

Flash Economics

14 June 2018 - 685

Germany may be putting itself in danger with its “non-European” strategy

Germany’s strategy can be said to be “non-European” on the basis of:

- The declining weight of Europe in German trade;
- Germany’s investment of its external surpluses outside Europe;
- Germany’s refusal to agree to institutional progress in the euro zone (opposition to federalism, a euro-zone budget, etc.).

This strategy may prove to be extremely dangerous for Germany:

- Trade protectionism, or “deglobalisation”, may reduce trade between continents, and hurt those European countries whose growth strategy consists in exporting to the United States or Asia;
- Germany’s policies (investment outside Europe, opposition to institutional progress in the euro zone) weaken Europe’s growth, whereas a vigorous European market may be needed if it becomes more difficult to access the US or Chinese market.

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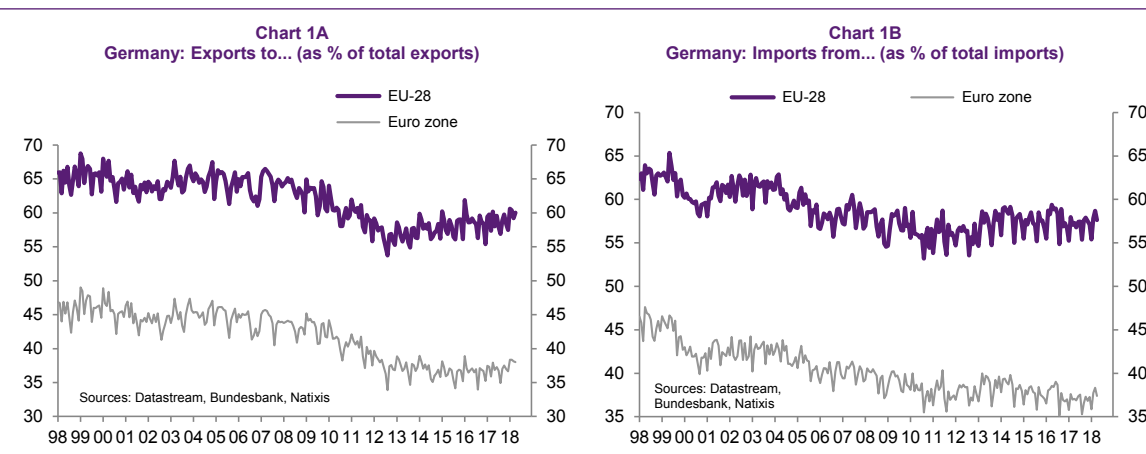
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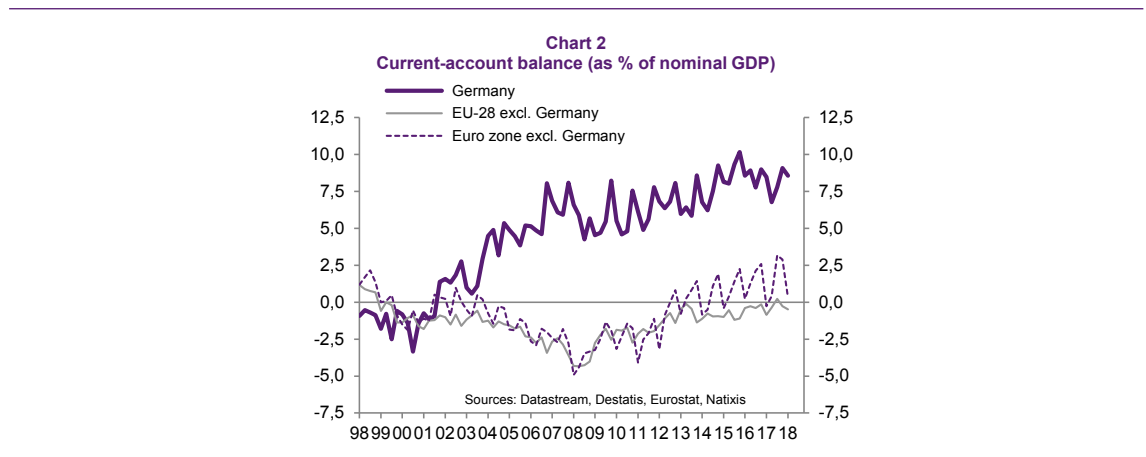
Germany's "non-European" strategy

We believe that Germany is pursuing a non-European strategy, given the fact that:

- The weight of Europe (EU-28 and the euro zone) in Germany's foreign trade is declining (Charts 1A and B);



- Germany invests its external surpluses outside Europe, as shown by the fact that it has an external surplus while the rest of the EU or the euro zone no longer have external deficits (Chart 2);



- Germany is opposed to institutional progress in the euro zone for the time being: federalism (euro-zone budget), European deposit insurance, a euro-zone IMF, etc.

