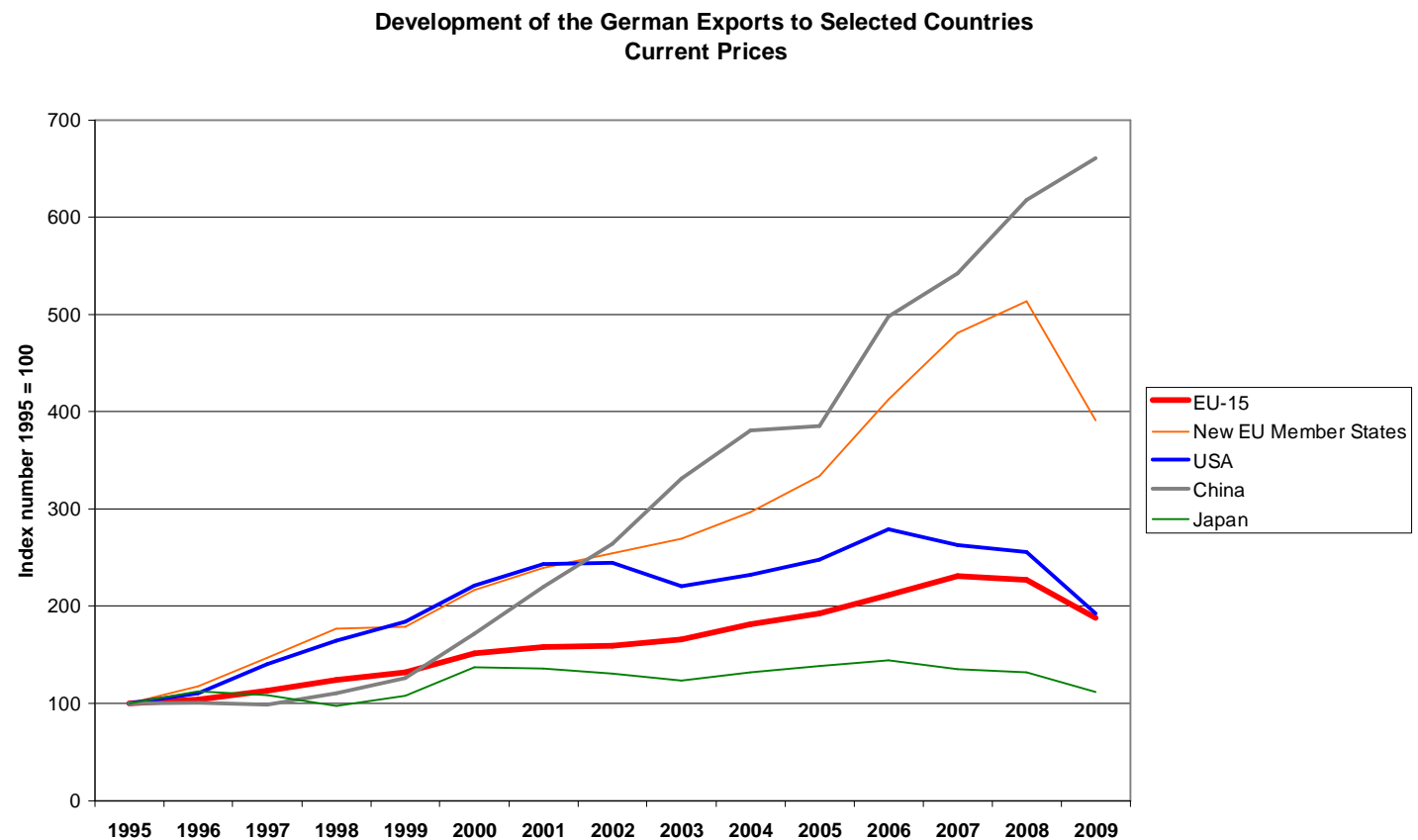
Germany's Top 20 Trade Partners

International Trade - January to July 2010

		Trade Volume Bn Euro	Surplus / Deficit	
			Bn Euro	% of Trade Volume
1	France	88.7	16.8	18.9
2	Netherlands	74.1	-3.3	-4.4
3	China	70.9	-10.9	-15.4
4	USA	62.1	11.6	18.6
5	Italy	58.1	8.3	14.2
6	United Kingdom	55.0	12.6	22.9
7	Austria	49.3	10.9	22.1
8	Belgium	45.9	8.0	17.5
