The Eurozone economic crisis and the divergent paths of unity

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Abstract
The Eurozone economic crisis, which began in 2008, has had far reaching and destructive effects on the future of Europe, its trading partners and the global economic system as a whole. In order to begin to understand the implications it has had on the future of Europe as a whole it is important to look at why different member countries suffered such divergent repercussions. This research seeks to explain this divergence by focusing on the experiences of Germany and France and comparing them to one another. The question to be answered is why has there been such a difference in economic success and recovery between the economies of France and Germany since the crisis? The ultimate answer to this question is that Germany and France were subject to six factors: 1) the use of an export-manufacturing development model; 2) the timing and nature of the economic reforms implemented by each state; 3) the orientation of the countries policies being in favor of national or Union interests; 4) the economic and political status of each state within the region; 5) the identity of major export partners; 6) the amount of capital flow into the state. Using both quantitative and qualitative data to study these factors we find not only the reasons behind Germany's economic success, but also some of the potential future possibilities of the Eurozone and of European integration plans as a whole.

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I. Abstract

The Eurozone economic crisis, which began in 2008, has had far reaching and destructive effects on the future of Europe, its trading partners and the global economic system as a whole. In order to begin to understand the implications it has had on the future of Europe as a whole it is important to look at why different member countries suffered such divergent repercussions. This research seeks to explain this divergence by focusing on the experiences of Germany and France and comparing them to one another. The question to be answered is why has there been such a difference in economic success and recovery between the economies of France and Germany since the crisis? The ultimate answer to this question is that Germany and France were subject to six factors: 1) the use of an export-manufacturing development model; 2) the timing and nature of the economic reforms implemented by each state; 3) the orientation of the countries policies being in favor of national or Union interests; 4) the economic and political status of each state within the region; 5) the identity of major export partners; 6) the amount of capital flow into the state. Using both quantitative and qualitative data to study these factors we find not only the reasons behind Germany’s economic success, but also some of the potential future possibilities of the Eurozone and of European integration plans as a whole.

II. Introduction

In early 2007 the United States entered the so called “subprime crisis”. The inability of subprime mortgage holders to pay their bills began a domino effect of bankruptcy and credit crises that would ultimately lead to the collapse of the “housing
bubble" by the end of 2008. As these subprime mortgages had been sold by investment banks to private banks, businesses and individuals around the world as subprime backed securities the crisis spread. What would come to be known as the 'global economic crisis' would hit the European Union in early 2008 and by halfway through the year credit crises were in full swing both in the US and Europe. Governments scrambled to support collapsing financial institutions and protect investors through bailouts and capital lending, but these efforts were not enough to stop the spiral as some of the biggest investment firms and banks in the Western world write off billions of dollars-worth of losses.

Subprime, banking, financial, credit, sovereign debt, economic...regardless of which is used the late 2000s saw all of them followed by the same word: crisis. Thus was how a century that was once viewed with so much promise began with a time of instability and economic and political strife. In the EU the economies of the smaller states of Ireland, Spain, Portugal, Greece and Italy folded sunk by high unemployment, government deficits and public debt. These countries would be the hardest hit by the crisis, but they were not alone as the regions’ major economies, particularly those of Germany, France and Netherlands, struggled to keep both their national economies and the European single market afloat. However, the anomaly in this piece of history is not the story of the majority, but of the outlier.

The European Union and Eurozone anomaly in this crisis is Germany.

Historically one of the major economies of continental Europe it was one of the founding members of the European Union and the single-market Eurozone and has had strong

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economic ties with France, the other major continental economy, since the end of the Second World War in 1945. Yet by 2010 Germany’s GDP growth rate had gone from its all-time lowest rate\(^2\) of -6.80% in the second quarter of 2009 to growth rates of over 2%\(^3\). This significant positive economic growth has persisted and brought with it a decrease in unemployment and the stabilization of the national financial system. All the while recovery has remained sluggish and limited in France and throughout the rest of the Eurozone.

