

# [***Europe's growth engine is sputtering. Can Germany's economy be revived?***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:6B9B-FF81-JBSS-S000-00000-00&context=1516831)

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**Body**

London (CNN) &#8212; Trains canceled. Flights grounded. Highways blocked by angry farmers.

The world's fourth-largest economy has got off to a bumpy start this year. A strike by Lufthansa ground crew on Wednesday was just the latest industrial action to [*cause travel chaos*](https://www.cnn.com/2024/01/24/economy/germany-rail-strike-economic-impact/index.html) in recent weeks, after train drivers walked off the job in January over a wage dispute and farmers blocked roads in protest against planned cuts to subsidies.

Widespread walkouts in a country famed for strong legal protections for workers' interests point to the depth of the [*malaise*](https://www.cnn.com/2024/01/19/economy/davos-germany-sick-man-europe/index.html) gripping [*Germany*](https://www.cnn.com/world/europe/germany).

Europe's biggest economy [*shrank*](https://www.cnn.com/2024/01/15/economy/germany-gdp-contraction/index.html) last year for the first time since the onset of the Covid-19 pandemic. And the outlook isn't much brighter: the International Monetary Fund [*predicts*](https://www.imf.org/en/Publications/WEO/Issues/2024/01/30/world-economic-outlook-update-january-2024) that Germany will be the slowest-growing major economy in 2024, eking out an increase of just0.5%.

More pessimistic forecasters see an outright decline in output for the second consecutive year, as the economy grapples with an extended spell of high energy prices, steep borrowing costs and weak demand for German goods at home and abroad.

The lingering impact of the energy crisis sparked by [*Russia's war in Ukraine*](https://www.cnn.com/world/europe/ukraine) was highlighted Wednesday, with [*official data*](https://www.destatis.de/EN/Press/2024/02/PE24_048_421.html) showing that Germany's industrial production fell for the seventh consecutive month in December, itslongest-ever slump.

But Germany's problems are also structural, rangingfrom labor shortages and red tape to outdated physical and digital infrastructure that weighs on productivity.

To use just one example of low digitalization: only 19% of households are connected to high-speed internet via fibre-optic cables, compared with an average of 56% across the European Union, according to a recent [*European Commission report*](https://economy-finance.ec.europa.eu/system/files/2023-05/DE_SWD_2023_605_en.pdf).

What's needed, say economists, is nothing short of an economicoverhaul.

"Germany needs a fundamental economic transformation," Marcel Fratzcher, president of the German Institute for Economic Research in Berlin, told CNN. "The biggest challenge for Germany is not the next two years, it's the next 10 years... it needs to reshape its industry."

The government has taken tentative steps in that direction. It has moved to incentivize investment, boost funding for start-ups, speed up approvals for infrastructure projects and ease immigration rulesfor skilled workers to help plug labor shortages.

But much more is needed to set the economy on a new course. Politicians have limited power, however,not least because of tight constraintson government borrowing, enshrined in Germany's constitution, that could derail big spending programs. Those limits were reinstated in this year's budget, after a temporary suspension through the twin shocks of the pandemic and Ukraine war.

"Any overhaul of the economy will be almost impossible as long as fiscal austerity remains the dominant tune," said Carsten Brzeski, global head of macroeconomics at Dutch bank ING. "That means structural changes will rather have to come from the corporate world."

Broken business model?

Germany has overcome much greater challenges in the past. In the [*aftermath*](https://www.econlib.org/library/Enc/GermanEconomicMiracle.html) of its devastating defeat in World War II, the country faced food rationing, price controls, a collapse in industrial production and a shrunken workforce following the deaths ofmillionsof working-age men.

Yet so spectacular was West Germany's recovery during the 1950s and 1960s that it became known as the "Wirtschaftswunder," or economic miracle.

The good times lasted mostly uninterrupted until the 1990s when Germany cameto be known as the "[*sick man of Europe*](https://www.cnn.com/2023/08/24/economy/germany-economy-sick-man-europe/index.html)," as its economy faltered and unemployment soared largelydue to the costs of reunification following the fall of the Berlin Wall.

Germany went on to cast off that moniker, partly by introducing labor market reforms, and its exports and economy boomed in the decade following the 2008 global financial crisis - fueled by cheap Russian gas and red-hot growth in China.

The country has long been one of the world's leading manufacturing nations, making everything from cars, washing machines and power tools to medical devices and pharmaceuticals.

Germany still boasts excellent engineers and continues to make plenty of high-quality goods, but cracks are beginning to showin its business model.

The nationis suffering the consequences of having made "a strategic bet on a full embrace of interdependence and globalization," according to Constanze Stelzenmuller, director of the Center on the United States and Europe at the Brookings Institution.

"It outsourced its security to the US, its export-led growth to China, and its energy needs to Russia," she [*wrote*](https://www.brookings.edu/articles/putins-war-and-european-energy-security-a-german-perspective-on-decoupling-from-russian-fossil-fuels/) in June. "It is now finding itself excruciatingly vulnerable in an early 21st century characterized by great power competition and an increasing weaponization of interdependence by allies and adversaries alike."

