

Brief analysis - Spring 2022

The world after

What is at stake for Germany's economy if the world splits into blocs

As of may 9 2022*



Source: iStock – NiseriN

* The results of the short analysis were first published in the Handelsblatt on May 6, 2022.

1 Background of the analysis

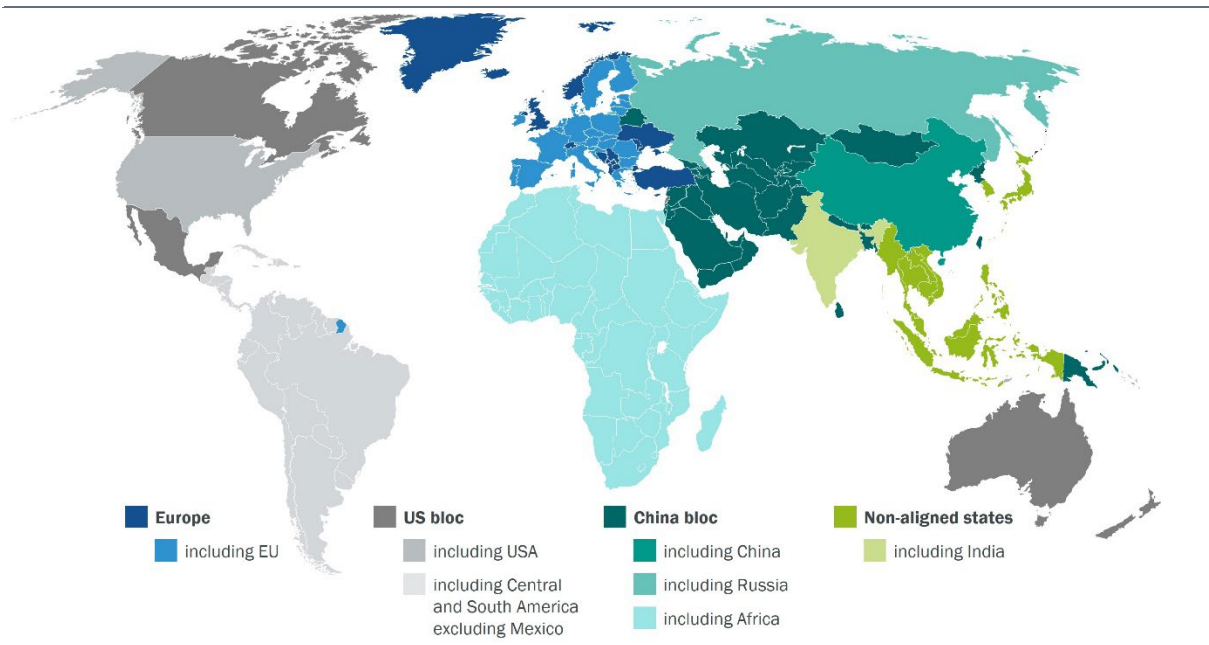
For some time now, an end to the globalisation that we have known for decades has started to appear. For more than ten years, the most important indicators – trade, investments, capital flows – have been moving sideways (see, for example, Germany's Business Model | Prognos). Not least in light of Russia's aggressive war against Ukraine, the danger that the world economy could split into different blocs has become increasingly clear – with strong economic exchange within these regions, but much less intensive relations between them.

Regionalisation not globalisation

As one of the most closely linked (larger) countries to the world economy, such a scenario leaves Germany with a lot at stake. Our short analysis shows **how dependent Germany is on individual regions of the world on different economic levels.**

To clarify these dependencies, we look at the interrelations of Germany in ten categories. These include, for example, how high the shares of import and export or employment are, that depend on the world regions defined below. These are divided according to geographical and geopolitical characteristics (Figure 1):

