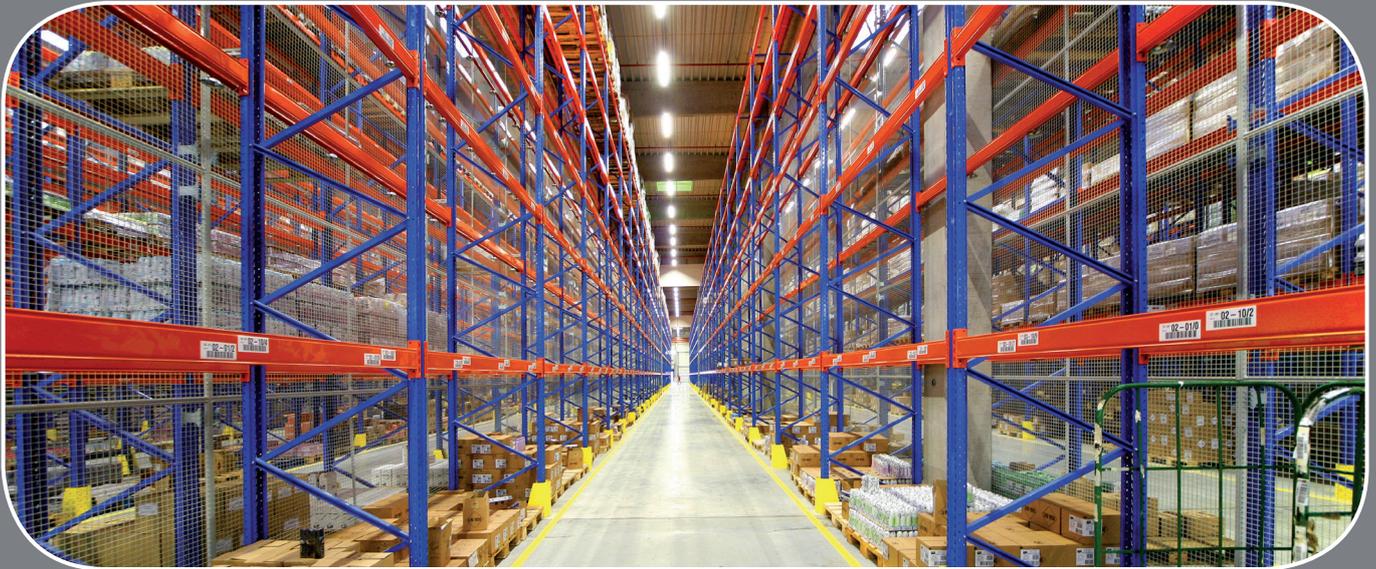




# The economic damage of decoupling in Germany

Scenarios at national, local and sectoral level



## Summary of main results

The study in German language  
is available here:



1. The study looks at various **scenarios for decoupling the EU's internal market** from international trade in primary and intermediate products. If such decoupling of value chains took place with all third countries simultaneously, real income per capita in Germany would fall by around 20 percent in the short term. The scale of the loss would be reduced to around 6 percent in the long term. If trade in finished products were also prevented, the short-term hit to real income would be even higher at 27 percent.
2. If value chains with just one partner country were decoupled, the economic damage would be smaller. **Severing value chains just with the USA** would reduce real average income in the German economy by around 3 percent in the short term. A decoupling from the United Kingdom would cut real GDP by 2 percent, with a similar figure for China. The effect of decoupling from Switzerland or Russia would be in the order of 1.5 percent. Decoupling from other countries such as Japan, Norway, Singapore or India would cost between 0.5 and 1.0 percent of real GDP. The long-term effects would be between a quarter and a third of the scale of the short-term impact.
3. **Import-side decoupling of value chains is typically more expensive than export-side decoupling.** Import-side decoupling from the USA, for example, would cost 86 billion euros of value added in the short term, compared with 16 billion euros on the export side (in 2018 prices). However, in the case of China, the opposite is true: decoupling from imports from China would cost 22 billion euros, while decoupling from exports would cost 37 billion euros. The greater the bilateral trade in intermediate products or commodities, the larger the effects.
4. At **sectoral level**, some sectors of the German economy would be more affected than others. Food, chemicals, motor vehicle production, construction, retail and specialist services would be worse hit by decoupling from a larger number of countries than, for example, fishing, mining, textiles, timber or postal services. In the individual sectors, the largest absolute impact on value added would also be caused by decoupling from Germany's top economic partners.
5. The effects on an average family business of decoupling from third countries follow the same pattern as for other businesses. Interestingly, however, family businesses appear to have considerably more exposure to the United Kingdom than to China, despite the two countries' very similar macroeconomic importance to Germany. A similar picture applies to Russia and Switzerland, with family businesses having above-average exposure to the latter and below-average exposure to the former.
6. At **local level**, the picture is surprisingly mixed. Decoupling from all third countries would reduce real incomes by up to 36 percent in some districts, while in others the effect would be only around 7 percent. North-western Germany would be the most severely

affected area. Major regional differences would also be seen in the event of decoupling from Switzerland, where the most heavily affected districts (those near the Swiss border) would be over 25 times worse hit in relative terms than the least affected. Decoupling from the United Kingdom would particularly affect districts in the west and north-west of Germany. In the case of decoupling from energy suppliers such as Norway or Russia, the effects would be **more evenly distributed**; however, districts with large amounts of industry would be worse affected than others.