Slowing economic growth in China, until recently Germany's second-biggest export market, has crimped demand for goods, and fundamental shifts in the Chinese economy mean that demand may not return. "China has also become a rival. It is now able to produce similar goods that it normally imported from Europe," said Brzeski of ING.

That fact alone threatens Germany's single biggest export: cars.

China's auto shipments surpassed Germany's in 2022 thanks to the astounding rise of the country's electric vehicle brands, notably BYD. That's a problem not only for the poster childof German manufacturing - [*Volkswagen*](https://www.cnn.com/2023/12/14/business/volkswagen-losing-electric-car-race/index.html) - but also thousands of companies in the automotive supply chain in Germany and other European countries.

Meanwhile, the United States, the top destination for Germany's exports since 2015, has taken a protectionist turn, showering subsidies on US-based producers of green energy and climate-friendly productsunder the Biden administration's Inflation Reduction Act.

A spike in natural gas prices in 2022 after Russia invaded Ukraine and persistently [*high gas prices*](https://www.cnn.com/2023/11/02/energy/europe-gas-prices-supply/index.html) in Europe have crippled swathes of German industry. The country is particularly reliant on the fuel havingcompletely shut down its nuclear power production, a decision taken in the wake of the Fukushima disaster in Japan in 2011.

Homegrown troubles

Alongside an external environment that has become more hostile to Germany's outward-facing economy, the country's internal political climate has worsened.

Tensions within the three-way governing coalition are obstructing policymaking, heightening uncertainty for businesses and leaving many Germans feeling that the current government has few solutions to the country's myriad problems.

The divisions have played into the hands of the far-right [*Alternative for Germany*](https://www.cnn.com/2024/01/15/europe/farmer-protests-germany-far-right-afd-intl/index.html) (AfD), an anti-immigration party that wantsGermany to leave the European Union and which has been gaining support in some eastern states.

Alarm over the AfD's rise reached a peak last month after it emerged that [*senior members of the party had met*](https://www.cnn.com/2024/02/08/europe/germany-afd-migration-far-right-intl/index.html) to discuss a "master plan" to deport immigrants en masse. AfD's leadership has distanced itself from the gathering, but the revelations triggeredhuge anti-AfD protests in a number of major German cities.

And several German chief executives, who seldom wade into ***politics***, have warned about the threat right-wing extremism poses to the economy.

"The rise of the far right represents a grave danger to our democratic freedoms and Germany as place to do business," Deutsche Bank's Christian Sewing wrote recently on [*LinkedIn*](https://www.linkedin.com/in/christian-sewing/recent-activity/all/).

"Racism and intolerance should have no place in a free country with a globally oriented economy. Investors, who are attracted to Germany also for our strong democratic values, look upon these developments and hesitate about deploying capital."

The heads of software company SAP and chipmaker Infineon have also spoken out.

'Profound' strengths

For all its struggles, Germany remains a world leader in many industries. And it continues to attract foreign direct investment flows, including from semiconductor manufacturers, such as [*Intel*](https://www.intel.com/content/www/us/en/newsroom/news/intel-german-government-agree-magdeburg.html#gs.1n89x0) and [*TSMC*](https://www.cnn.com/2023/08/08/business/germany-tsmc-chip-plant/index.html), which make chips used in electric cars.

Germany also boasts thousands of homegrown manufacturers, renowned for their expertise and innovation.

Among them Hamburg-based Jungheinrich, which makes forklifts and other vehicles and equipment for warehouses. Last year, the 70-year-old firm became one of the first forklift manufacturers in the world to do away with internal combustion engines, thanks to its pioneering use of lithium-ion battery technology.

On the other side of the country, in Augsburg, west of Munich, MAN Energy Solutions is repurposing compressors, typically used to transport oil and gas, for large-scale carbon capture projects and building the biggest heat pump system in the world in the city of [*Esbjerg*](https://www.man-es.com/discover/esbjerg-heat-pump) in Denmark. The company has been making diesel generators for decades buthas now placed climate-friendly technologies at the center of its growth plans.

Businesses such as these, which can find new markets and applications for their know-how, may hold the key to reviving Germany's moribund economy. And there are many more smaller firms that are transforming too, including those formerly serving all-important traditional automaking supply chains.

"Seven or eight years ago nobody was even thinking about battery cell manufacturing," said Karl Haeusgen, president of Germany's Machinery and Equipment Manufacturers Association (VDMA), which represents mostly small and medium-sized businesses that make up Germany's storied "Mittelstand."

"Today, we have over 100 member companies in our association that focus on different steps of (that) value chain." Germany has to "work on a lot of things" but starts from "a position of strength, which is really profound," he told CNN.

"The industrial base in Germany...the strengths that we have in many engineering and manufacturing technologies are still leading and unique, and I strongly believe in the ability of companies to adapt to a changing global environment."

Sebastian Shukla and Chris Stern contributed reporting from Berlin.

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