Figure 1: The individual world regions of the study



- All **European** countries are part of the EU or the rest of Europe. The only exception is Belarus, which is part of the China bloc. The United Kingdom, Turkey, and Ukraine are also assigned to the rest of Europe.
- The **United States of America** is analysed separately.
- The United States is also part of the **US bloc**, which also includes all other countries on the American continent, as well as Australia, New Zealand, and Israel.
- Like the US, **China** and **Russia** are each considered to be individual economies. Though Russia is generally less economically influential than many other countries. However, due to the supply of raw materials, Germany has special economic relations with Russia.
- China is also the largest country of the **China bloc**. This bloc also includes Russia and a large proportion of the other Asian countries (for exceptions see next item) as well as the countries of Africa.
- **Japan, South Korea**, and the **ASEAN members** (Brunei, Indonesia, Cambodia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam) form a separate region of **nonaligned states**. This classification takes into account that many of these countries are within China's sphere of influence due to their geographical proximity, but that they are politically closer to the USA and other Western countries.
- Heavily populated India, whose geopolitical orientation cannot be clearly assigned to East or West, is also counted among the non-aligned states.

2 Summary of the results

The main results of the analysis are shown in **Figure 2**. It is clear that Germany's **links with Europe** dominate international links in almost all of the categories considered. This applies in particular to the area of international investment activities.

US and China bloc: Germany is dependent on both

Germany's dependence on the US and China blocs is similarly pronounced in many categories. Significant exceptions are the categories of **investment and research, in which the exchange with the US bloc predominates**. For contrast, Germany is **generally more dependent on the China bloc in the raw materials categories**. This applies in particular to energy raw materials from Russia.

Germany imports almost a third of the energy raw materials based on trade data from Russia. Gas imports, however, are not taken into account in **Figure 2**, which increase Russia's importance for German energy resources (see section 2.1). In no other considered category are the links with Russia similarly relevant.

Considered in the analysis

- In the trade category, the share of the world regions in Germany's exports and imports
- In the gross value added/employment category, the share of the world regions in the

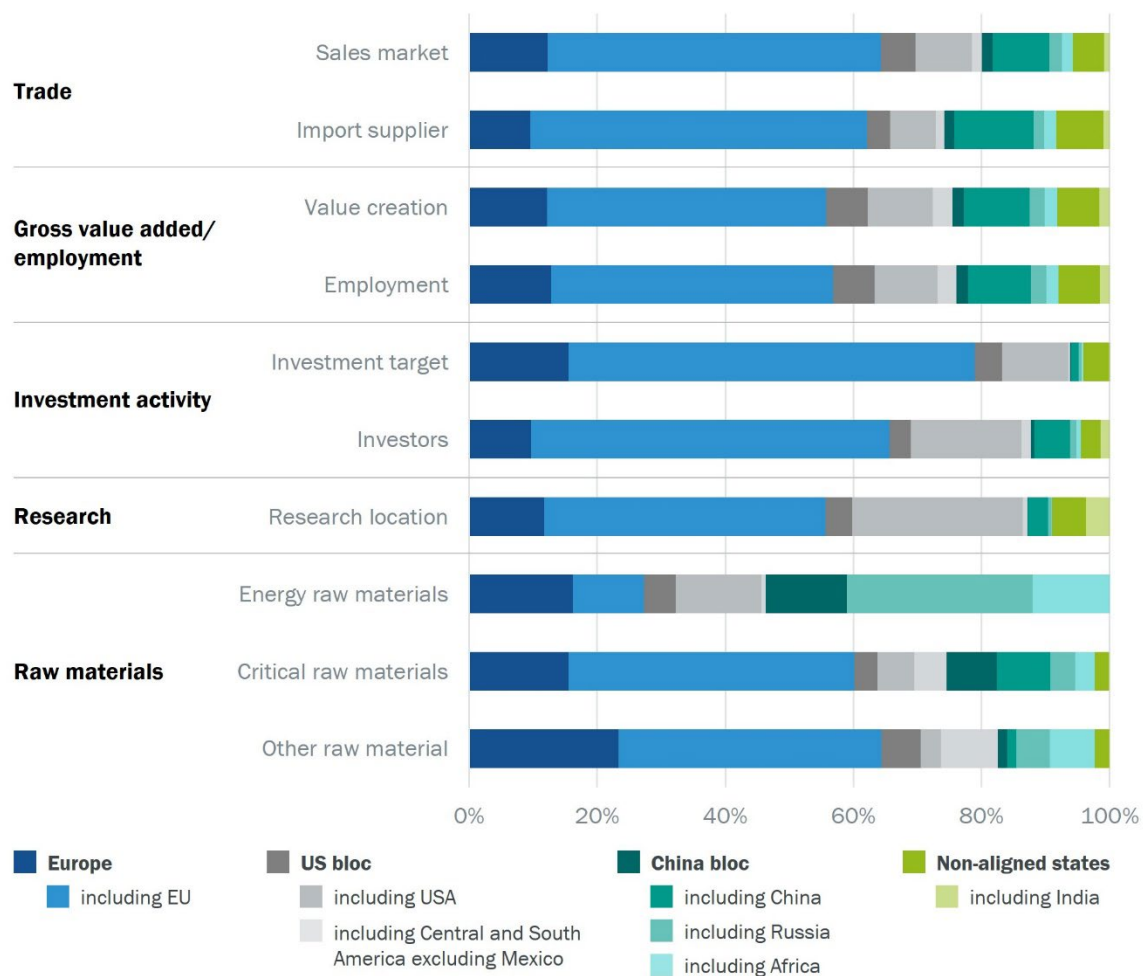
gross value added and employment linked to Germany's export

