

»» Emerging markets have become more important for Germany's foreign trade



No. 141, 14 August 2017

Author: Dr Katrin Ullrich, phone +49 69 7431-9791, katrin.ullrich@kfw.de

Ever since the US president's allegation that Germany's export surplus with the USA was unfair, the level of Germany's current account balance has come under increased scrutiny again. It had already been criticised before, however, in the context of imbalances within the euro area.

External trade is responsible for most of the current account surplus (see also KfW Research, Focus on Economics No. 178). The goods account was already in surplus during the 1990s while the current account balance was negative, rising from just under 1 % of GDP in 1991 to 8.1 % in 2016. Germany's degree of openness (the sum of exports and imports in relation to GDP) grew from 38 % in 1995 to around 70 % in the second half of the 2000s. That ratio, however, has remained on this level since the recovery after the financial and economic crisis, if not earlier. The weakness of global trade has been felt in Germany as well.

The China effect

While global value chains were developing and strengthening both Germany's and global trade during the 2000s, China's integration into the global economy occurred at the same time. The importance of emerging

markets for the global economy increased dramatically, and today the eight major emerging economies (BRIICS+ MX+TK) combine nearly 40 % of global economic output.

China's importance for German exports rose from a share of 0.3 % of GDP in 1995 to 2.5 % 21 years later. Import growth was even more dynamic, rising from 0.4 % to around 3 % during the same period. Thus, China is driving a large portion of the growth in export and import share which the upper-middle income countries¹ have gained. It has to be kept in mind, however, that China evolved from a low-income country to an upper-middle income country in the same period. But 25 other countries have also joined this group.

More emerging economies, more intensive trade relations

The fact that the group of higher-income countries has become more important for Germany's foreign trade is therefore due to a higher number of countries on the one hand. On the other hand, average trade activity per country has increased – more significantly for middle income countries than for high-income countries. The countries that ascended to the first group were precisely the ones

with which Germany most intensified its foreign trade relations, including Turkey, Russia and Romania, besides China. Or they already belonged to the group of upper-middle income countries but intensified their economic relations with Germany significantly, as is the case of Mexico.

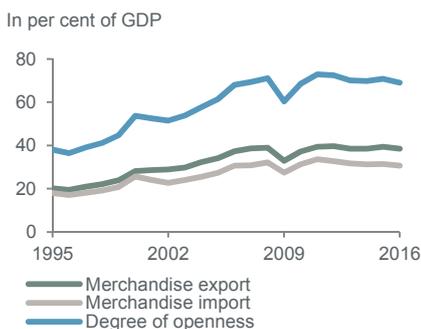
The upper-middle income countries were able to expand their share of German goods exports at the expense of all other groups of countries. The group of high-income countries, however, remains by far the most important market for Germany's foreign trade.

Outlook

The outlook for external trade is quite solid. Imports are benefiting from strong domestic demand as a driver of further expansion in Germany. Exports are receiving positive impetus from the global economic. Higher growth rates are being expected for developing and emerging economies in particular, after the year 2016 saw the lowest rate of global economic growth since the global recession of 2009. ■

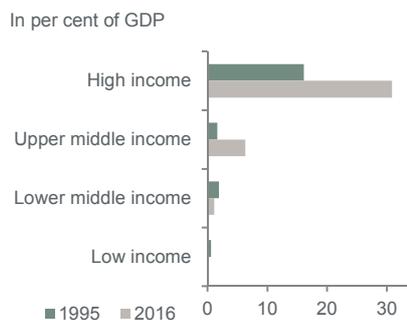
¹ Classification of country groups by per-capita income according to the World Bank.

Figure 1: Germany's external trade



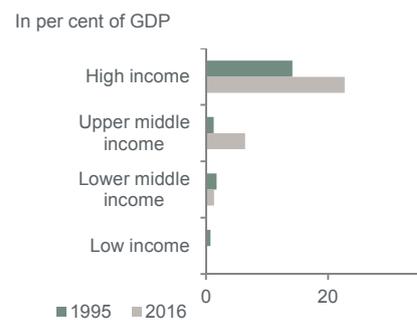
Source: UNCTAD, own calculations

Figure 2: Exports by groups of countries



Source: UNCTAD, own calculations

Figure 3: Imports by groups of countries



Source: UNCTAD, own calculations