



Germany no longer the *exportweltmeister*

China has taken over Germany as the world's export champion. But this is indeed a positive development for Germany and the government should actively pursue policies to rebalance the economy even more towards domestic demand. If it were to happen, both the Germans and the other eurozone members would benefit more from the country's economic expansion.

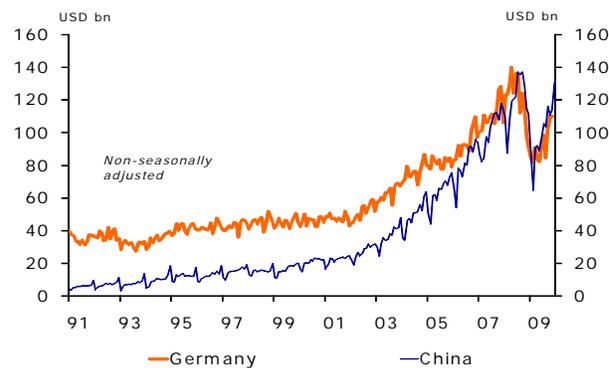
China's export figure for 2009 as a whole (USD 1.2trn) shows that the country has effectively overtaken Germany as the world's export champion. This is, in part, thanks to the China's exchange rate policy, which has given the exporters an extra helping hand in weathering the storm. In any case, this recent development means that Germany can no longer call itself the *exportweltmeister* – the term that was often used by Germans with pride. But the question is whether being the world's export champion was really a good thing for the German economy? Not necessarily. Maintaining the pole position for many years has not come without costs. There are at least two important costs for the country that can be avoided in the future if the government kicks its export addiction and encourages more demand at home.

First, the country's international competitiveness came on the back of very weak wage growth in recent years, which forced the Germans to benefit less from the recent economic expansion. Net real wages have hardly risen since the beginning of the 1990s and even declined between 2004 and 2008. Similarly, inflation-adjusted compensation of employees as a share of national income reached a historic low of 61% in 2007 and 2008. The reason for this development is that German producers typically trim manufacturing costs (i.e. wages) when they face a faltering economy. This process keeps exports keenly priced against other countries but with an undesirable side-effect on private consumption. Consumer spending has dropped to a low of 55% of GDP – well below America's 70%. The second cost of an unbalanced economy is that the country will be more exposed to adverse external shocks (i.e. output will experience more volatility). Nowadays, there is talk that Germany's recovery is faster than the rest of the eurozone countries. But what market participants fail to recognise is that the country was one of the hardest hit in the aftermath of Lehman's collapse. Thus, in level terms, the country is simply catching up with the rest of the region.

Moreover, a more domestic-demand-oriented German economy will positively contribute to the eurozone's recovery and stability. The increased consumption of the country will automatically result in a shrinkage of the current account deficits of the Southern European countries. In other words, the painstaking wage/price adjustments in these countries will be more subdued if Germany demands more of their goods. Logically, this will enhance the credibility of the euro, which is highly desirable for the German government.

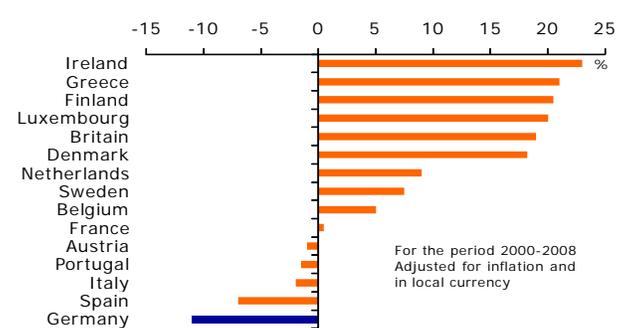
Thus, the rebalancing of the economy towards domestic demand and away from exports will not only be beneficial for the country itself but it will also help the eurozone economy as a whole. This can be achieved by (i) allowing wages to increase more and (ii) stimulating the more labor-intensive service sector, which would create more jobs. It is time for the government to pursue the right policies.

Figure 1: Nominal exports



Source: Reuters EcoWin

Figure 2: Compensation per employee



Source: DIW Berlin



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