- In the investment activity category, the share in German direct investment holdings abroad and in foreign direct investment holdings in Germany
- In the research category, the share of the world regions in German patent activity that is based on cooperation with foreign researchers
- In the raw materials category, the share of the world regions in German imports in different raw material categories

The data for the analysis is based on 2020.

Figure 2: German interrelations with and dependencies on the analysed blocs

Share of the blocs in Germany's international links in different categories, in per cent



Source: Own calculations

© Prognos AG/Handelsblatt 2022

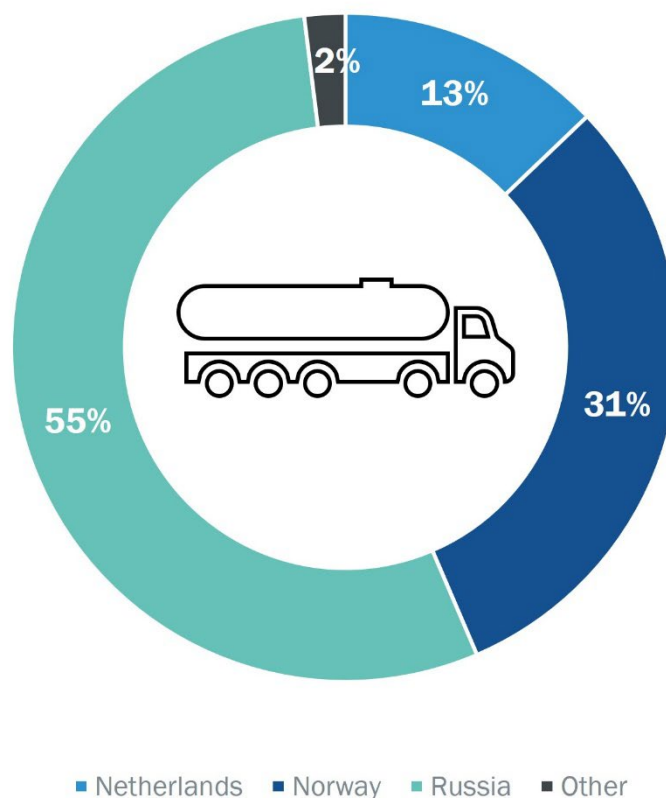
2.1 Focus on gas imports

Comtrade's import statistics does not include data for the regionalised import of natural gas for Germany or any other European countries. There are several reasons for this: customs records form the basis for international trade data. However, gas imports are not covered by customs in the way other goods are as gas is transported through pipelines. In addition, gas is often sold multiple times, so physical gas flows do not necessarily match the related financial flows.

