



The new export compass for German industry
How geopolitics is shaping new trade routes

In-depth analysis of the Supply Chain Pulse Check

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Executive Summary: Geopolitical scenario analysis shows different trade effects



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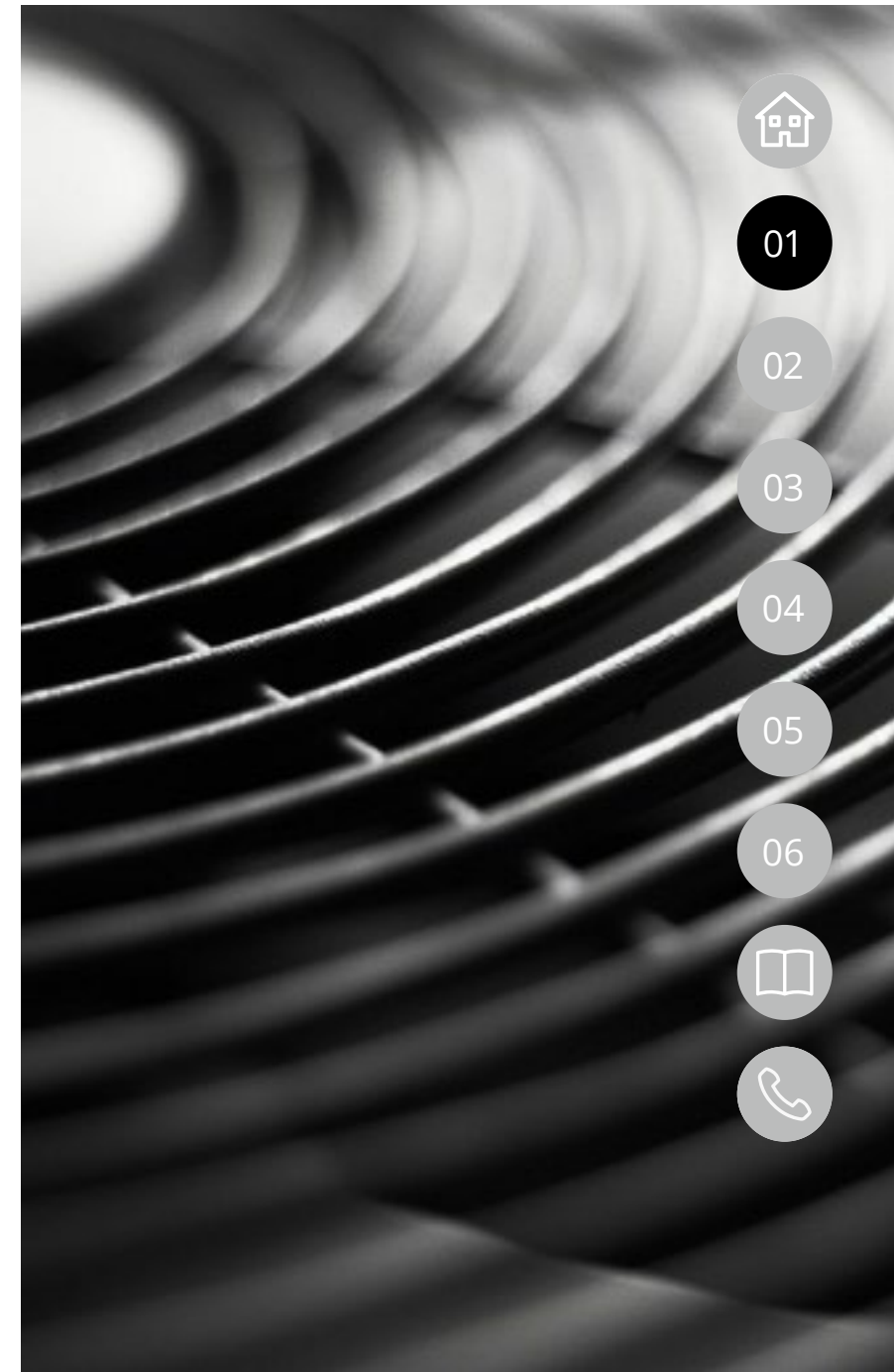


01 | Executive Summary: Geopolitical scenario analysis shows different trade effects

Compared to many other countries, the German economy is much more dependent on exports and industry for its success. Exports of goods and services account for 47 percent of Germany's GDP, compared to only 20% in China and 12% in the US.¹ Just under half of all German exports are industrial products from vehicles and machinery to electronics and chemicals.²

Geopolitical trends and realignments—whether it is new protectionism or the return of geopolitical blocs—are impacting Germany's international trade relations and export landscape. All of this raises the key questions: Will export volume continue to grow in the major sales markets for German industry? Where are the most promising emerging markets? How should Germany's industrial manufacturers respond to these realignments?

We built a quantitative trade model that covers multiple countries and sectors as well as the key drivers of export growth (i.e., GDP growth, tariffs and non-tariff measures), analyzing two scenarios to simulate possible developments in the trade corridors for German industry from 2023 to 2035. Our first scenario sees trade relations developing at a similar rate to recent years for the period between now and 2035 (multi-polar scenario). The second imagines a world where stronger geopolitical blocs set the countries of the global West (i.e., the US and EU member states) against China and the expanded BRICS alliance ("West vs. BRICS plus" scenario), which would usher in a new era of protectionism and have serious consequences for global trade relations.





“Companies that assess and model the geopolitical risks and trends in their export markets on a regular basis will be in a much better position to fine-tune their strategies. When deciding whether to invest in new markets, they need to factor in the evolving geopolitical dynamics and not just the cost factors of the location alone.”

Oliver Bendig, Partner, Lead Industrial Products & Construction, Deloitte



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The main implications of these simulations are as follows:

1. The US export market cannot offset weaker exports to China: If the global “West” and “BRICS plus” form stronger geopolitical blocs, we would see a significant increase in German exports to the US (4.0%) and a big decline in those to China (-6.0%). Growth in exports to the US at that level could offset a considerable share of the future decline in exports to China, with independent markets in Southeast Asia absorbing an additional share. However, Europe is the only region with the potential to cushion most of the loss of China’s export market. That makes the result of the recent US elections even more critical for Germany, particularly in terms of how it will change US-German trade relations in the long term.

2. Fragmentation and formation of geopolitical blocs jeopardize German exports to India and Brazil: In our multi-polar scenario, German exports to India would grow at a compound annual growth rate (CAGR) of 5.7 percent by 2035 and could be a major growth driver. A landscape with intensified geopolitical bloc formation could drag German exports to India into negative territory, at a forecast CAGR of -5.7 percent. This disparity of outcomes would also be a factor in Brazil, albeit on a smaller scale.

3. Despite low growth, Europe remains an important sales market: The average export CAGR for European export markets would amount to roughly 2 percent by 2035 in both scenarios. However, due to their size, political ties and geographical proximity, markets such as France, the Netherlands and Italy will continue to

play an important role for German companies. German exports still have the potential to generate above-average growth rates in certain sectors, whether it is automotive exports to France, Poland and Austria or machinery exports to Spain and Austria.

4. Growth continues in smaller Asian markets regardless of the formation of geopolitical blocs: German exports will see strong growth in a wide range of markets, making the overall export landscape more complex. The export markets with the strongest growth potential for German industry are often independent countries that would likely opt out of joining a geopolitical bloc or where certain key industries are very strong. The Philippines, Vietnam, Australia and Taiwan show the highest growth rates for German exports in both scenarios (between 3.6 and 6.6 percent in each case).



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“This new phase of globalization with geopolitical crises, new trading blocs and more localized production presents a challenge for Germany’s industrial sector. The models in this study will give export-driven manufacturers the insight they need to find their place in this new world, above all through sound strategies for de-risking, value chain diversification and new partnerships in emerging and developing markets.”

Matthias Krämer, Head of Department External Economic Policy at the Federation of German Industries (BDI)



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German manufacturers have to learn to navigate the diversity and the complexity of the future export landscape and focus on those markets that show the most promise for export growth in various scenarios. Here are some action steps for today's manufacturers:

Regularly assess geopolitical risks and trends in export markets: As part of their risk monitoring activities, export-driven companies need to continuously monitor and analyze geopolitical developments and their implications for key export markets (e.g., joining a geopolitical bloc or remaining neutral/independent). This requires, among other things, close ties with political decision-makers, think tanks, etc. and local knowledge about the political situation on the ground.

Model geopolitical scenarios and future trade patterns: Simulating various geopolitical scenarios offers new insights into the future, from potential trade patterns to volatility in export markets. Companies can identify new markets and their growth potential for exports with these simulations and even get an early indication of specific markets that are slowing down—as well as a better idea of which markets could offset potential losses.