But this non-European strategy could prove very negative for Germany

We are currently seeing:

- Moves towards protectionism in the United States (steel, aluminium, solar cells, maybe cars soon), which will reduce Germany's exports to the United States (Charts 3A and B);

Chart 3A
Germany: Exports to the United States

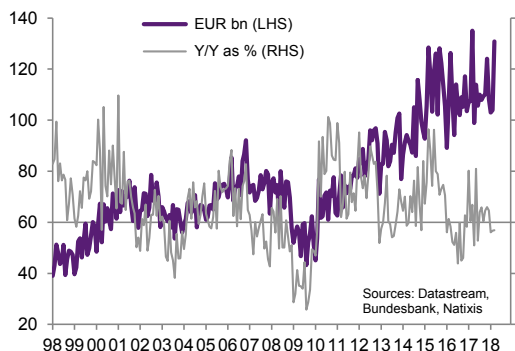
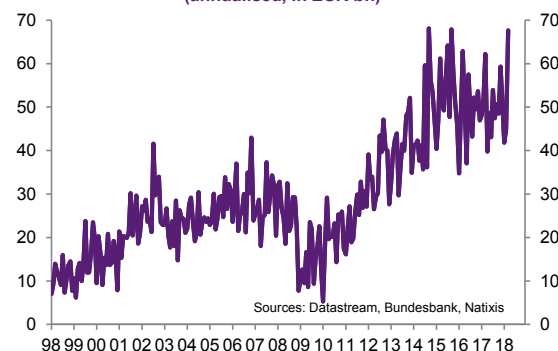


Chart 3B
Germany: Trade balance with the United States (annualised, in EUR bn)



- **China's desire for trade autonomy.** Under its "Made in China 2025" plan, the country aims to no longer depend on other countries for a long list of products. This will **reduce Germany's exports to China (Charts 4A and B).**

Chart 4A
Germany: Exports to China (annualised)

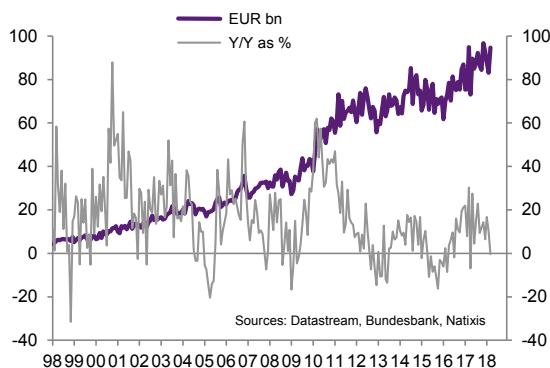
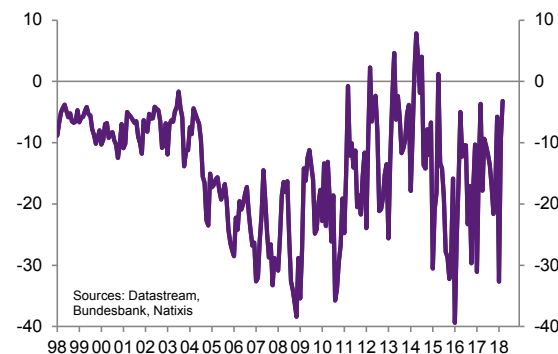


Chart 4B
Germany: Trade balance with China (annualised, in EUR bn)



Germany's strategy of basing its growth on global trade and on trade with the United States and Asia could prove to be dangerous for it if these trade flows decrease under the effect of "trade deglobalisation".

Germany would then need a vigorous European market (Charts 5A and B) to replace its non-European markets.

Chart 5A
EU-28: Real GDP growth (Y/Y as %)

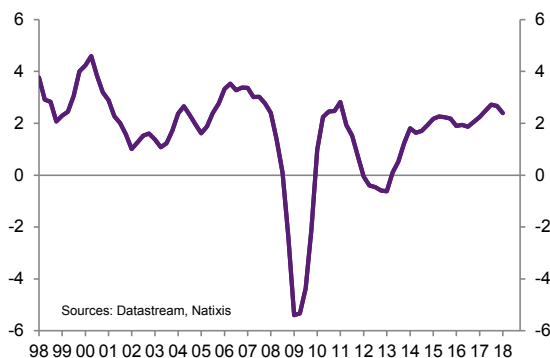
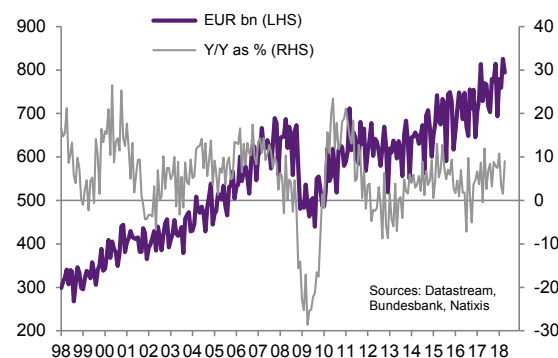


Chart 5B
Germany: Exports to EU-28 (annualised)



But Germany's strategy is weakening Europe's growth, because it:

- Invests its savings surpluses in the rest of the world outside Europe;
- Is opposed to institutional reforms that would strengthen Europe's growth by preventing crises and paving the way for an efficient allocation of savings.

Conclusion: Germany's strategy is dangerous

Germany's strategy is dangerous, because it:

- Bases its growth on trade with the world, outside Europe, in a context of deglobalisation and protectionist tendencies;
- Conducts a policy (investments outside Europe, opposition to necessary institutional reforms in Europe) that weakens the European economy, whereas it may need strong growth in Europe if access to other markets (United States, China) becomes difficult.

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