Looking more closely at some chief economic indicators we can see how different the realities are for these two states. France saw its record low by way of GDP growth in the first quarter of 2009, when it hit -1.70%. It actually began recovering growth in late 2009, however though it has largely maintained positive growth rates since, GDP growth has never reached even as high as 2%\(^4\).\(^5\). Unemployment rates also differ wildly between the two countries, for in France they began increasing in 2007 and is now over 10%\(^6\), while in Germany the unemployment rate started off high in 2007 at close to 10% and has continued to drop to around 5%\(^7\). The percentage of government debt to GDP is also quite telling, because though Germany’s current percentage is fairly high at around 81%

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\(^2\) This refers to the all-time lowest growth rate from 1978 to 2013.


\(^5\) This refers to the all-time lowest growth rate from 1978 to 2013.


in 2013 and dropping as compared to France whose percentage was around 90% in 2013 and still increasing.

Thus the question to be investigated in this paper is: why has there been such a difference in economic success and recovery between the economies of France and Germany since the crisis?

III. Literature Review

Theories of German Economic ‘Success’

In this literature review we will analyze some of the primary theories behind Germany’s unequaled, within Europe at least, economic success during the economic crisis. We will look at the effect of following an export and manufacturing oriented model towards development as well as looking at how German policies differ from those of France. These works will consequently be summarized and compared with one another.

Our first source is “A Global Economic Crisis?” by Nicola Phillips. This article provides a perspective on the 2008 economic crisis and Germany’s role in it. Phillips focuses on the fact that the global economic crisis started in the United States and Europe, and for the most part its repercussions have been restricted to those regions. Inversely, emerging economies like China, Brazil and India have seen remarkable growth and increased global economic influence during the crisis period. However, since the height of the crisis in 2009, even these economies have begun to falter. Brazil has been

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the hardest hit so far but even the Chinese economy has begun to slow. This is indicated by a sharp decline in China’s once flourishing manufacturing sector and a general downgrade in growth estimates for 2012 and 2013 (this article was written in December 2012). The author disagrees with claims that these are signs of ‘China’s Great Slowdown’. Instead she sees them as merely the result of losing so much in trade from the devastated Europe and United States economies, and there were indications as early as October 2012 that the Chinese economy was beginning to recover.

As much as China is reliant on countries like the United States for the sale of their goods and the growth of their economy, commodity exporters like Germany, Japan and Brazil are dependent on sales to the Chinese economy for their growth. However, the article predicts that China’s growth will become far less dependent on commodity imports in the coming years, and this would have serious repercussions for these commodity exporters. Still, it is argued that so long as commodity exporters have a diversified group of trading partners the loss of China will be less catastrophic, though it will most certainly impact their economies.

The article argues that there are thus three major reasons why emerging economies have not been as badly hit as other groups. Firstly, as has already been discussed, so long as the US trade deficit continues to increase, so too will these countries continue to grow. Secondly, although these countries do tend to rely heavily on exports for economic growth, their economic models are fairly diversified and thus the export economy is not their sole foundation. In fact these countries tend to have large domestic markets and have focused on expansion of domestic demand and consumption. In China,
private domestic consumption has been calculated to account for as much as half of total GDP. The third and final factor, as Dr. Phillips sees it, is inflation and currency pressure. These financial complications if not handled properly can result in economic downturn as has happened to Brazil.

China however has largely managed to avoid being negatively impacted by these pressures by employing policies like currency manipulation and anti-inflation-based economic controls on certain industries. These policies have insulated China but made it harder for other countries to recover economically. Thus, to a high degree, having greater independent control over one's financial sector and being insulated from major financial centers and the International Monetary Fund, as well as decreasing one's reliance on the US dollar as a major trading currency, has helped these countries keep up their growth rates and weather the economic crisis. Likewise, the decrease in power and influence of the EU, US and UK has enabled the power and influence of emerging markets to increase and thus these countries have been freer to implement economic changes so as to protect themselves from the same kind of economic turmoil that the West has seen.  

"Germany: Europe's China" by Paul Dobrescu and Mălina Ciocea focuses on why Germany, like China, has seen economic growth and advancement during the economic crisis. The authors argue that China and Germany have benefited the most from the crisis because their development models have been proven successful. Both models focus on manufacturing, with China having made itself into the world's factory and Germany having made itself Europe's, and both have focused on exports. In fact, as of June 2013 when the article was written China and Germany were first and second in

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11 Phillips 24-27.
the world for export volume. The last key factor is that both countries focused on their own domestic development\textsuperscript{12}. To support this view the authors focus on six key factors, which will be subsequently discussed.