Rethink and adapt market, supply chain and production strategies: Risk monitoring and geopolitical scenario modeling in your export markets not only play a key role in determining the future strategy for particular markets; they can also assist in optimizing both your supply chains and your production footprint.

Assess the tax implications of supply chain optimization: It is important to consider the tax implications of modifying your systemic or physical value streams in pre-production, semi-finished goods and warehousing. To achieve the best possible solution, you may also need to weigh up various bureaucratic obstacles and fees or anticipate future developments, even if there are conflicting objectives at play, e.g., overall costs, resilience and flexibility.

Evaluate investments in “neutral” or “non-aligned” nations: Export-driven companies need to make their investment decisions in the context of geopolitical dynamics that may fluctuate faster and more dramatically than expected. As the key criteria for location decisions, the countries in question must offer favorable conditions and prospects (e.g., unit labor costs, political stability, labor and/or skilled labor market, etc.) and align with the company's overall business objectives.



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German industry exports yesterday, today and tomorrow: Between free trade and protectionism



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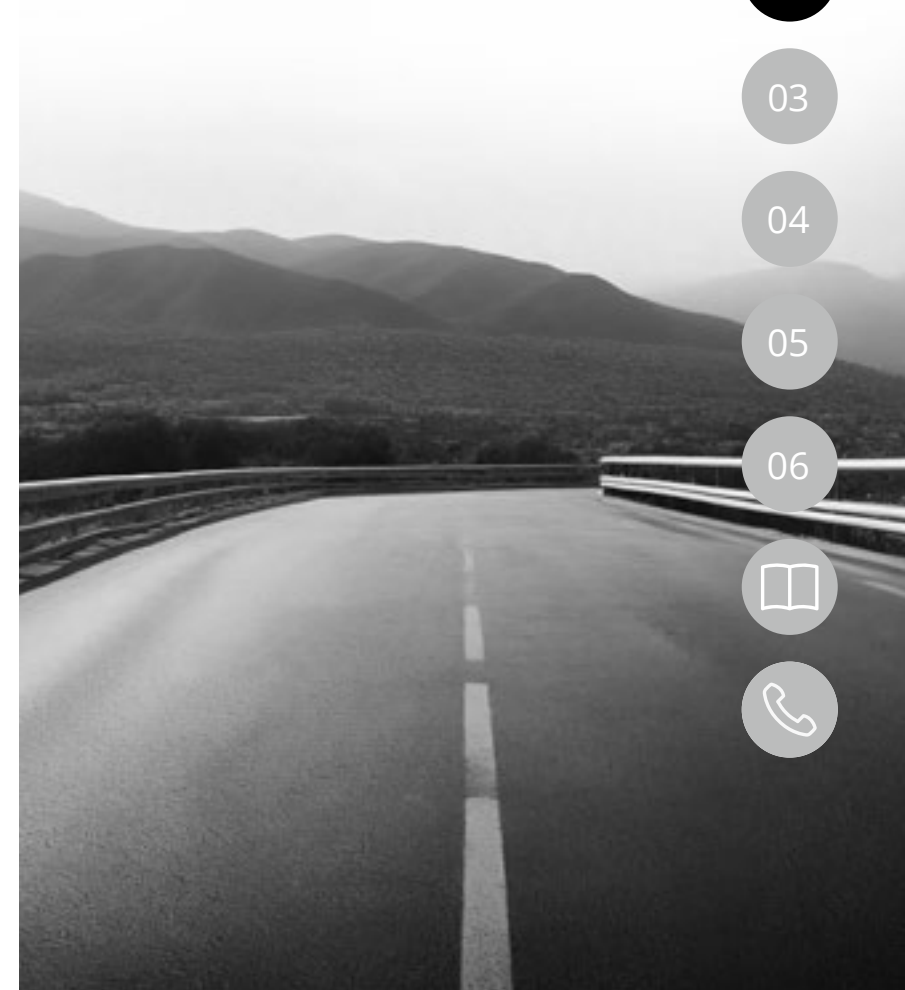
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Yesterday: Not all export markets have recovered from the pandemic

- In the recent past, the export of German industry—i.e., its most important sectors machinery, electronics, automotive and chemicals—have been strongly influenced by the two largest export markets, the US and China (see Fig. 1).
- In the post-pandemic period, the US export market has essentially made a full recovery, recording double-digit growth comparable to that after the 2007/2008 financial crisis. This contrasts with the second largest export market, China, which has seen comparatively weak growth (1%) and lost much of its appeal in recent years.
- A few European export markets, including the Netherlands and Italy, have also reported above-average growth on a par with the US following the sharp downturn during the pandemic.
- Overall, we have seen an average of 10 percent growth in all German industrial exports since 2020, with the automotive sector (13%) outperforming machinery (8%), electronics (8%) and chemicals (7%).



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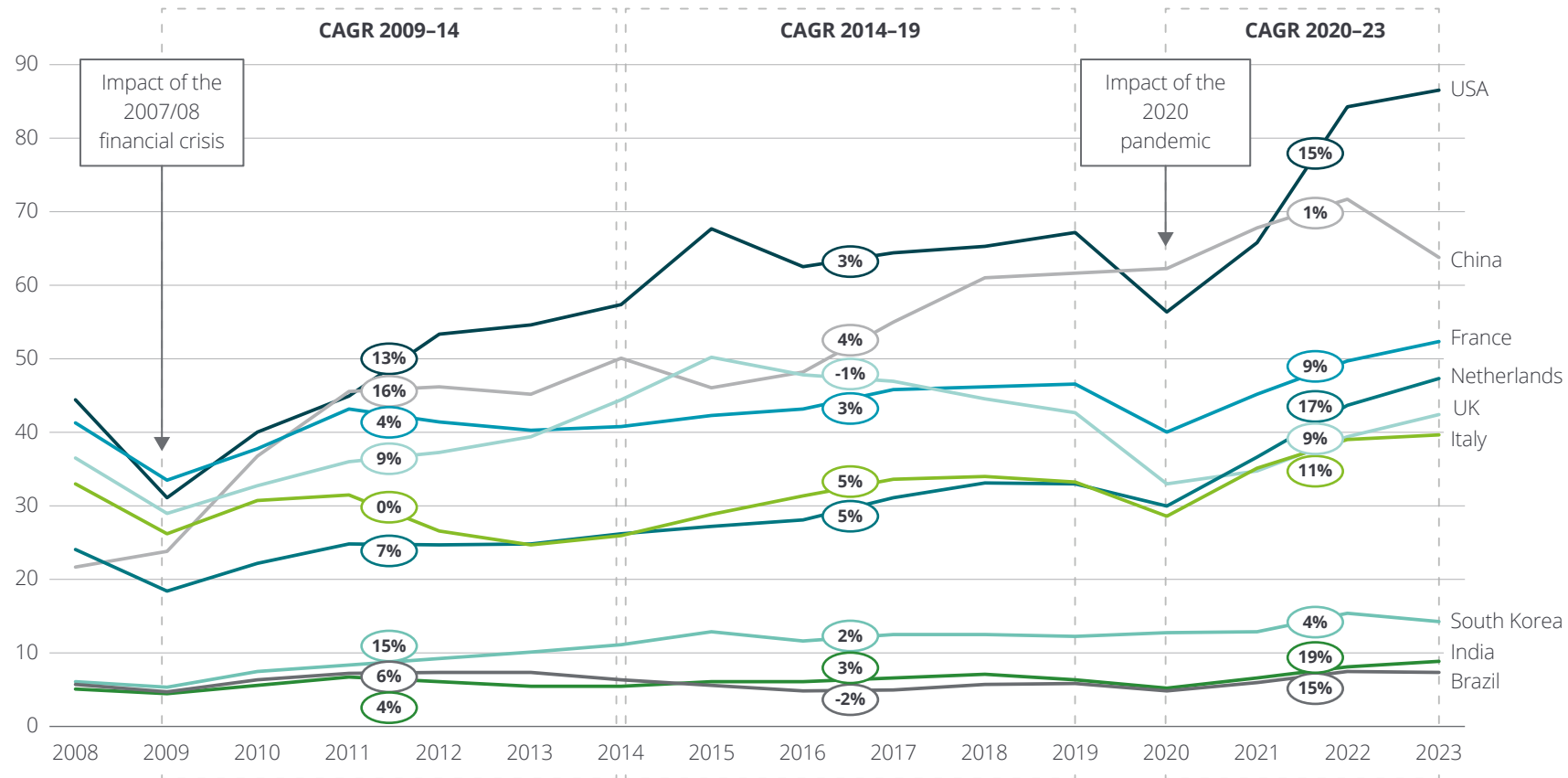
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02 | German industry exports yesterday, today and tomorrow: Between free trade and protectionism

Fig. 1 – German industrial exports to the top five markets and other selected countries
(2008–2023, EUR billions, CAGR)



Note: German industry refers to the machinery, electronics, automotive and chemicals sectors.