9	Switzerland	42.5	4.5	10.6
10	Poland	36.8	5.3	14.4
11	Spain	33.7	7.0	20.9
12	Russia	32.1	-4.5	-14.1
13	Czech Republic	31.0	-1.7	-5.4
14	Japan	31.0	3.6	-24.8
15	Sweden	18.4	-4.9	19.5
16	Hungary	17.4	-1.2	-7.1
17	Turkey	14.2	3.3	23.0
18	Norway	14.1	-5.8	-41.3
19	Denmark	13.8	1.7	11.9
20	Rep. of Korea	12.6	-1.1	-8.9

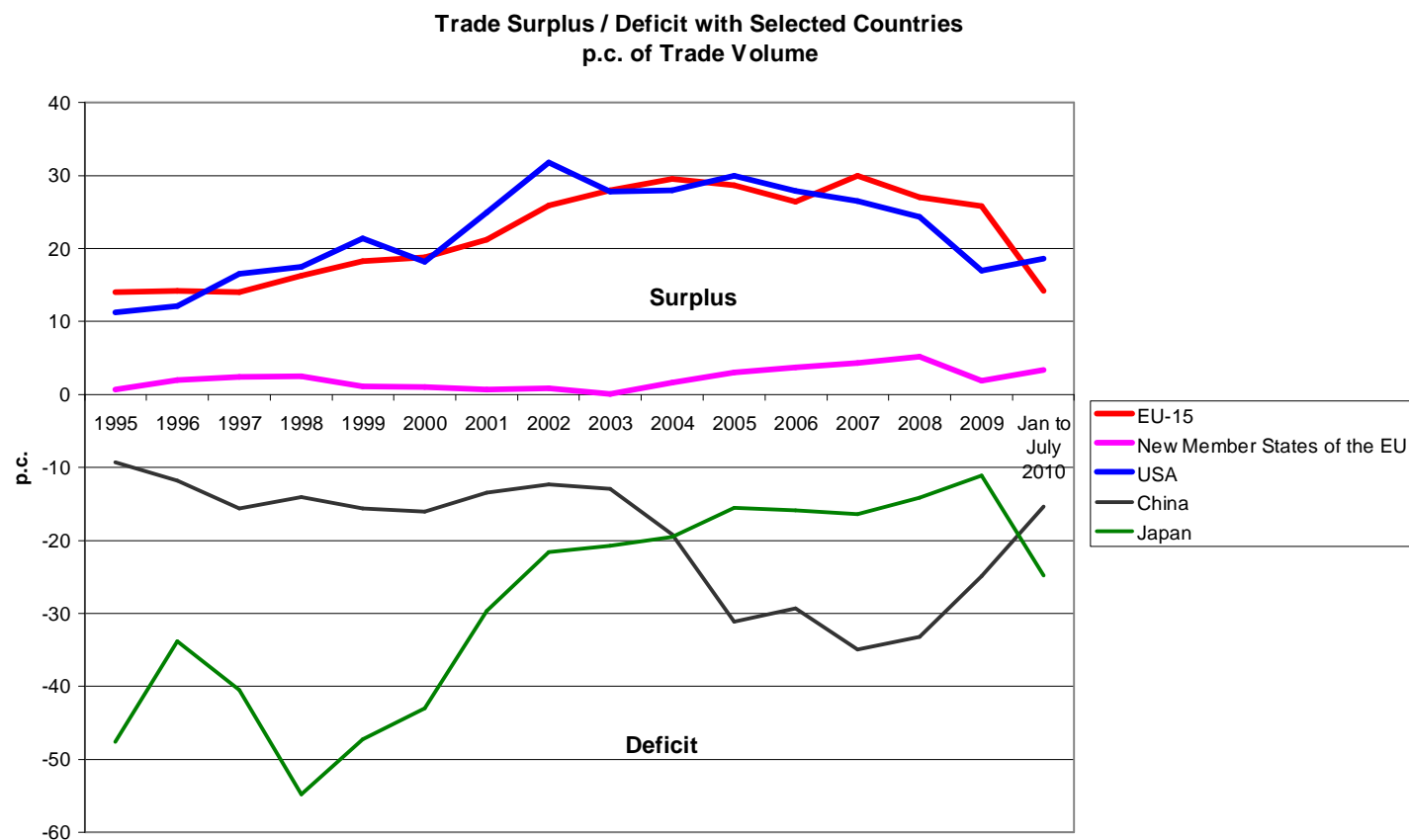
Source: Federal Statistical Office; own calculations