However, alternative sources such as the Eurostat database, can be used to estimate German gas imports. In this database, imports are shown in quantities. Germany imports gas from only three countries: the Netherlands, Norway, and Russia. **The share of imports from Russia was 65 per cent in 2020.** Another source for estimating gas imports is BP. The company records gas flows in pipelines and publishes this data. This is used by various third parties, including the Federal Government. According to this data, before the outbreak of the war against Ukraine, **55 per cent of gas imports came from Russia (Figure 3).** The government asserts that by the end of April this proportion had been reduced to around 35 per cent.

Figure 3: Germany's gas supplier

Percentage of German gas imports in 2020



Source: Eurostat 2022

© Prognos AG/Handelsblatt 2020

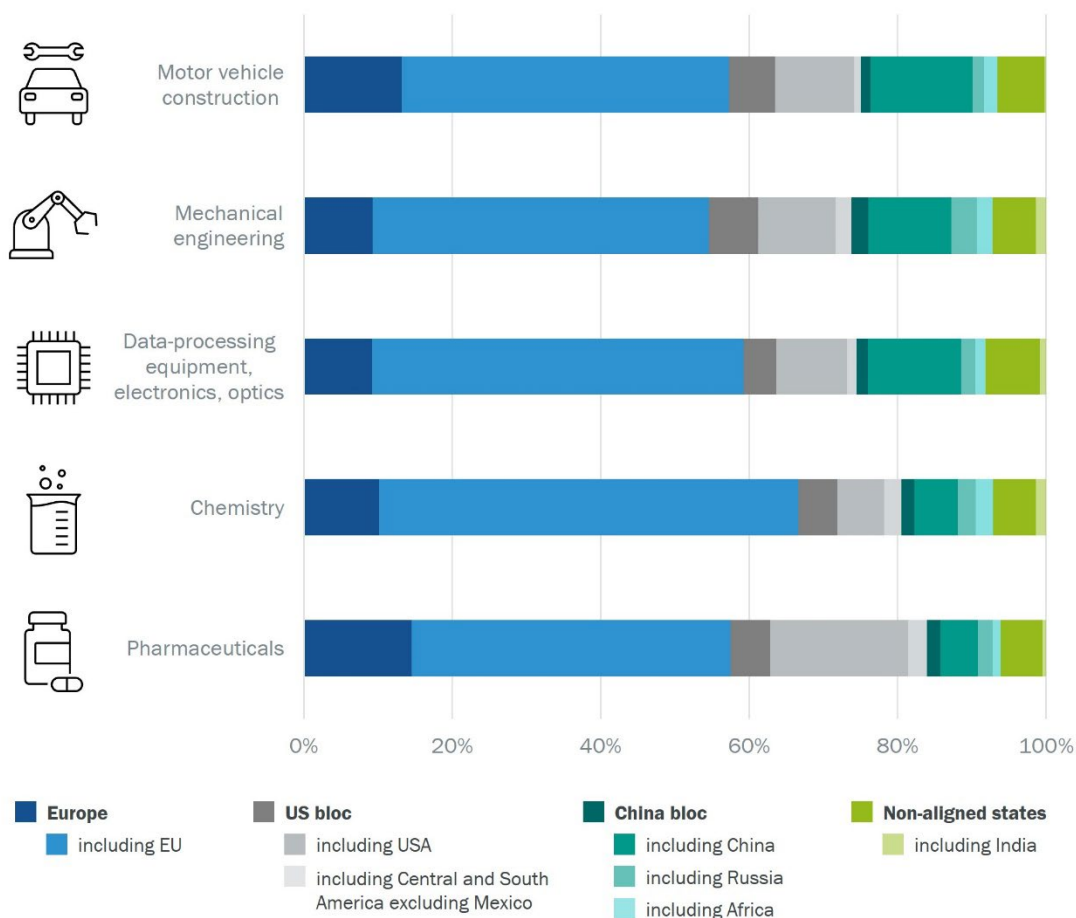
2.2 Focus on foreign trade

Import and export data can be broken down into product groups that roughly represent the focal points of trade between Germany and the various blocs by sector. Depending on the category of goods, the importance of the individual regions varies, in some cases significantly. **The most important German sales market is Europe**, which in most product groups accounts for more than half of German exports (Figure 4).