Source: Destatis.



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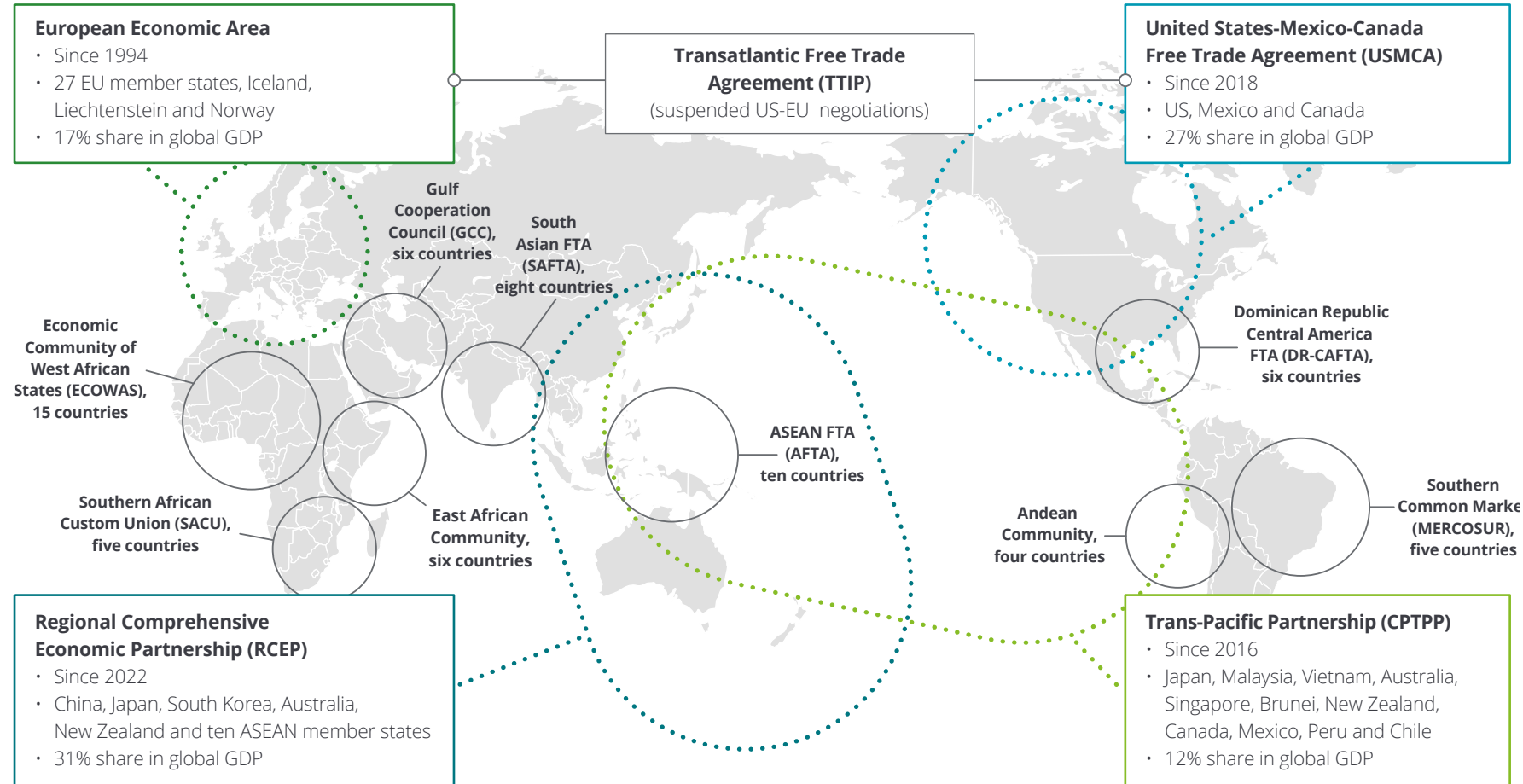


Today: Global trade is becoming more complex as the number of trade agreements increases

- The trend towards more free trade has accelerated in the past ten years. Since 2009, the number of global trade agreements reported to the World Trade Organization (WTO) has risen from 199 to 372 today.³
- In addition to bilateral agreements, we are seeing more and more regional economic partnerships. The world's largest Regional Comprehensive Economic Partnership (RCEP), which includes China, Japan, South Korea, Australia, New Zealand and ten ASEAN member states, came into effect in 2022 and represents more than 30 percent of global GDP (see Fig. 2).⁴ This is almost double the amount the European Economic Area contributes to global GDP (17%).
- Even though these agreements were signed mainly to liberalize global trade, the sheer number of treaties in place make the landscape much more complex, for example due to provisions regulating trade in services, investment protection or copyrights.⁵



Fig. 2 – Largest multilateral free trade agreements and regional economic partnerships
(as of 2024)



Sources: World Bank, Deloitte.





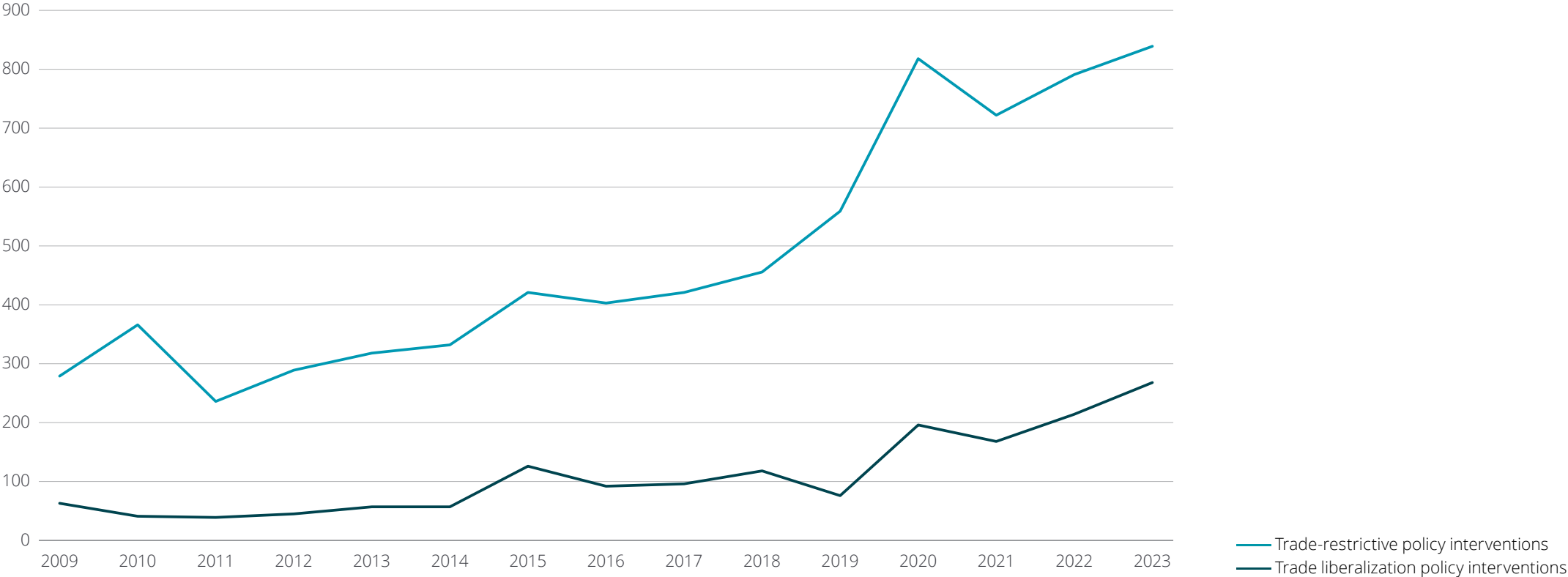
Tomorrow: Increased protectionism and geopolitical realignment put pressure on German exports

- The future of global trade will see more protectionism on the part of individual countries and trading blocs.
- There has been a steady rise in the number of trade-restrictive policies introduced by individual countries since the 2007/08 financial crisis, reaching a total of 839 in 2023—three times the number in 2009 and three times the number of recent trade liberalization policies (see Fig. 3).⁶
- The current debate about the implications this might have for growth, both in global trade and in German industrial exports, revolves primarily around the reignited trade dispute between the US, the EU and China. The US has announced an increase in tariffs on Chinese goods in the second half of 2024 (including electric cars, solar panels, batteries, critical minerals, steel and aluminum),⁷ while the EU has imposed punitive tariffs on made-in-China electric cars.⁸ China has responded by launching its own anti-subsidy investigations into selected imports from the EU.⁹



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Fig. 3 – Trade-restrictive and trade liberalization policy interventions introduced by other countries against German industry
(2009–2023, measures per year)



Note: German industry refers to the machinery, electronics, automotive and chemicals sectors.