Strong Growth of Exports to China and the New EU Member States



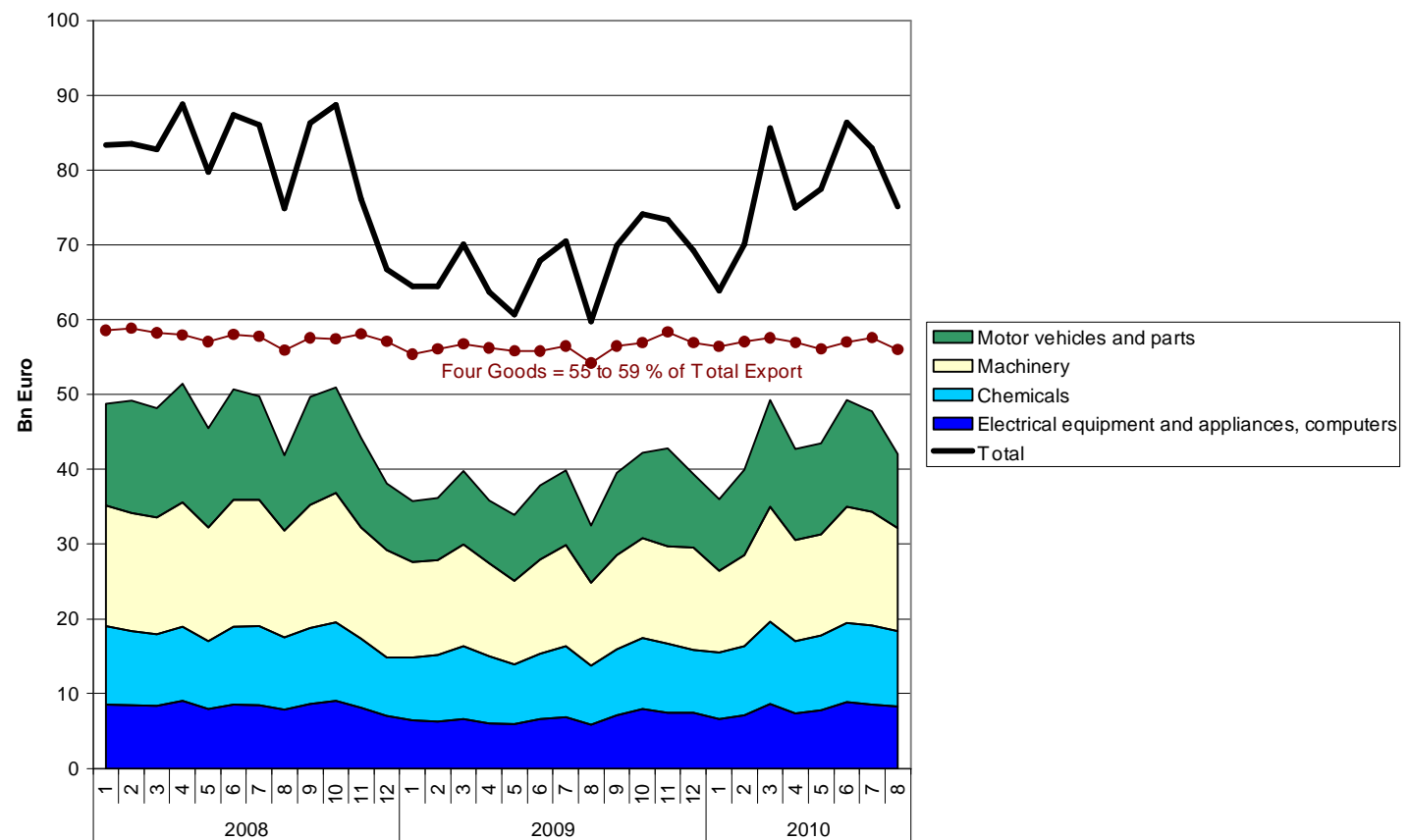
Source: Federal Statistical Office; own calculations

Foreign Trade Developments: Convergence?