The **USA** is also an important market for many industries. For example, Germany exports an above-average number of **pharmaceutical products** to the USA (just under one fifth of exports from this sector). The third major individual customer is China.

Exports to China are particularly important in the areas of **data-processing equipment, electronics, optics, mechanical engineering, and motor vehicle construction**. This shows in particular the **role of Germany as a leading producer** for Chinese industry and the importance of China as a **sales market for German cars**.

Figure 4: It depends on the industry: the regional linkages differ considerably from one sector to another
Exports in selected product groups for 2020 to the individual world regions, sorted by export volume, as a percentage of the total export in the product group



Quelle: Comtrade 2022

© Prognos AG/Handelsblatt 2022

The import data reveal further striking interdependencies. Almost half of **textiles and clothing** imports come from China and the China bloc. In addition, almost 35 per cent of imports from the **data-processing equipment, electronics, and optics** industries come from China and another nearly 20 per cent come from non-aligned countries. Almost a quarter of the imports from **other vehicle construction** originate in the USA. In addition, Germany obtains four-fifths of its food imports from Europe, and another 10 per cent from the US bloc. Only 6 per cent come from the Chinese bloc.

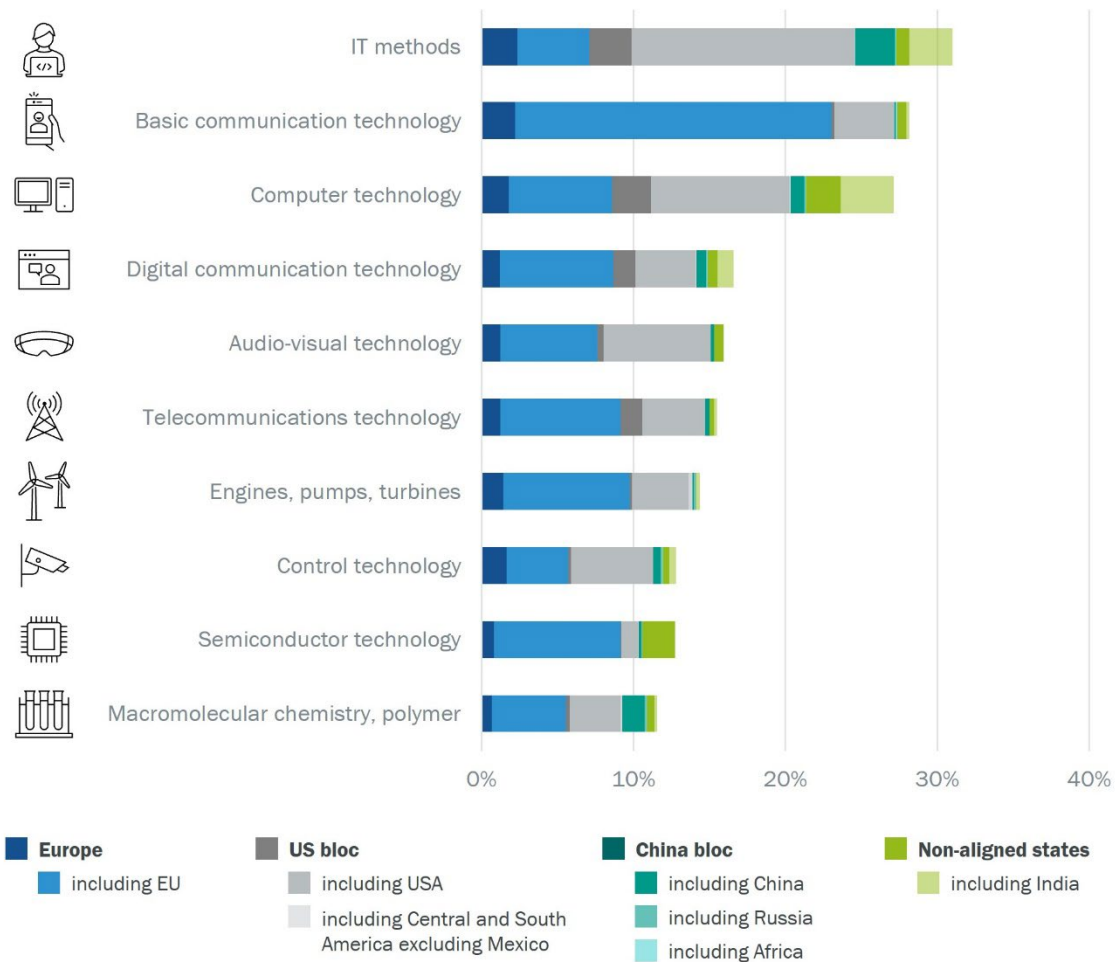
2.3 Focus Research

International research teams often work together to develop scientific patents. **Figure 5** shows the areas of technology in which, from Germany's point of view, research is most frequently cooperated on internationally. In these areas, the proportion of foreign researchers involved in patents is between 12 and 31 per cent. The focus of the patents filed by German companies in the field of technological research lies in the fields of transport technology, electrical machines, measurement technology, and mechanical elements. In these areas, the share of international cooperation partners in research is 6 to 10 per cent.

German **research collaborations are dominated by cooperation with people from the EU/Europe, the USA, and the US bloc**. In international cooperations, at least 75 per cent of the non-German researchers involved come from these regions, regardless of the technology sector. There are almost no cooperations with researchers from Russia or the Chinese bloc.

Figure 5: German research cooperations focus on the EU-US area

Share of the regions in German patents, selected technology areas, in per cent



