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Germany and a New Economic Order



Germany and China -- driving toward the future together?

It's long been no secret that new economic powerhouses are on the rise in Asia. But are they endangering jobs in "old" economies like Germany and Japan? Not necessarily.

Asia, along with the United States, is quickly on its way to becoming a main pillar of the world economy. For years, China has been making headlines with blazing growth rates and expanding wealth. India now appears set on a similar path, as it becomes an important part of international trade and commerce.

In the coming years, over 100 million people in those two nations will become a part of the global labor market. What will that mean for comparably older economies such as Japan and Germany? Will world export champ Germany soon become the global leader in exporting jobs? Is cutting wages and working longer the answer to the new challenge from Asia?

Quality exports

When Markus Taube, director of the East Asia institute at the University of Duisburg, gives a speech about China, he essentially only needs to carry one chart with him. Regardless of what he's talking about -- foreign investment, exports, imports or gross domestic product -- the graph for China points skyward. He believes that's evidence enough that the country far more advanced than is generally known.



A tourist walks past a Chinese sign as skyscrapers tower into clouds as background in Shanghai.

Taube uses the example of China's exports, which are no longer confined to labor-intensive products, to make his point. "The technological sophistication of Chinese exports is much higher than most of us can imagine," he said. "And it is effectively also much higher than many Eastern European states."

In China, capitalism has been compatible with Marx and Lenin since 1992. The country even joined the World Trade Organization in 2001 and last year, private ownership was given equal status with that of the state in the Chinese constitution. All of that has helped push China to the pinnacle of the world economy in a matter of years. It is now the world's fourth biggest exporter after Germany, the USA and Japan.

Taube said prospects for stable and continuous growth for years to come will ensure China is not simply the world's sweatshop for cheap, mass-made products. And as inexpensive labor meets high-tech, quality German goods will face ever more competition on world markets.

And experts agree Germany cannot compete simply by lowering its labor costs. Whereas hourly wages for manufactured goods in China cost a mere \$0.80 (€0.60), in the United States it's \$21 and in Germany over \$30.

India awakes



China's ascent has been expected for years, but only recently, another Asian giant has awakened: India. Seeing its neighbor sprint ahead as it continued to flounder, India was spurred on to undertake economy reforms recently. In only a short time, the country has become a global player in the outsourcing and high-tech industries.

"India has undergone a phenomenal opening since 2003," said Peter von Guretzky-Cornitz, a regional analyst for Hypovereinsbank.

But he thinks the changes in India present more of an opportunity than a challenge to Germany. After talking about improving the country's infrastructure for 20 years, Indian officials are finally doing something about it. And that's good for German business.

"You can see that Germany will benefit as Asia generally decides to put a greater emphasis on quality," von Guretzky-Cornitz said. "An Indian or Chinese who drives a BMW privately now wants a backhoe or a crane or a cement mixer that's from Switzerland, Germany or Austria instead of a copy of a European machine from Korea."

Good for Germany

That's obviously good for German exporters, but what about German investment in

booming Asian economies? As the money goes, won't that also move jobs abroad? Not according to von Guretzky-Cornitz, who said much of what is produced in Asia is meant for those markets alone.



Michael Finger, an economist at the WTO in Geneva, even said growth in Asia was like "manna from heaven" as German firms profit from those expanding markets. "I see strong advantages for capital goods from Germany," he said.

But all the experts agreed Germany will have to concentrate on future-oriented fields and areas of expertise if it wants to keep pace with the changing global economy. Simply trying to lower costs to go toe-to-toe with cheap producers such as China and India, however, would be a disaster.

"That simply won't work," said China expert Taube.

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