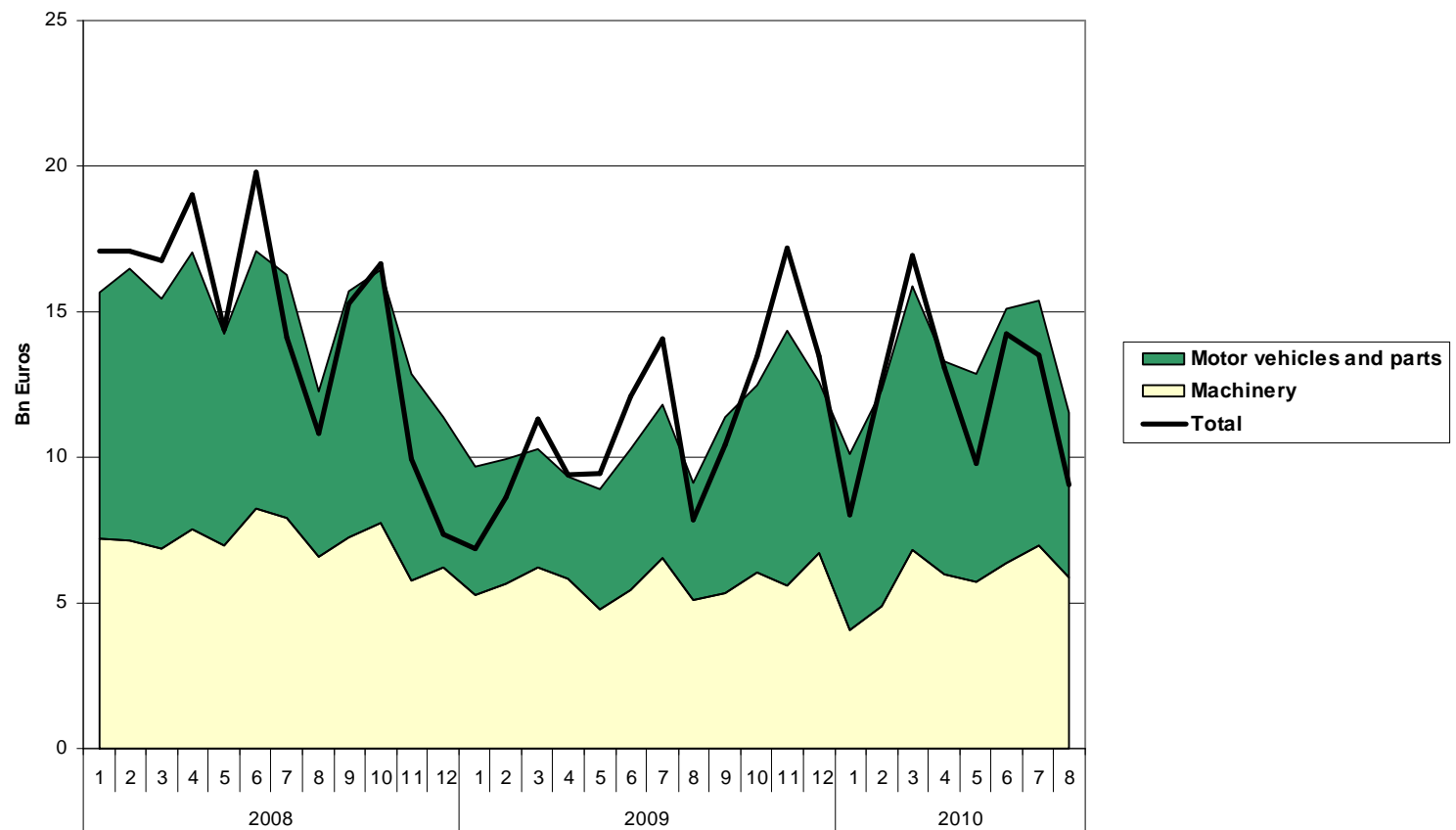
Source: Federal Statistical Office; own calculations

