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Germany is defending its exports-based model of economic development

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The summit of the world's 20 largest economies ended on 12 November. During the summit, the United States accused China, Germany and Japan of contribution to the increase of global trade imbalances due to their excessive focus on exports and their negligence of domestic demand. As a consequence, the USA proposed the establishment of the mechanism limitting trade surpluses and deficits. Germany was the main country opposing this proposal, seeing it as an attempt to introduce elements of a planned economy. According to German politicians, the trade imbalances are merely an effect of the operation of market mechanisms, whereas the key threats for the global economy equlibrium are the excessive budget deficits of most countries and the growing temptations to use protectionist measures across the world. Germany is unwilling to enter into any discussion regarding its pro-export economic model which could lead to the conclusion that , not only excessive public debts, but also the global trade imbalances are sources of the global economic crisis.

German economy is dependent on exports

The share of exports in Germany's GDP has been continuously increasing (since 2005, exports have accounted for over 40% of the country's GDP). At the same time, domestic demand in Germany has been growing for several years to a limited extent (at a rate of 1–3%). The key reasons behind this stagnation in internal consumption are: the ageing of German society and sluggish wage growth. The disproportion between the value of the goods and services exported from Germany and the value of those imported to the country has been accumulating over several years. Germany has the second largest trade surplus after China. In practice this means that the German economy strongly relies on the situation of the global economy.

In 2009, Germany had a trade surplus worth approximately US$163 billion (4.9% of GDP). The federal government has for a long time been supporting the pro-export model of the German economy by offering numerous instruments for boosting exports, such as export loans and guarantees. One consequence of this model is capital inflow (mainly of foreign currency) to Germany, encouraging German financial institutions to invest capital abroad, including in high-risk bonds issued by other countries. The effects of the present economic policy could be seen last year, when Germany, along with Italy and Japan, sustained the largest (5 per cent) fall in GDP among the world's major economies. This was a

consequence of the worsening situation on the global market, entailing an 18% slump in German exports. A significant fall in production last year is also one of the key causes of the present economic recovery; this year Germany's GDP is predicted to increase by 3.4%. Nevertheless, production will return to pre-crisis levels only in 2011.

Germany is firmly defending its economic model

The recent financial crisis gave rise to a discussion regarding its causes and the directions of change in the global economic order. Proposals for change have been discussed inside various expert and political groups, such as the G20 meetings or the forum of eurozone member states. The International Monetary Fund has especially emphasised the issue of the global trade imbalances. This year the dispute between exporters and importers has sharpened. In March, the German economic model was criticised by the French minister of finance, Christine Lagarde. The need to make the German economy more balanced has also been emphasised by the International Monetary Fund's Managing Director Dominique Strauss-Kahn. Thus the dispute during the G20 was part of the debate on the trade imbalances and was raised by the USA, which in 2009 had the largest trade deficit in the world, reaching US$378 billion (2.6% of GDP). Americans include China, Japan and Germany in a list of countries they believe are overly dependent on exports and partly put the blame for the US public debt on exporter countries. The US Secretary of the Treasury, Timothy Geithner, put forward a proposal at the G20 summit to restrict the trade imbalances (both surpluses and deficits) in national economies to 4% of GDP. The body in charge of coordinating such actions would be the IMF.
The US proposal made German politicians especially indignant. Chancellor Angela Merkel firmly rejected it and insisted that the strong position of German exports resulted from the high level of German goods competitiveness. The US proposals were also criticised by other representatives of the German federal government. Special attention should be paid to the sharp rhetoric used by the German finance minister, Wolfgang Sch@uble, who criticised the USA for having breached the provisions of previous G20 summits and pumping additional money into its economy; several weeks earlier the US Federal Reserve announced its decision to buy US$600 billion worth bonds from the US government , what may weaken the dollar. In his opinion, such moves proved that US monetary policy was helpless and that there was no vision for overcoming the crisis. A similar view was expressed by the German economy minister, Rainer Brüderle, who suggested that the actions taken most recently by the USA were a kind of currency manipulation, a practice for which the USA had been criticising China.

Conclusions

1. It seems that there was an underlying reason behind the German criticism of the USA rather than simply a desire to express strong opposition to the US proposal. Germany wanted above all to prove that their vision of economic policy was proper. German politicians believe that the governments of the world's largest economies should focus on reduction of budget deficits, even at the expense of slower economic recovery, so as to

bring trust back to financial markets and avoid bankruptcies of countries with high debts, a risk some eurozone member states have faced, for example Greece in the recent past and Ireland at present. Thus, Germany wishes to maintain the existing structure of global trade, which is beneficial for it, and at the same time to impose stricter supervision over financial institutions and the finances of excessively indebted countries, which in Germany's opinion are responsible for the crisis.

2. Germany is afraid that actions taken by the USA, including the US debt increase, will cause higher inflation across the globe. It also fears a lowered US dollar exchange rate may be used as a tool in a currency war, which would adversely affect global trade and the German economy. The German government is also afraid that the US implementation of quantitative easing is aimed at weakening of the dollar and may lead to intensification of competition in global trade.

3. The difference in approach to economic issues may have an increasingly detrimental effect on relations between Germany and the USA. If the economic situation of EU member states deteriorates, the dispute over the imbalance in trade may also be resumed at the eurozone forum. Germany has a high trade surplus, while France, Spain and Portugal among other countries, still have trade deficits. The European Commission has also been watching this issue, seeing it as one of the causes of instability in the eurozone and has been is appealing for a stronger coordination of the economic policy between the member states, including in the area of foreign trade.