

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Economics**



**Bachelor Thesis Abstract**

**The impact of International Trade on the Economic Growth of Germany**

**Jakhongir Madiev**

**Supervisor: Ing. Mansoor Maitah, Ph.D, Ph.D. et Ph.D.**

© 2019 CULS Prague

# The impact of International Trade on the Economic Growth of Germany

---

## **Summary:**

This thesis is aimed to develop a better understanding of how Germany has come to establish one of the most powerful economies in the world after the wartime, recession, and reunification with its Eastern part and boost the economy with the international trade and new trade agreements. From EU and WTO to bilateral partnerships, Germany has been consistently increasing its exports and imports. It is no surprise that one of the key roles in German economy growth is played by its exporting and importing activity. This thesis' objective is to understand how the international trade contributes to sustainable economic growth of Germany. The short conclusion is that international trade has greatly helped German economy to establish and maintain its positions, but the finding of the thesis also show just how large German economy is dependant on foreign trade and the extreme numbers call for reconsidering the idea of relying solely on foreign demand.

**Key words:** Germany, GDP, international trade, export, import, regression, trade surplus, economic growth, economic development.

## **Objectives and Methodology:**

### **Objectives:**

The main objective of this thesis is to determine how the international trade contributes to sustainable economic growth of Germany which is often positioned among the five most economically advanced countries in the world. The assumption derived from the literature review is that the expanding foreign trade of the post-Berlin Wall Germany is one of the major reasons behind the country's drastic economic growth. Drawing on the example of Germany, the following thesis provides an explanation as to why foreign trade is a crucial, if not a fundamental safeguard to the economic prosperity of developed, industrialized countries. It can be further used as a theoretical framework for future macroeconomic research on post-industrial economies.

### **Methodology:**

The theoretical part will consist of a literature review of economic growth theory and its dependence on foreign trade in the context of the 21st century. To provide an overview of the current economic position of Germany and the role of foreign trade in its development, secondary data from public sources, OECD and Observatory of Economic Complexity (OEC) being among them, will be analyzed. It will then be systemized by quantitative statistical methods such as trend and regression analyses in the practical part, accounting for GDP changes, memberships in international trade organizations, and import and export rates as per the theoretical framework. It will then be interpreted to showcase the intercorrelation between the level and scope of international trade that Germany carries with other countries and the trend of its domestic economic growth. To fulfill the objective of the thesis, all the conclusions will be put together to support or reject the main thesis assumption that is that the expanding foreign trade of the post-Berlin Wall Germany is one of the major reasons behind country's economic growth.

### **Conclusion:**

Over the past couple decades, Germany has managed to turn from an economy in progress into an absolute leader of the EU economy. If compared to other European countries, the German economy stands out in the best light. In August 2018, the number of unemployed people in the country decreased to a minimum level since its reunification and amounted to 2.545 million people. The unemployment rate in Germany fell to 5.7% when the EU average unemployment rate in the same reporting period was 7.8% (WITS, 2018).

The country has achieved outstanding success in the field of foreign trade. Despite its rather modest size, Germany has the world's largest current account (trade) surplus in the world, estimated at 266 billion EUR in 2016, the peak value since 1991. Last year, exports from Germany rose to a historical record of 1.207 billion EUR, and the balance of foreign trade of Germany rose to a historical record level of 252.9 billion EUR (WITS, 2018). The trend seems to continue and will most likely be increase in 2019, too.

After the fall of the Berlin War, Germany has spent a decade recovering and then began developing its international relations in hopes to boost the economy. EU integration and WTO membership have been crucial to reducing the trade barriers and signified an increase in economic growth. Export mostly goes to the U.S., China, and EU countries (France, UK, Italy, Austria, Poland) and is in categories of chemicals, food products, and machinery and equipment. The pattern of imports in terms of countries is very similar — top three importers to Germany as of 2019 are China, France, and the U.S. followed by other EU countries. Natural gas, oil and

agriculture products are the most important. Given a huge amount of trade channels with EU countries, Germany is currently benefiting from lack of tariffs on their production. Similarly, bilateral agreements with the U.S. and China, along with WTO partnership, guarantee Germany a sustainable sales market.

It is no surprise that one of the key roles in German economy growth is played by its exporting and importing activity. This thesis' objective was to understand how the international trade contributes to sustainable economic growth of Germany. The short conclusion is that international trade has greatly helped German economy to establish and maintain its positions, but the finding of the thesis also show just how large German economy is dependant on foreign trade and the extreme numbers call for reconsidering the idea of relying on foreign demand.

From the trend analysis of correlation between foreign trade (imports and exports) and economic development we established that all three follow an almost identical trend. From the regression model we can conclude the following. Germany's GDP is highly correlated and dependent on its exports and imports and it retains strong risks regarding crisis of overproduction and low internal purchasing power of the population, since, even, with a zero level of production of goods and services during the year (GDP), Germany would have a positive trade balance. While the German authorities claim that the high trade balance is simply a reflection of a strong economy, not all share that opinion — current president of the United States, Donald Trump, for example, has voiced his concern on Germany's dependance on outside demand for goods and services (Deutsche Welle, 2018). In fact, he is not the only one concerned with the trade surplus of Germany — International Monetary Fund has also requested Germany to regulate and reduce its trade surplus because it poses a threat of economic tension and disruption of currency price adjustments. A requirement to not strangle domestic demand is outlined in EU legislation and this has been brought up to Germany on multiple occasions — since the 1990s, Germany has artificially restrained wage growth, which limits domestic consumption and, accordingly, imports. (Deutsche Welle, 2018). Such economic imbalance caused by trade surplus can be reduced if Germany boosts domestic demand instead of relying on foreign one, increases government spendings, raises the wages, and invests in infrastructure. This is an especially interesting finding — although the standard of living in Germany is high, it differs only slightly from that, for example, in France or other EU neighbors, while the German economy is much more efficient and generates a huge trade surplus.

While Germany has clearly benefited from its international trade over the years and it has been a crucial part in the boost of German economy and post-war restoration, such trend will

probably not stand strong in the current constantly changing economic arena. The export orientation of the German economy is so great that any turmoil on world markets can cause irreparable damage to Germany. This is a yet another argument in favor of stimulating domestic demand.

#### References:

1. "WORLD TRADE ORGANIZATION." *WTO | Trade Statistics - World Trade Statistical Review 2017*, [www.wto.org/english/thewto\\_e/countries\\_e/germany\\_e.htm](http://www.wto.org/english/thewto_e/countries_e/germany_e.htm), accessed on 21.12.2018.
2. "UN Comtrade | International Trade Statistics Database." *United Nations*, United Nations, [comtrade.un.org/](http://comtrade.un.org/).
3. Bastable, C. F. *On Some Applications of the Theory of International Trade*. Publisher Not Identified, 1889.
4. "Germany Trade Summary." *World Integrated Trade Solution (WITS) | Data on Export, Import, Tariff, NTM*, [wits.worldbank.org/CountryProfile/en/Country/DEU/Year/LTST/Summarytext](http://wits.worldbank.org/CountryProfile/en/Country/DEU/Year/LTST/Summarytext).
5. "European Commission Directorate-General for Trade." *Together Against Trafficking in Human Beings*, [ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/](http://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/), accessed on 17.12.2018.
6. Caleb, Gwaindepi, et al. "Relationship between International Trade and Economic Growth: A Cointegration Analysis for Zimbabwe." *Mediterranean Journal of Social Sciences*, 2014, doi:10.5901/mjss.2014.v5n20p621.