Source: Global Trade Alert.



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Quantitative trade model: Development of future trade corridors in two scenarios



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“Global trade is characterized by geopolitical risks, new protectionism and regulatory requirements. Geoeconomic competition is opening up new trade corridors and changing production strategies. New target markets in Asia become more attractive when companies relocate their production, for example due to tensions between the US and China.”

Dr. Alexander Börsch, Director, Chief Economist & Research lead, Deloitte

The future of trade corridors—at risk from the threat of new geopolitical blocs

- Increasing protectionism and geopolitical realignment will have an impact on industrial exports. To get a better idea of the exact implications, we analyzed two different geopolitical scenarios to forecast the future performance of German manufacturers' main trade corridors between now and 2035. We used the GTAP (Global Trade Analysis Project) model to map the trade relationships between the major economies at the sector level (see the appendix for more details).¹⁰



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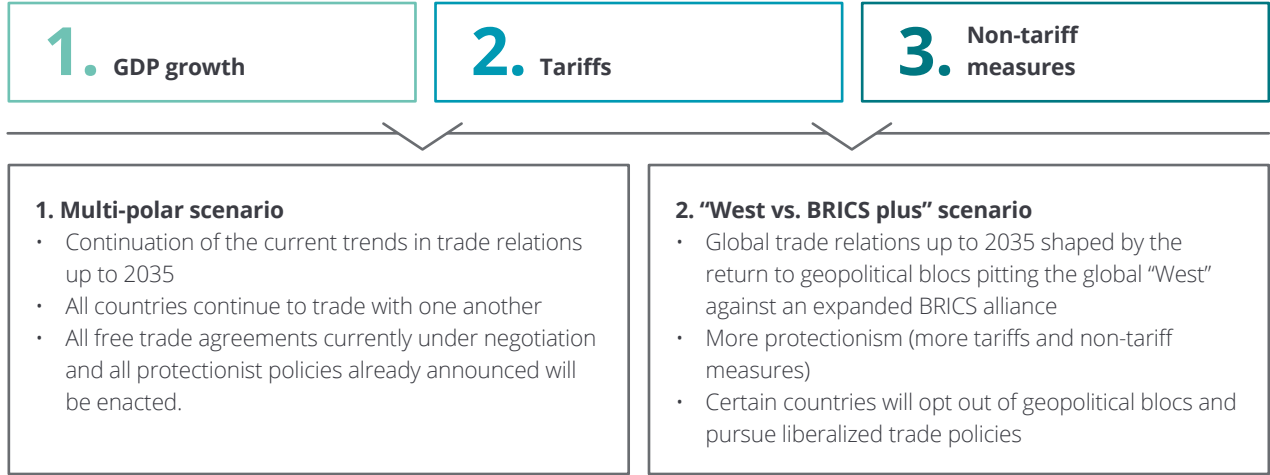


03 | Quantitative trade model: Development of future trade corridors in two scenarios

- The model reflects the major factors that could have a positive or negative impact on future trade: future GDP growth in the individual countries, the removal or introduction of tariffs (i.e., more free trade or more protectionism) between the countries and the influence of non-tariff measures (see Fig. 4). Non-tariff trade barriers are, for example, licensing requirements, technical specifications, import quotas or local content clauses. Non-tariff measures that have a liberalizing effect include, for example, introducing uniform standards.
- We simulated two scenarios based on the following assumptions: The first is a multi-polar scenario that assumes that global trade relations will continue to develop similarly at recent rates between now and 2035. All countries will keep trading with each other, and all free trade agreements currently under negotiation and all protectionist measures already announced will be enacted.

- The second scenario is a dual “West vs. BRICS plus” scenario that assumes more protectionism and more competition will shape global trade relations from now until 2035, mainly between the global “West” and an expanded BRICS alliance as the two strongest blocs. Certain countries will, however, opt out of these blocs.

Fig. 4 – Overview and assumptions in our equilibrium model of global trade



Sources: Global Trade Analysis Project, Deloitte.



03 | Quantitative trade model: Development of future trade corridors in two scenarios

How geopolitical realignment promotes stronger geopolitical blocs

- We based our analysis of future geopolitical blocs on three main assumptions: First, that two dominant blocs will emerge in the coming years (see Fig. 5):
 - “The West”: all West-aligned countries with ties to the two major economic powers of the US and the EU, including the majority of Central and South America and individual countries in Asia (e.g., Australia, Japan, South Korea)
 - “BRICS plus”: an expanded version of the BRICS countries that currently have close economic ties with China—Brazil, Russia, India, South Africa, Egypt, Iran and the United Arab Emirates—to include Saudi Arabia,¹¹ Malaysia¹² and Thailand¹³ as well as the majority of the African states¹⁴
- Second, that individual independent countries—in particular Indonesia,¹⁵ Vietnam and the Philippines¹⁶—will opt out of the “BRICS plus” bloc.
- Third, that trade between the global “West” and the “BRICS plus” countries will likely decline, while trade between the countries within both blocs will increase.
- The assumptions that led to the BRICS expansion are all based on current statements by countries as to their intentions to join the alliance.

