Chapter 8
Germany's External Trade Development:
A Case of the German Automotive Industry

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ABSTRACT

The automobile industry is the single largest industry in Germany. Demand for German car brands in foreign countries, including China, is strong as German car manufacturers enjoy reputation of high quality products. In recent years, several factors showed an effect on Germany's external trade development through a shift in the automobile sector. Globalization had an effect on external trade as developing countries try to push many exporting countries, including Germany, to manufacture locally. This is an ongoing trend that is supported by lower labor costs in developing countries. Boosting other sectors is one strategy to be less dependent on these developments and the focus on electric vehicles could ensure further exports. Economic growth in foreign countries remains one of the big opportunities for Germany's external trade development. However, it is important to take potential challenges and barriers into consideration, including environmentalism, strong competition, and new trends and business models that lead to less car ownership.

INTRODUCTION

Germany is known for its strong economy. One of the reasons for that is the *German Mittelstand*, small and medium-sized enterprises that make up for 99 percent of German firms and contribute to 52 percent of total economic output (BMWi, 2013). However, the single largest industry in Germany is the automotive industry (GTAI, 2015). With sales of EUR 384 billion in 2014, which account for around 20 percent of German industry revenue, and a workforce of 775,000 employers in the same year, automotive companies are important for the country. A great amount of the production in the automobile industry

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is exported to other countries. While EUR 133 billion was generated in the domestic market in 2014, EUR 251 billion of German passenger car and light commercial vehicle revenue was generated in foreign markets. For both the domestic and foreign market, revenue increased in 2014 over 2013 by seven and five percent, respectively. In a global perspective, every fifth car was made by a German original equipment manufacturer (OEM). One reason why German cars are so strong in the global market could be related to German car manufacturers' research and development (R&D) focus. With EUR 17.6 billion in 2014, R&D expenditure of German OEMs account for over 30 percent in the worldwide automotive industry. Automotive is Germany's most innovative sector and is at the same time responsible for over half of Europe's R&D growth.

Even though Germany's automobile industry is in a strong global position, a focus on continuous innovative activity is especially important now as the overall automotive ecosystem is expected to change. Consumers look for comprehensive mobility experience, new technologies will offer more safety and convenience and vehicles will become more intelligent. Further globalization, integration, and collaboration will increase the complexity that automobile companies have to face (IBM, 2008).

To stay competitive on a worldwide perspective, companies and governments have to work together to set the basis for policies that support, not hinder, innovative business activities. Even further, as exports are so important for Germany's economy, automobile brands have to stay innovative and defend their leading position in global markets to remain competitive against new competitors that might enter the automobile industry.

ANALYSIS

The following paper is going to analyze Germany's external trade development and current trade posture in the automotive sector. The approach is the following: at first, the effects of globalization on the German automotive industry and how the strategies of German car manufacturers changed in response will be analyzed. Such strategies are also known as internationalization strategies. Afterwards, the development of German car brands and their expansion to other countries is explored in greater detail. What follows is a comprehensive breakdown of the existing problems that the German automotive industry is currently facing with regard to exports. This will then be complemented by a description of trade policies that Germany goes by and how the German government has intervened in the market in the past. Such interventions can also stem from foreign countries. Lastly, the opportunities, challenges and barriers of German exports will be evaluated and finally a conclusion summarizes the findings and provides an outlook.

Globalization Philosophy

Based on the fact, automotive industry has enormously changed during the past two decades due to globalization, especially the organization of its production. To be specific, the globalization allows the automotive industry not only to be the fragmentation of international production in its industry, but also to be associated with an increase of trade in intermediate goods. Consequently, automotive firms are able to organize their activities in global value chains to have the best profit and outcome, as well as production to reduce the production cost through emerging countries across the world. As a result, the