Germany's Export: Top Four Products



Source: Federal Statistical Office; own calculations

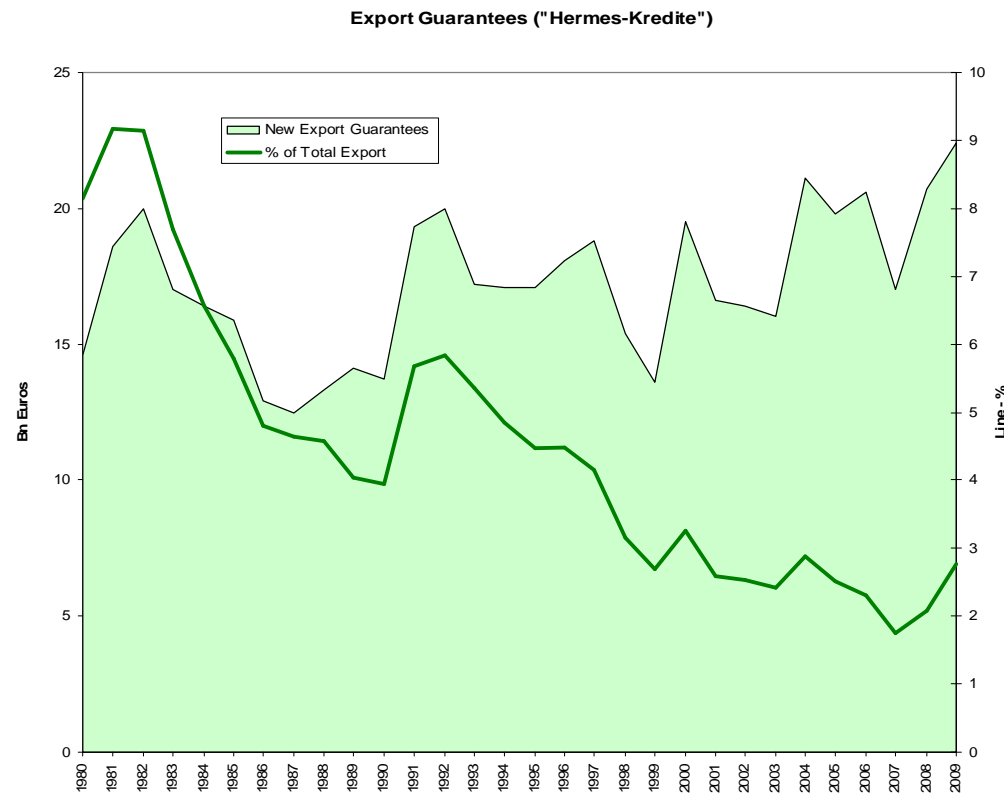
Germany's Trade Surplus: Two Dominant Branches



Source: Federal Statistical Office; own calculations

3. What is stimulating German exports?

Governmental Export Support: Less Important



Source: Federal Minister of Finance

- § Official support measures for export (export guarantees) are less important
- § Some programs to stimulate demand or production of some technologies or new products (aircraft, solar energy etc) are very helpful for special branches. No “officially” measures to support export
- § Increasing competitiveness, but membership of the Eurozone blocks revaluation
- § Orientation towards innovative products (machinery, motor vehicles, chemicals)
- § Many small and middle-sized firms are active in the export business

4. Policy issues

- § Product and process innovations foster exports: true also in Germany
- § German exports are innovative and specialized industrial goods
- § Trade surplus is historical and currently limited to machinery & motor vehicles
- § German surplus is competitive: no reason to downsize
- § A high-wage country needs to invest in education, universities and research to foster innovation
- § This is the only way to keep international competitiveness

Future internal demand will also benefit from an expansion of

- feminization of work (high quality labor supply; rising female working hours)
- health care (aging society)
- household-related services (typically currently in the shadow economy)

Relevant family policy measures are

- early childhood education
- improve child care facilities
- family-friendly and work-friendly taxes

Thank You for Your Interest