The first element is the growth of German power and influence in Europe, the authors perceive that the most important decisions are now made in Berlin. This shift, though apparently helped by the crisis, is largely a reflection of Germany’s rise in power and prestige over the last several years. It is also key that France has historically been Germany’s only real competitor; however Dobrescu and Ciocea conclude that France is no longer a real threat to German authority. Additionally Germany has grown weary of the “rulebreaking and fiscal incontinence elsewhere in Europe” and thus has been increasingly taking over the creation and implementation of Eurozone policies\textsuperscript{13}. These policy decisions are focused on making Europe more “German” by way of the running of institutions. The authors also argue that German reunification in the early 90’s also helped encourage Germany to think more “self-centeredly” about how things in Europe should be run.

The second regards the German policy for production. As the authors see it, Germany could not compete with the United States by way of widespread innovation so instead it focused on key industries in which it has a tradition of success and competitiveness. This has worked to Germany’s advantage, because increases in labor productivity are not dependent on innovation alone. The article gives the statistic that the average growth in US labor productivity has been less than 1.5% from 2004 through


\textsuperscript{13} Ibid
2012. Consequently, if innovation cannot do the job of stimulating greater productivity and if, as former US Federal Reserve Chair Alan Greenspan once said, a decrease in productivity leads to economic crisis, then we must look to classical instruments for creating productivity in order to avert disaster. Such classical instruments are things like "hard work, concentration, identification of a niche or a branch which allows performance." Thus we see that the development equation has changed to one focused on discipline and management, which are also the classical advantages of both Germany and China.

The third element, that of a focus on domestic development over the development of the Union, is a policy, which the authors say, Germany began to implement in the 1990's. They started down this path as a result of divergent views with France on how the fiscal policy of the Union should be handled. In 1994 Germany hoped to implement policies that would unify the fiscal policies of the Union's members, however France refused this proposal and thus, the authors argue, German elites began looking at what was strategically needed to develop the states domestic economic potential. The authors also argue that the reason that Germany's idea of so called "fiscal federalism" was refused, was first because Germany sought to establish "Bundesbank-style principles operating independently of governments to protect Europe from inflation," while France wanted, "European politicians to protect high-growth policies from external monetary disruption."
Another piece of this puzzle is the author’s conclusion that France and the other states of the European Union were focused on restraining Germany through thoroughly integrating it with European structures. Germany on the other hand focused on its own development and it did so largely, because of the unique historical context in which it exists. The German economy started to falter in the 90’s as a result of the strain of trying to assimilate the economically backward German Democratic Republic. This seeming disadvantage helped encourage domestic development and brought about the economic success that has characterized Germany since the mid-2000s. Therefore it must be concluded that the only way for France to turn around the economic decline that they have been going through during the 2000’s is to follow the German example and quickly modernize its economy in pursuit of greater market competitiveness.

The fourth element, that of Germany’s success at establishing its authority over the Eurozone’s financial institutions details another German-EU relationship that began prior to the 2008 crisis. Apparently during the negotiations that resulted in the Maastricht Treaty creating the European Union, Germany made their cooperation contingent on the incorporation of certain Bundesbank-style fiscal policies. These included a strongly independent European central bank with a focus on eliminating inflation. Germany also refused to accept provisions that would “allow for fiscal transfers or bailouts,” among member states. In addition to being heaped with strict German-style regulations, the Treaty also established the European Central Bank in the German city of Frankfurt. This has led to the suggestion that the Euro is in fact “the new European Deutsch-Mark.”

\(^1^9\) Official currency of Western- and later Reunified- Germany from 1948 till 1999 when it was replaced by the Euro.
The authors subsequently make assertions for the predominance of political motivations in the creation of the Euro-currency in what was perhaps too early of a stage in the Union's development process. These include the belief that one of the primary goals of both the single currency and the Union itself was to hinder Germany. The authors characterize this by saying, "Germany's reunification in the early 90s announced the rise of the Union's first economic power [Germany]. France and Europe in its entirety were preoccupied with Germany's evolution and dominance." Another cited political reason for the single currencies creation was to assist with the creation of the Union itself. However, it is argued that by not implementing measures to create economic cohesion between states with highly varied degrees of economic performance, the implementation of the single currency both increased and created gaps between the states. Likewise these political initiatives have assisted Germany in its acquisition of economic power in the region, first by putting it in control of financial institutions and then by causing other states to be hindered and distracted by objectives other than their own economic development.