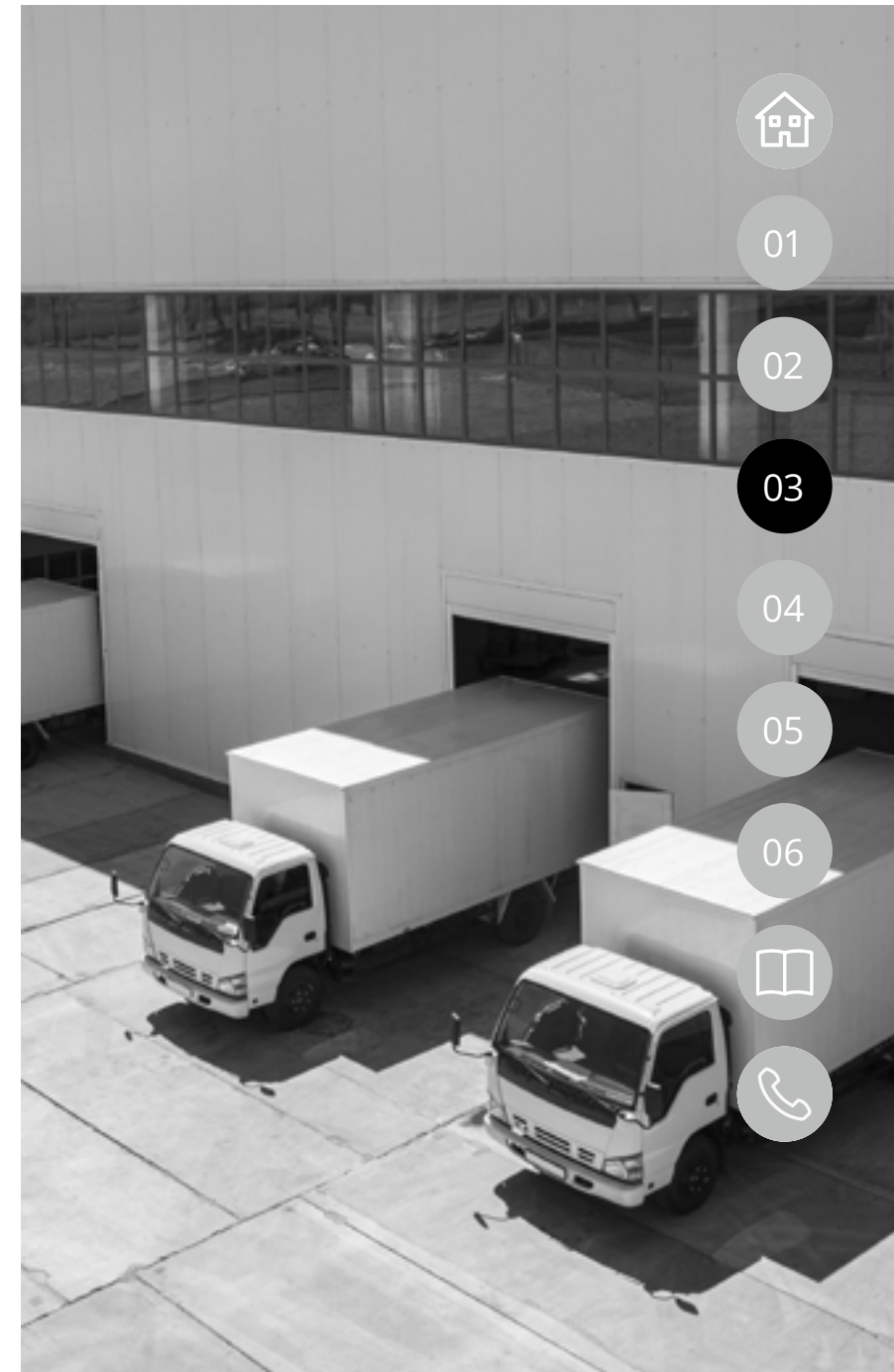
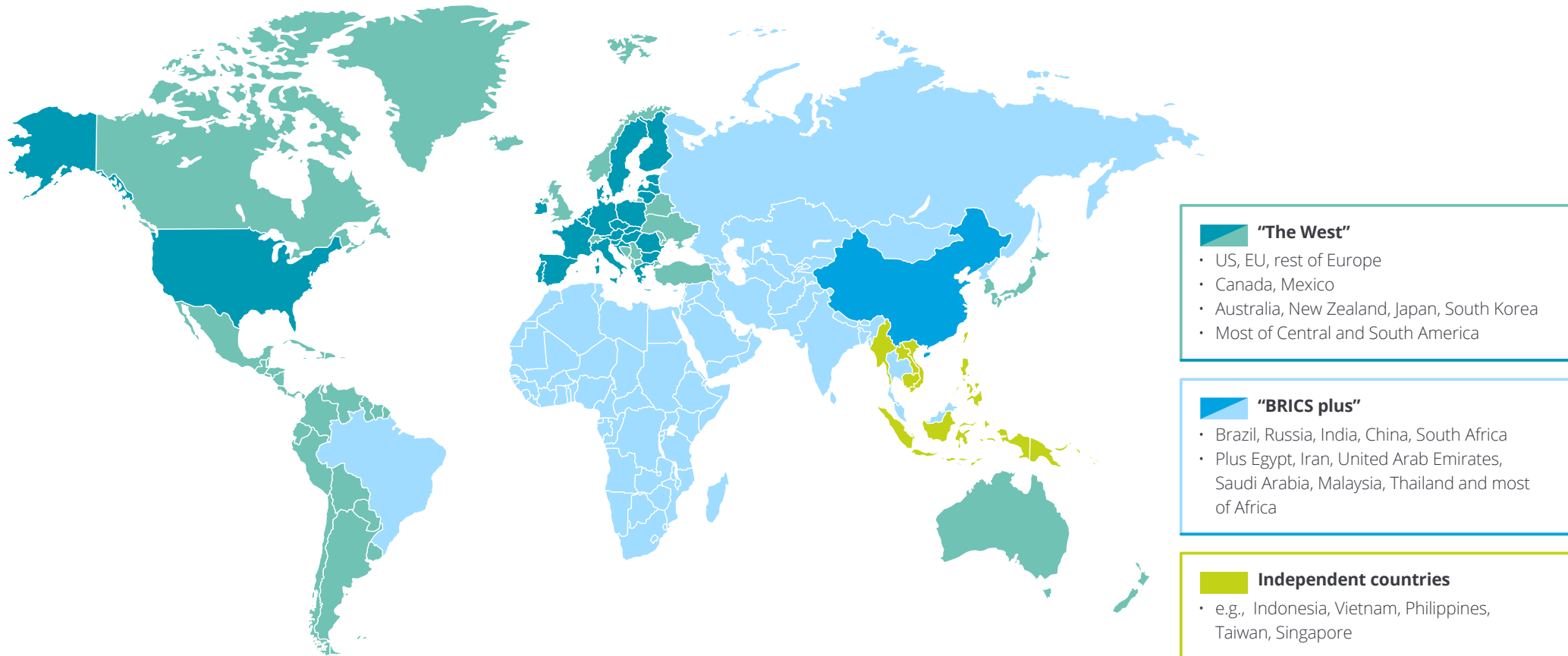


Fig. 5 – Overview and assumptions of future geopolitical blocs



Note: 55 countries were covered in the model (see the Appendix for a list of countries).

Source: Deloitte.



Trade forecasts and theses: The impact of political bloc formation



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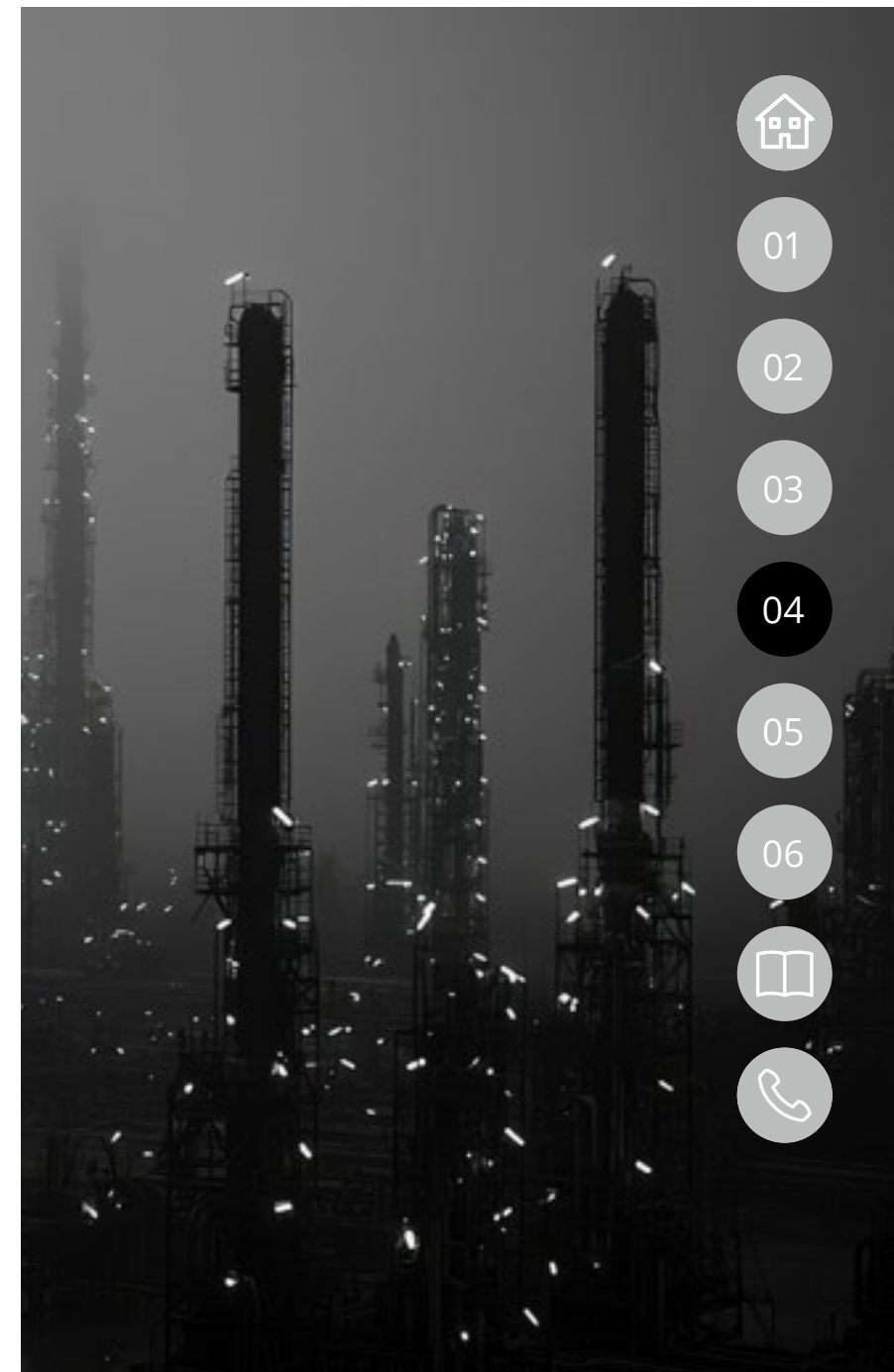
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#1 – The US export market cannot offset weaker exports to China

