The Role of Global Value Chains for German Manufacturing

Olivier Godart and Holger Görg*
Kiel Institute for the World Economy and
Christian-Albrechts-University of Kiel, Germany

Introduction

Since the 1960s, Germany has established itself as European manufacturing centre, and its export of goods *made in Germany* has become a pillar of its economic post-war success. In recent years, many German firms have further deepened their international involvements with links to global value chains. Lower costs of doing business internationally and increasing possibilities to source material and service inputs in multiple countries have triggered new forms of organizational adjustments. Such novel types of adjustment faced by firms have, in turn, further pushed the issue of global value chains to the forefront of the policy and academic debate, and have often been surrounded by public fear about job losses and foreign competition.

This paper investigates the role of global value chains in the organization of Germany´s manufacturing activities and its recent economic developments. In particular it asks: how important are global value chains for German manufacturing firms? Why do firms use global value chains? What are the implications for Germany of the use of global value chains? The paper measures the extent of Germany's link into global value chains, discusses the causes and consequences of such, and concludes with a brief outlook on the likely future of such international production chains.

German manufacturing: Overview and trends

This section describes Germany's manufacturing sector and compares it with that of other countries. It presents some statistics on the size of the sector, distribution of activities across manufacturing sub-sectors, levels of employment and estimates of productivity. Furthermore, in order to give a first impression of Germany's links into the global economy, we also describe briefly export activity and activity of outward investment by multinationals across broad manufacturing sub-sectors. We will also look at aggregate trade statistics for Germany to gauge the importance and implications of import competition from low-wage countries for German manufacturing industries.

Table 1 shows the prominence of the manufacturing industry for Germany and compares it with a number of other countries. As can be seen, in Germany, manufacturing accounts for about 22 percent of GDP. This is a very high share compared to other industrialized countries such as Canada, the UK, France or the US. It is also higher than

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