

Economics from the Ground Up

What about Germany: Germany's role as a high-wage country in manufacturing

Despite the movement of manufacturing to low wage economies, there are still high wage countries that focus on manufacturing. Manufacturing remains an important part of the economy in places like Germany, Japan and even the United States, despite its decline in importance in recent years. Germany still churns out large amounts of manufactured goods, and exports them successfully. Germany has specialised in machinery and other heavy equipment, and since many developing countries that use capital as the basis for their manufacturing sector need the kind of stuff Germany exports, it has managed to maintain, and grow, a manufacturing sector despite being one of the highest wage economies in the world. It has managed to maintain manufacturing competitiveness. Partly this was because the German government introduced more flexibility into the workforce in the last decade. Also, German manufacturing is committed to making the kind of high quality and performance innovative products for which consumers and producers are prepared to pay more. Manufacturers are extremely focused on research and development, quality and engineering. Germany also has a large number of highly skilled workers who are crucial to making the high quality products it exports to the world.

Germany does outsource production to cheaper eastern European countries, and China, but... they've also made a commitment to keeping jobs in Germany. They are doing this to ensure they don't lose their skills base.

Its corporate structure may also be part of the reason why Germany has remained manufacturing – its manufacturing sector is dominated by small to medium sized firms that are family-owned, that aren't necessarily under the same pressure to maximise returns to shareholders and make bigger and bigger profits each year.

So it seems the key is to innovate, and work to your comparative– in the case of Germany high quality, high tech products.

Germany still makes many millions of cars every year, as is clear from the data in the table below. Also, during 2011 when Australia experienced a decrease in its production rate, Germany was increasing output, as was the USA. India's production of cars grew by more than 10% between 2010 and 2011.

TABLE 12.3: Top 6 car manufacturing countries, 2011

Country	Number of motor vehicles	% of global production
China	14,485,326	24.2
Japan	7,158,525	11.9
Germany	5,871,918	9.8
South Korea	4,221,617	7.0
India	3,053,871	5.1
U.S.A.	2,966,133	4.9

Source: International Organization of Motor Vehicle Manufacturers, www.oica.net

Questions

1. Compare the wage costs of manufacturing workers in Germany with those in China and Thailand.
2. Describe the proportion of the world's cars manufactured in Germany in 2011.
3. Explain why the case of Germany is unusual in the global division of labour.
4. Explain three key reasons why Germany still has a strong manufacturing sector, despite having one of the highest wage economies in the world.

(Source of data about Germany: <http://business.time.com/2011/02/25/does-germany-know-the-secret-to-creating-jobs/>)