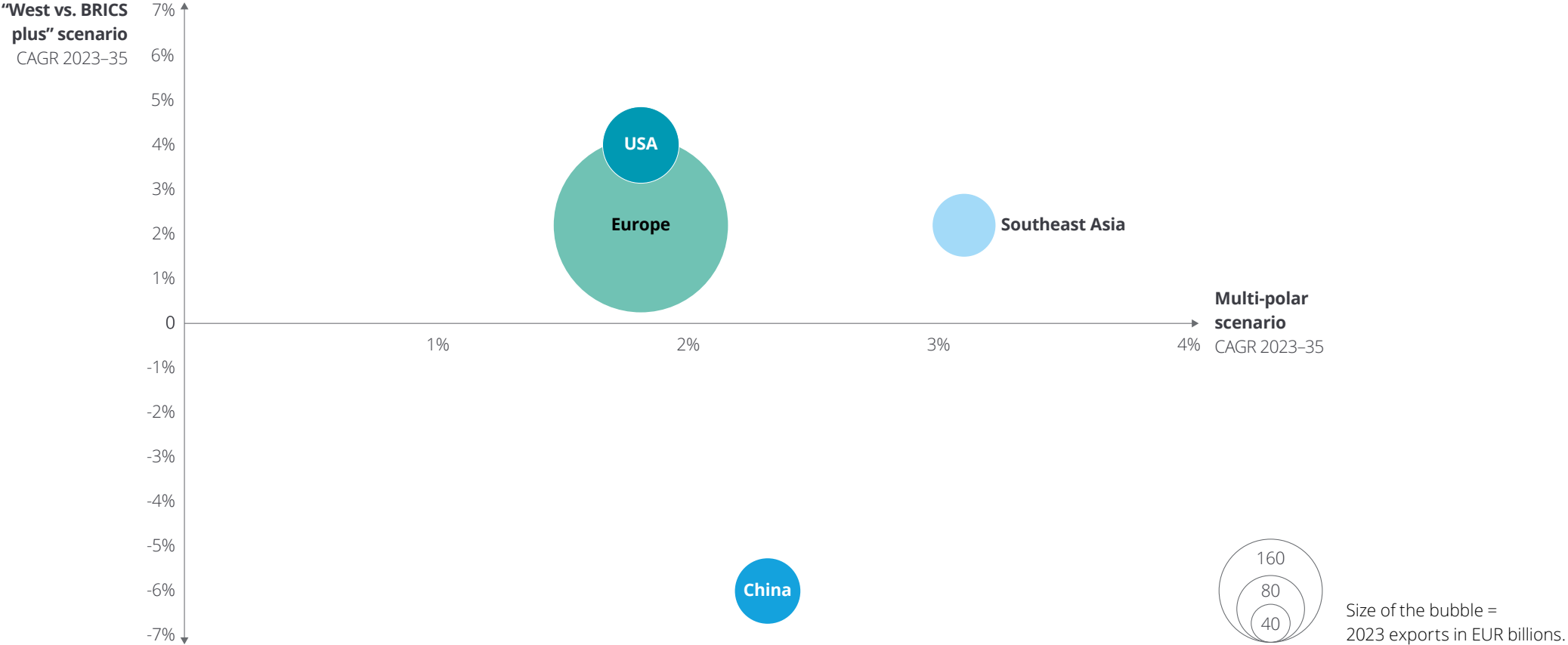
- The US, as the largest sales market for German manufacturers, remains critical to its success in our trade forecast. In our multi-polar scenario, German exports to the US market will grow at a compound annual growth rate (CAGR) of 1.8% similar to the exports to the combined European markets (1.8%). This is in contrast to the strong growth in the US export market in the “West vs. BRICS plus” scenario (4.0%) (see Fig. 6).
- Europe as a whole will remain an important domestic market for German exports with an export CAGR of 1.8 percent in our multi-polar scenario and 2.2 percent in the “West vs. BRICS plus” scenario. In our multi-polar scenario, exports to China, as the second largest export market, will grow at an export CAGR of 2.3 percent, which is slightly stronger than Europe but substantially less than the other Southeast Asian markets (3.1%). In the scenario with expanded geopolitical bloc and more isolationism, China will likely become much less relevant as an export market for the German industry (-6.0%).
- The impressive growth of the US export market in the “West vs. BRICS plus” scenario (4.0%) could offset a considerable share of the decline in exports to China (-6.0%), with independent Southeast Asian markets absorbing an additional share. However, Europe as a whole is the only region with the potential to comprehensively compensate for the loss of China as an export market.



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Fig. 6 – Major regional markets

(2023 exports in EUR billions, CAGR 2023–35)



Sources: Global Trade Analysis Project, Deloitte.



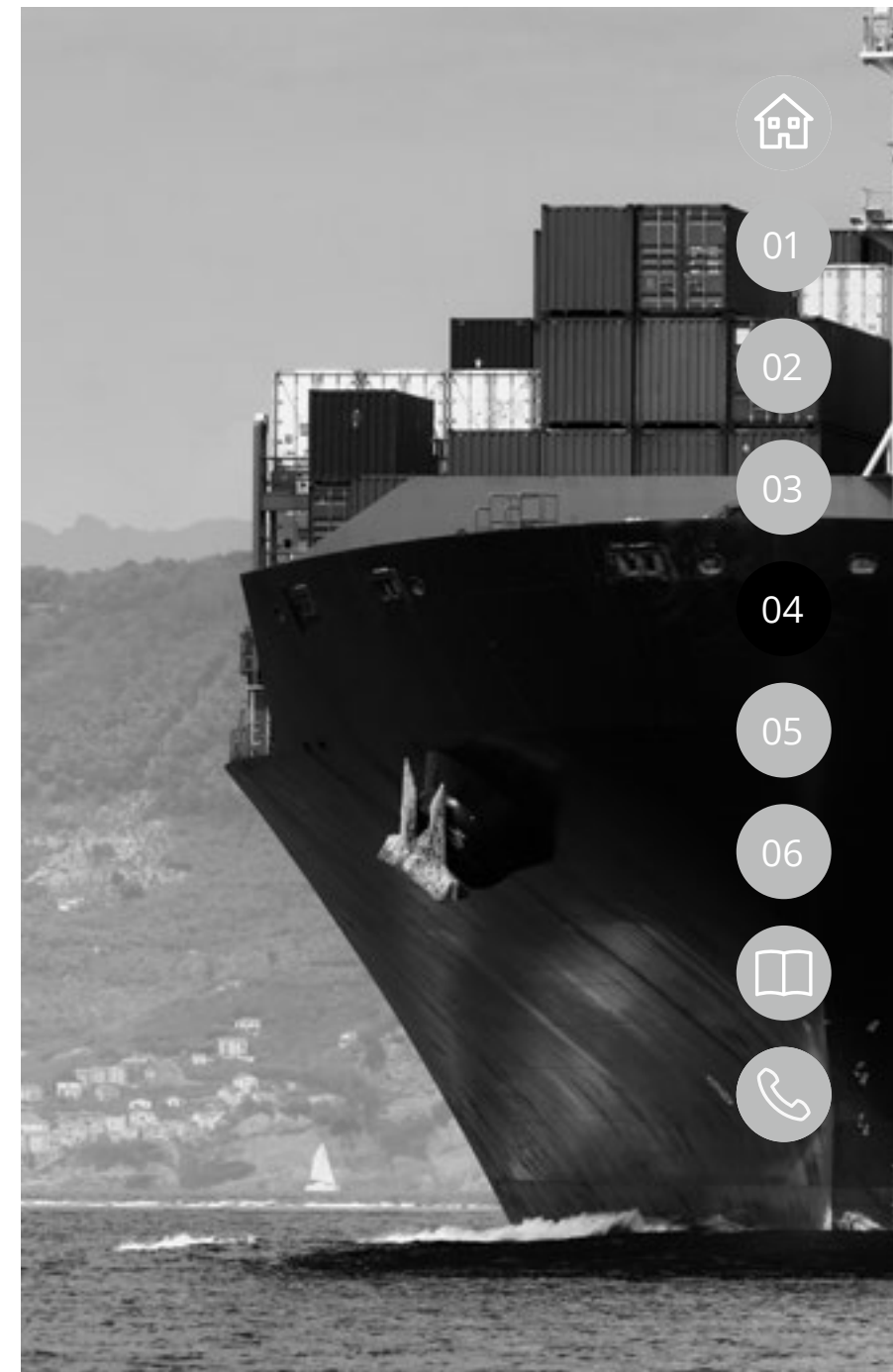
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#2 – Fragmentation and formation of geopolitical blocs jeopardize German exports to India and Brazil

- In our multi-polar scenario, comparing today's top ten export markets with those of the future shows that none of the current major sales markets are even in the ranking of future growth markets (see Fig. 7). The future export landscape for German industry is likely to be highly fragmented, even in a moderate scenario.
- The fragmentation only gets worse when we compare the top ten growth markets in our "West vs. BRICS plus" scenario: With the expanded geopolitical bloc in this scenario, growth is negative for three of the ten growth markets with above-average CAGR in our multi-polar scenario—the United Arab Emirates (-1.7%), Brazil (-2.9%)

and India (-5.7%). The India example in particular shows the massive disparity in export growth between signing a free trade agreement with Germany (in our multi-polar scenario) and the negative effect of intensified bloc formation with more protectionist policies against the global "West".