Source: Own calculations of forecasts based on PATSTAT 2022

© Prognos AG/Handelsblatt 2022

3 Conclusion

The danger that the world economy will split into blocs in the future is real. This would be fatal for Germany. No one can say today whether this will actually happen and what exactly these blocs would look like. What is clear, however, is that in such a scenario the stakes for Germany would be particularly high. Hardly any other country is as intensively intertwined internationally in so many different ways and with so many countries as Germany.

Europe is fundamentally the backbone of Germany's economic strength. Our analysis shows that, in addition, different regions of the world are important in the individual categories. This fact

would complicate economic policy and business decisions if a scenario of bloc formation were to actually occur.

Further careful analysis is a prerequisite for good decisions. Above all efforts should be the goal of further and renewed promotion of opportunities for global economic exchange.

Your contacts at Prognos



Dr Michael Böhrer

Chief Economist

Telefon: +49 89 95 41 586-701

E-Mail: michael.boehmer@prognos.com

 [Go to LinkedIn profil](#)



Felizitas Janzen

Head of corporate communications

Phone: +49 30 58 70 89-118

Mobile: +49 172 57 57 916

E-Mail: presse@prognos.com

Contributors: Philipp Kreuzer, Leilah Dismond, Miriam Lovis, Dr Andreas Sachs, Eva Willer

About Us

Prognos is one of Europe's oldest economic research centres. Prognos was founded at the University of Basel in 1959, and since then Prognos experts have been carrying out research on behalf of a wide and diverse range of clients, public as well as private sector. We do it all based on a scientific and politically independent approach.

Prognos AG's tried and tested models provide the basis for reliable prognoses and scenarios. Our company is represented by some 180 experts in nine locations: Basel, Berlin, Bremen, Brussels, Düsseldorf, Freiburg, Hamburg, Munich, and Stuttgart. The Prognos' teams work across disciplines, combining theory with practice, science, economy and politics.

Source identification

All contents of this work, in particular texts, data, illustrations, and graphics, are protected by copyright. The copyright is held by Prognos AG/Handelsblatt, unless expressly stated otherwise. Any kind of reproduction, distribution, public access or other use requires the express written consent of Prognos AG.

Quotations as specified under § 51 of the UrhG should provide the following reference: PrognosAG/Handelsblatt (2022): The world after. What is at stake for Germany's economy if the world splits into blocs.