7. A **sectoral decoupling** from all possible non-EU supplier countries would have very different macroeconomic effects depending on the sector affected. Decoupling in the fossil fuels sector (mining, energy) would cost 113 billion euros of aggregate value added in Germany in the short term or 4.5 percent of real income; the long-term economic damage would amount to 29 billion euros or a 1.1 percent loss in real income. In the short term, decoupling from non-EU supplies in the retail, information technology and financial services sectors would each cost more than 50 billion euros in value added. In manufacturing, the worst affected sectors would be metal production (with losses in value added of 15 billion euros) and chemicals (13 billion euros), followed by metal-working (12 billion euros). Interestingly, Germany would be less heavily affected by an EU decoupling in the mechanical engineering or motor vehicle production sectors, as the losses would be compensated by other EU countries switching their demand to German products.
8. Decoupling from supplies from individual sectors would have very varied effects on other industries depending on **sectoral import exposure**. Motor vehicle production, mechanical engineering and construction are more heavily dependent than other industries on non-EU supplies from a wide range of sectors. Meanwhile, a very large number of German industries would be negatively affected if inputs from the retail, air transport, IT services, financial services or specialist services sectors were no longer supplied from non-EU countries. Dependency in other areas is more selective. For example, metal-working depends on supplies from the metal production sector and the pharmaceutical industry on supplies from the chemicals sector. Where the level of dependency is highest, losses in individual sectors would range from 1.6 billion to 6.4 billion euros of value added.
9. The picture is also very mixed at **regional level**. In some districts, the population would benefit from a decoupling from imports in particular sectors. This applies to chemicals, motor vehicle production and mechanical engineering, where there are domestic producers of intermediate products. In terms of real value added, however, the negative effects would predominate. In some districts, decoupling the EU from imports in retail, communications and IT would cost up to 14 percent of regional value added. In mining, decoupling would be on average even more expensive, with losses at district level of up to almost 20 percent.
10. **Export decoupling** in individual sectors would have particularly negative **consequences for Germany as a whole** if it involved export-oriented manufacturing sectors. Decoupling the motor vehicle sector from exports to non-EU countries would result in a 16.4 billion

euro hit to value added in Germany, while the figures for chemicals and mechanical engineering would be 13.7 and 13.2 billion euros respectively. Unlike with imports, service sectors would be less affected than others by a decoupling from exports. Even here, however, there are affected sectors with considerable importance to Germany's value added – especially the retail sector, where the damage would amount to 11.4 billion euros. Decoupling German agriculture or mining from exports would have less macroeconomic impact.

11. The consequences of **decoupling individual sectors on the export side** also **vary greatly** in terms of their impact on **different sectors**. Decoupling of the export-oriented motor vehicle production or mechanical engineering sectors would have negative impacts on many other sectors in Germany. In some cases, even including some service sectors, the damage would exceed the 1 billion euro mark.
12. The **regional impacts** of decoupling individual sectors on the export side would also be highly varied. In the worst affected districts, real incomes would drop by almost 10 percent in the short term if the chemicals, pharmaceuticals or motor vehicle production sectors were decoupled from exports.
13. Decoupling the EU single market from global supply chains would have detrimental effects on the German economy. Policymakers must therefore approach this topic with a great deal of caution, even in the case of policies that do not amount to the complete decoupling of individual supplier countries or sectors. This particularly applies to the implementation of various measures in the context of the EU's new trade policy doctrine, which emphasises strategic autonomy. It is crucial that the German economy be given **time to adjust** so as to significantly reduce the negative impacts. As there are major **differences** in sectoral impact, which translate into highly varied effects from district to district, regional policy should be used to mitigate the impacts of any measures. This could include, for example, additional funds for local labour market administration, faster public investment in particularly affected regions or short-term financial incentives for relocating companies.
14. Given their sectoral and regional distribution, **family businesses** would, on average, be particularly exposed to the negative impacts of a policy of decoupling. The scenarios examined show that, for an average family business in certain districts, the real effect on value added triggered by a decoupling from various trading partners is often two to three times larger than the average effect across all districts.

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