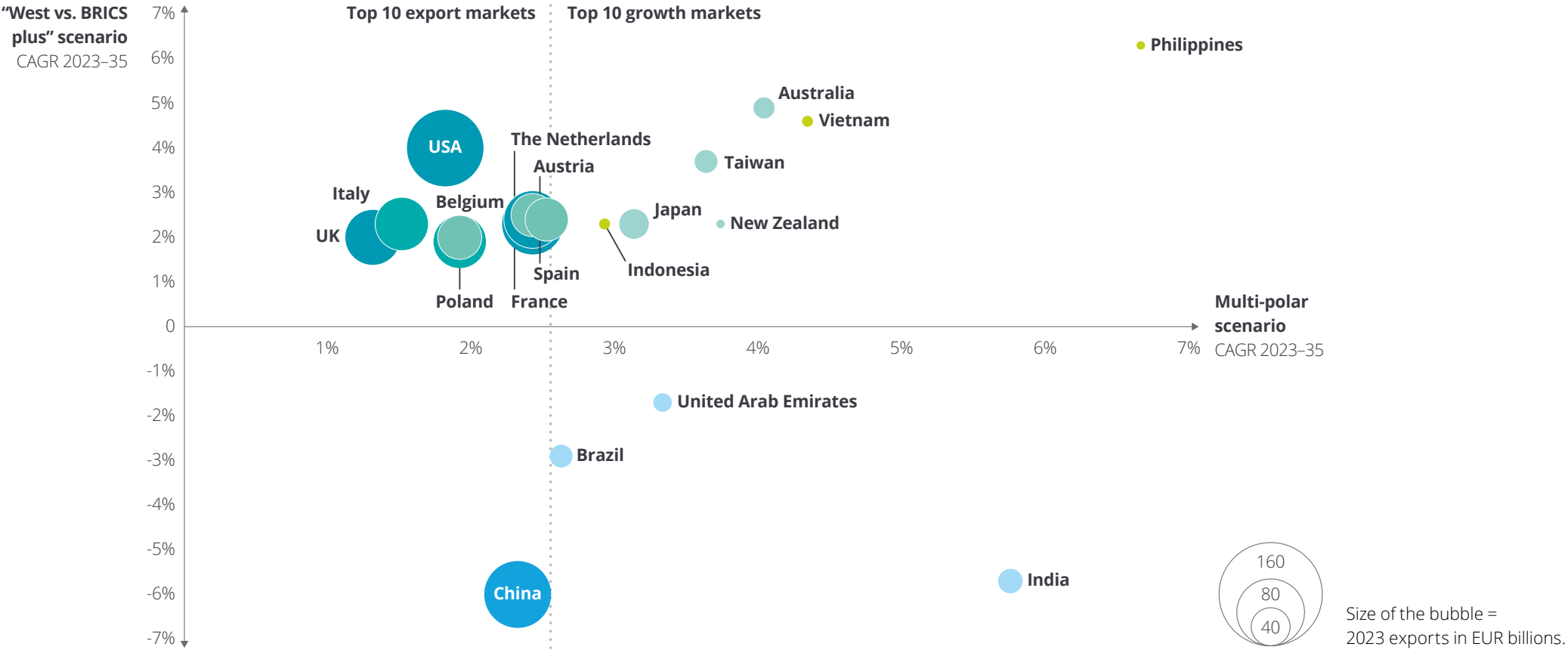
- These insights illustrate how vital it is for companies to monitor geopolitical developments and impacts on an ongoing basis—on the one hand, to recognize protectionist trends or expansions of blocs early on and, on the other, to make the most of those growth markets that remain independent of established geopolitical blocs.



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Fig. 7 – Top 10 export markets and top 10 growth markets

(2023 exports in EUR billions, CAGR 2023–35)



Note: Top 10 = largest export markets in 2023 or growth markets in the multi-polar scenario.

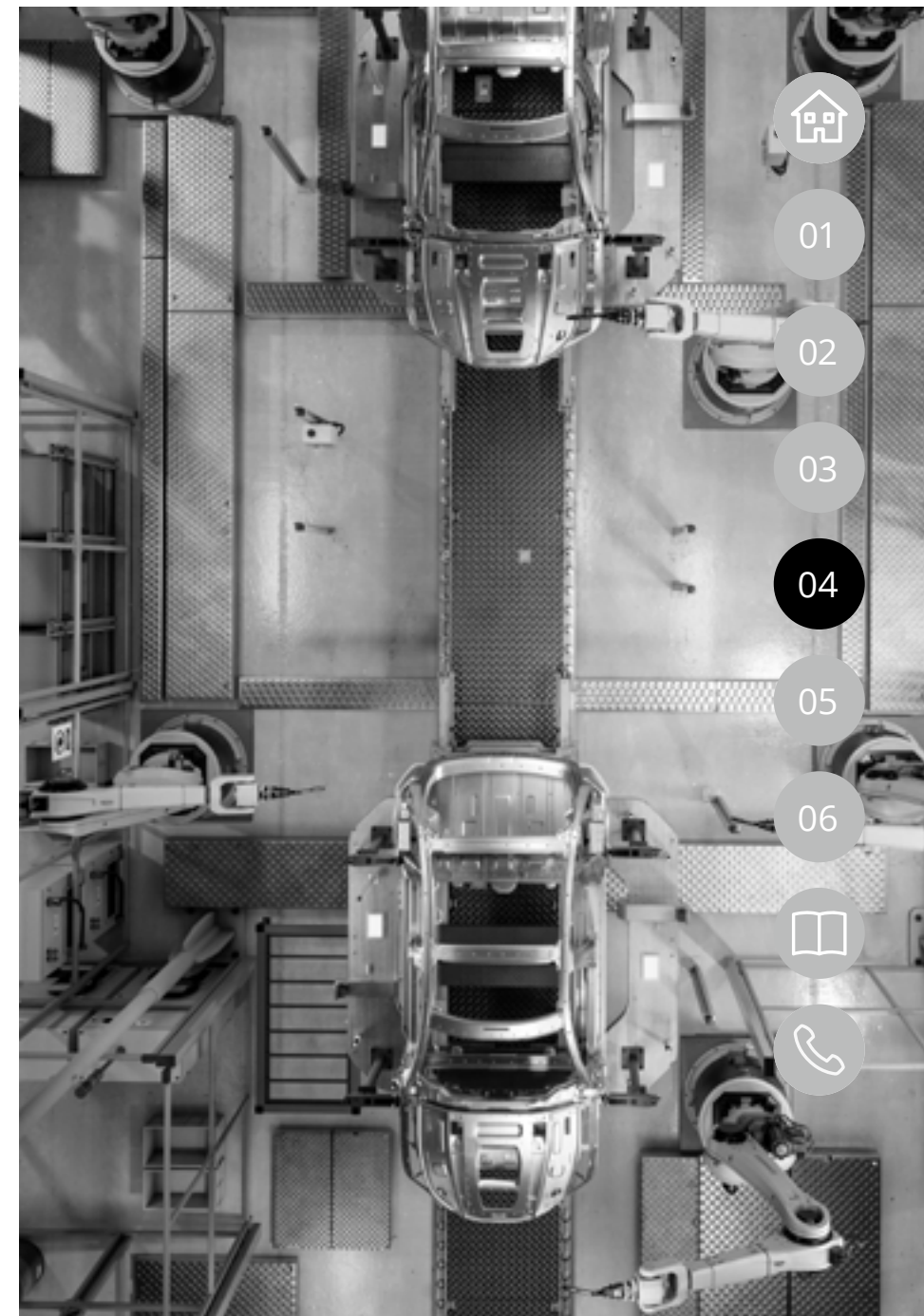
Sources: Global Trade Analysis Project, Deloitte.



