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To the point!

Cross-Asset- and Strategy-Research

A more fragmented world ahead: is Germany ready?

Germany exposed through its export-driven growth model

Russia's brutal invasion of Ukraine is a shrill wake-up call. In terms of security policy, we are facing the greatest global danger since the Cuban Missile Crisis sixty years ago. The comfy period in world politics since the fall of the Berlin Wall has now finally come to an end.

Even before Russia's attack, the warning signals were accumulating. In China, President Xi has been on a collision course with America for years. In the U.S. itself, an egomaniacal populist ruled and deepened the division of the society of our most important security partner with gusto. The EU lost one of its most important members. Within the remaining EU, there is bitter controversy over what were traditionally sacrosanct core values. Democratic values are falling by the wayside in more and more emerging countries.

Everywhere you look: Cooperative multilateralism is in retreat. A multipolar world of competing and sometimes revanchist blocs is on the rise. Truly a turning point. And not for the better.

Berlin reacts, slowly, but then with a vengeance

The German government recognized the escalating seriousness of the situation, albeit somewhat belatedly, and reacted robustly. Chancellor Scholz's speech last Sunday was a clear departure from the previous hesitancy to act and a strong commitment to propping up defensive capabilities of Europe and Germany. This turnaround deserves respect.

The substantial investment in Germany's armed forces of at least €100 billion will be pre-financed in 2022, bypassing the debt brake, and put into a special fund. This year, the debt rule is still suspended for corona reasons. So many things are possible.



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The future will be more multipolar and less multilateral.

That's a good thing. Defense and other government tasks such as infrastructure, education and the energy transition must no longer be sacrificed to a fiscal rule that was conceived in a fundamentally different context.

The economy must also face up to realities

Few countries have benefited as much from open markets and the multilateral world trade system as Germany. The introduction of the euro and deepening intra-European trade has spurred the export-driven growth model further.

This external orientation is now becoming a risk. Globally, world trade has stagnated since the financial crisis. Foreign direct investment is declining. Germany is one of the few countries that has continued to merrily expand its export share since then (see chart).

With fragmentation and protectionism on the rise, it is becoming increasingly difficult to continue this strategy. Much of what we are currently exporting so successfully to China, for example, should in future come from domestic production, if the leadership in Beijing gets its wish. It usually does.

This is not an appeal for economic autarky a la North Korea. On the contrary, the international division of labor will continue to benefit Germany in the future. But we should set out to reduce our vulnerabilities. The supply chain crisis has made this clear for months. The dependence on Russian gas and metals demonstrates this even more drastically. It's unthinkable if a geopolitical adventure by Beijing should cut us off from Taiwanese chips!

Politicians have recognized the weaknesses and reacted to the change of times. Companies will have to do the same.

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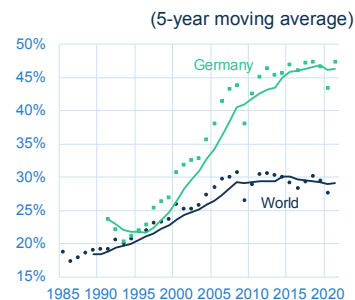
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Exports (in % of GDP): Germany and worldwide



Sources: Destatis, www.macrotrends.net

As globalisation stagnates, Germany's export model is at risk
