

Prepared by the New Zealand Embassy Berlin, in consultation with NZTE Berlin

Rāpopoto – Summary

- A major new study on the importance of global supply chains to the German economy finds that while the German economy is highly dependent on a few specific foreign suppliers, the economic benefits of integration into the global economy are huge.
- A survey of 5000 German manufacturers, wholesalers, retailers and service providers, reveals that as a result of the COVID-19 pandemic, many plan to adapt their supply chains through diversification (rather than reshoring).
- This is potentially good news for New Zealand suppliers hoping to grow their businesses in Germany, provided there are reliable shipping options.

Pūrongo – Report

The COVID-19 pandemic has triggered a debate about the pros and cons of global supply chains, the need to maintain adequate stocks of key goods and diversify sources of supply, and reshoring (or “nearshoring”) the production or sources of certain goods and services. Representing the world’s fourth largest economy and third largest goods exporter and importer, the procurement strategies of German businesses matter a great deal in this respect. Moreover, Germany is New Zealand’s most important trading partner in the European Union (EU) and a market we hope to grow. Against this backdrop, this report sets out German business plans and highlights opportunities.

German businesses want to diversify their sources of supply, and continue to look globally

As mentioned in our [Economic Update](#) of June 2020, in light of COVID-19 and disrupted supply chains, many German businesses are trying to find new suppliers, both in Europe and overseas. A December [survey](#) looking at Germany and various other North-Atlantic economies suggests that one in five of the surveyed German manufacturers were looking for new suppliers at home. A more comprehensive study ([available in German](#)) has now been published, including a survey of 5000 companies, and the findings are telling.

Firstly, Germany’s vulnerability overall seems to be limited. The study found that only 5% of imports –certain chemicals, pharmaceuticals, commodities and intermediate goods (but not agricultural products) – are dependent on foreign suppliers, and “can scarcely be compensated for by domestic production in the event of supply bottlenecks”. Most of these sensitive goods are sourced from within the EU. Some risks are identified where critical inputs are sourced from third countries, relating to trade policy (e.g. the UK due to Brexit), geopolitics (e.g. China) or other risks.

Secondly, the authors make a strong case for Germany to remain firmly integrated into the world economy. Based on simulations, large-scale reshoring of supplies could trigger a 10% decline in German GDP, and (less radically) a 4% drop in nearshoring to the EU, Turkey, or northern Africa. Calculations also suggest that massive German reshoring or nearshoring would result in negative effects for most if not all other economies, including New Zealand.

Thirdly, the company survey suggests that German business thinking largely aligns with what has been found to be good for the Germany economy. While 41% of manufacturing companies (particularly in sectors that are facing shortages of supply e.g. electronics and furniture), 35% of wholesalers, 27% of retailers, and 10% of service companies plan to change their procurement strategies, only a few are considering reshoring, nearshoring or insourcing (i.e. producing internally). Instead,

they are looking at diversification, warehousing and better monitoring.

German manufacturers continue to think globally: 30% percent (in particular large companies) want to diversify their sources of supply, 26% want to better monitor their supply chains, and 23% want to increase warehousing (in particular small and medium-sized companies). Another recent [study](#) found that German companies have struggled to restock already low levels of inventories, due to strong global demand and scarcity of shipping capacity. By contrast, only 12% want to reshore, 11% to nearshore and 7% to insource. Similar patterns of companies preferring greater warehousing, diversification and better monitoring over reshoring and nearshoring were found among German wholesalers, retailers and, to a lesser extent, service companies.

The study confirms that the international procurement of goods and services not only offers efficiency gains but also the possibility of making supply chains more resilient than under protectionist conditions. On this basis, the authors make a case for the multilateral rules-based trade, including ambitious reform of the World Trade Organization, and EU free trade agreements with other countries, such as Australia and New Zealand “as soon as possible.”

What does this mean for New Zealand suppliers?

While Germany is not dependent on our exports, buying from New Zealand and other parts of the world clearly has both commercial and macroeconomic benefits. Against this background, German businesses want to increase their resilience by diversifying their sources of supply globally, not by simply looking for suppliers closer to home or insourcing. Provided New Zealand exporters offer competitive products and services, and can get these shipped in a timely and reliable fashion, these findings suggest additional opportunities in the German market. Geographical distance or the carbon footprint associated with some of our products may limit these opportunities somewhat; on the other hand, our reputation for innovation and our sustainability credentials work in favour of buying more from New Zealand.

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