04 | Trade forecasts and theses: The impact of political bloc formation

#3 – Despite low growth, Europe remains an important sales market































- In our multi-polar scenario, France, The Netherlands, Austria and Spain show the strongest growth among the established top ten export markets—slightly more than the two largest sales markets in the US and China (see Tab. 1). Overall export growth on the European market is not, however, very dynamic, ranging from just 1.3 (UK) to 2.5 percent (Spain).
- Trade is expected to increase among Western countries with close ties (in both economic and political terms) in our “West vs. BRICS plus” scenario. In this scenario, growth will improve at a faster rate for the low-growth markets from our multi-polar scenario (e.g., UK from 1.3 to 2.0% or Italy from 1.5 to 2.3%), in contrast to those countries that already have relatively high growth rates.
- If the global “West” forms a tighter bloc, there is far greater potential to reduce tariff barriers and non-tariff barriers to trade in the US than between countries in the European single market, where there are already very few trade restrictions. This explains the much higher growth rate for the US in our “West vs. BRICS plus” scenario.
- We should note the differences between the different sectors here: In both scenarios, we see the highest growth rates overall for chemical industry exports, e.g., a solid 2.0% higher than the growth rates for all industrial exports to the US. There is also above-average growth for automotive exports to the nearby markets of France, Poland and Austria and for machinery exports to Spain and Austria (also in both scenarios).



04 | Trade forecasts and theses: The impact of political bloc formation

Tab. 1 – Top 10 export markets

(2023 exports in EUR billions, CAGR 2023–35)

	2023 exports EUR billions	Multi-polar scenario CAGR 2023–35	“West vs. BRICS plus” scenario CAGR 2023–35
 US	87	 1.8%	 4.0%
 China	64	 2.3%	-6.0% 
 France	52	 2.4%	 2.3%
 The Netherlands	47	 2.4%	 2.4%
 UK	42	 1.3%	 2.0%
 Italy	40	 1.5%	 2.3%
 Poland	39	 1.9%	 1.9%
 Belgium	28	 1.9%	 2.0%
 Austria	27	 2.4%	 2.5%
 Spain	27	 2.5%	 2.4%

Note: Top 10 = largest export markets in 2023.

Sources: Destatis, Global Trade Analysis Project, Deloitte.



04 | Trade forecasts and theses: The impact of political bloc formation

#4 – Growth continues in smaller Asian markets regardless of the formation of geopolitical blocs































- The breakdown of the top ten growth markets for German exports shows that several small to medium-sized markets have the potential to play a more important role in the future, making the German export landscape more complex (see Tab. 2). The export markets with the strongest growth potential for German industry are often independent countries that opt out of geopolitical blocs or where certain key industries are very strong.
- The countries with the highest growth rates in both scenarios are the Philippines, Vietnam, Australia and Taiwan (between 3.6 and 6.6% in each case). Our models show above-average growth rates in certain sectors, particularly automotive exports to the Philippines (13.8%) and Indonesia (5.8%) in both scenarios and exports from the chemicals and electronics sectors to India and Vietnam in our multi-polar scenario (export CAGR > 6.0%).
- As a group, The Philippines, Vietnam and Indonesia have the potential to become the “new India” for various sectors (automotive, electronics and chemicals)—assuming we see the expansion of geopolitical blocs.



04 | Trade forecasts and theses: The impact of political bloc formation

Tab. 2 – Top 10 growth markets

(2023 exports in EUR billions, CAGR 2023–35)

	2023 exports EUR bn	Multi-polar scenario CAGR 2023–35	“West vs. BRICS plus” scenario CAGR 2023–35
 Japan	12	 3.1%	 2.3%
 India	9	 5.7%	-5.7% 
 Taiwan	7	 3.6%	 3.7%
 Brazil	7	 2.6%	-2.9% 
 Australia	6	 4.0%	 4.9%
 United Arab Emirates	5	 3.3%	-1.7% 
 Indonesia	2	 2.9%	 2.3%
 Vietnam	2	 4.3%	 4.6%
 Philippines	1	 6.6%	 6.3%
 New Zealand	1	 3.7%	 2.3%

Note: Top 10 = largest growth markets in the multi-polar scenario.

Sources: Destatis, Global Trade Analysis Project, Deloitte.



What is important now: Key questions for industrial companies



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De-risking and diversification

- Do you have a system in place to monitor and analyze geopolitical trends and risks on an ongoing basis?
- Are geopolitical issues a factor in your strategy and location decision-making?
- Do you understand how trade barriers and geopolitical bloc formation can impact your business?
- Have you developed a range of diversification scenarios?
- Do you have plans that can be operational immediately if dominant geopolitical blocs reshape global trade?
- Do you have a clear vision of how you want to align your company with the growing markets in the “BRICS plus” alliance?



More localized production

- Have you conducted an in-depth analysis of the opportunities and risks of localizing production?
- Do you factor local regulations, tax incentives and legal implications into your decision-making on localized production?
- Are you relying on local knowledge about political developments in your offices on the ground?
- Have you learned from the mistakes of previous localization projects (e.g., in China) and identified critical success factors?
- Have you already developed a strategy for future localization initiatives that takes into account the lessons learned in previous projects?



Supply chain optimization

- Do you have a transparent overview of your supply chains and the implications of various geopolitical scenarios on your supply chains?
- Have you already developed plans for supply chains that are less dependent on China?
- Does your supply chain already have a good balance of local and global suppliers?
- What innovative technologies can you deploy to mitigate potential risks in your supply chains?
- In your decision-making process, are you taking adequate account of the tax implications and any mutual consequences that may arise within the value chain (e.g., semi-finished products, warehouses and storage facilities for finished goods)?



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Alliances and ecosystems

- Do you have close ties with political decision-makers, think tanks, etc. to help you contextualize and interpret geopolitical developments?
- Do you have a trusted advisor who can provide objective and comprehensive support (incl. tax and legal expertise), act as a sparring partner and help you develop the scenarios you need to optimize your future strategy?

“To navigate a rapidly changing environment, companies need to anticipate geopolitical changes, develop resilient strategies for their supply chains and production, and diversify their markets. Success will depend heavily on adaptability and agility.”

Dr. Jürgen Sandau, Partner, Lead Supply Chain & Network Operations, Deloitte



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Appendix: Further details on the trade model



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06 | Appendix: Further details on the trade model

- The calculations are based on a customized computable general equilibrium model from GTAP (Global Trade Analysis Project) at Purdue University (US) with 190 countries and 65 sectors.
- For our model, we grouped them into four sectors (machinery, electronics, automotive and chemicals) and limited them to the following 55 countries:
 - Argentina
 - Austria
 - Australia
 - Belgium
 - Brazil
 - Bulgaria
 - Canada
 - China
 - Croatia
 - Cyprus
 - The Czech Republic
 - Denmark
 - Egypt
 - Estonia
 - Finland
 - France
 - Greece
 - Hungary
 - India
 - Indonesia
 - Iran
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 - Saudi Arabia
 - Singapore
 - Slovakia
 - Slovenia
 - South Africa
 - South Korea
 - Spain
 - Sweden
 - Switzerland
 - Taiwan
 - Thailand
 - Turkey
 - UK
 - US
 - UAE
 - Vietnam



06 | Appendix: Further details on the trade model

- We aggregated the sectors and formed regional aggregates with the countries. This allowed us to perform quantitative analyses of the development of global trade corridors for German industry between now and 2035.
- The GTAP model is based on data from 2017. In the first step, we updated the model to 2023 by adjusting GDP for all countries to the 2023 results. The GDP data is based on World Bank and Oxford Economics statistics.
- In the main simulation of our multi-polar scenario, we updated GDP for each country from 2017 to 2035. We also adjusted and applied shocks to the model to reflect the bilateral trade agreements (tariffs and non-tariff measures) for each country pair.
- In the dual “West vs. BRICS plus” scenario, we also considered the fact that geopolitical trends and realignments—whether it is new protectionism or intensified geopolitical bloc formation—can have negative and positive impacts on international trade and on Germany’s most important export markets. We focused on the expansion of the BRICS alliance in particular. We adjusted and applied shocks to the model to reflect the bilateral trade relations (tariff and non-tariff measures) for each country pair, which leads to less trade between the two blocs but also more trade within the blocs. In total, we applied over 6,400 negative and positive shocks to both scenarios.
- However, the model also has certain limitations because we only modeled trade trends using the three factors GDP growth, tariffs and non-tariff measures. Our model did not take into account “wild cards”, for example, the role that the current and future capacity for innovation plays in a country as a key indirect driver and growth factor.



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