Dobrescu and Ciocea's fifth element is that Germany focused on industry and manufacturing instead of services, which has been the focus of the French economy for many years. Manufacturing is particularly important, because it acts as, "a driver of productivity growth, innovation and trade," and it, "typically accounts for the largest share of an economy's foreign trade." A study cited in the article even suggests that as much as 70% of the exports from major advanced and developing economies come from

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20 Dobrescu, Paul, and Malina Ciocea 49-66.
21 ibid
manufacturing. To excel in the area of exports requires good organization and internal performance capabilities. Subsequently, Germany is one of the top fifteen manufacturing nations on the planet and is also the world’s second largest exporter after China. This is tied to Germany’s focus on internal modernization, increasing competitiveness and on targeting particular sectors in which they had an advantage. Another piece of this is the issue of trade deficits, which have increased greatly over the last several years. France in particular has had large deficits with both China and other European states during the 2000s and thus has had to borrow money in order to maintain import levels. However, because Germany has had annual trade surpluses during this period, which means it does not have to borrow money in order to import what it needs. This has put Germany at a great advantage over France and has resulted from the German focus on manufacturing and exports.

Given the afore-mentioned importance of reform and modernization in economic growth, this factor is also the authors’ sixth and final element. They are thought to have played a crucial role in establishing Germany’s current economic success and one of the key pieces of reform legislation is the so called “Agenda 2010” or “Hartz Reforms”, which was launched by former Chancellor Gerhard Schroeder in 2003. “Agenda 2010” focused on making changes to the state’s welfare system in order to both make it more economical and more modern. This action was taken so as to combat the economic downturn that followed reunification and it was done in order to create a more competitive economic and social program. These changes ultimately allowed for a quicker German recovery by permitting Germany to enter a brief period of austerity.

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\(^{22}\) ibid
\(^{23}\) ibid
\(^{24}\) ibid
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during which it devaluated its currency in order to increase exports to Europe and abroad. Therefore Germany’s success is attributed to the fact that it perceived the economy and the welfare state as inseparable parts of the achievement of development and modernization. Among these reforms is the “short program”, which focused on, among other things, decreasing unemployment by decreasing working hours and avoiding having workers made redundant. France on the other hand did not implement radical reforms to the labor market. Instead France waited until after the 2008 crisis had begun and its economy had begun to flounder under increased public debt, because its social welfare system had not undergone anything like Germany’s cost-effective, modernization process yet.

The article ultimately argues that Germany is in the perfect position for claiming a real hegemonic leadership position in Europe. However social problems like loss of population and few competitive universities, stand in Germany’s way of achieving this goal. Becoming an official regional leader is also incumbent on the continued success of its manufacturing and export oriented development model.

Dobrescu and Ciocea as well as Phillips all agree that there are similarities between China and Germany’s development models. They both focus on exports as well as manufacturing and they both have surplus balances of trade. Phillips also describes slightly the relationship that exists between Germany and China, but the analysis focuses mostly on Germany’s dependence on China. Dobrescu and Ciocea on the other hand make reference to the fact that unlike the EU and US, which have consistently had trade deficits; in 2012 Germany had a trade surplus with China of $17 billion. However, an article by Parillo-Plesner and Kundhani titled “China and Germany: a new special
relationship?" seeks to clarify the German-China relationship. The article, though brief, states that due to a need by Germany and China for markets and technology respectively, these countries sought closer economic relations in 2008 in order to promote growth in the face of the economic downturn. The authors argue that China is particularly interested in increased trade with Germany not only for general economic reasons but because they see it as the way to achieve increased German dependence on them. With Germany being the current power in Europe and the potential future leader of a "German Europe", a Germany dependent on China for economic survival could pressure the EU to follow policies favorable to China. It is for this reason that, although the authors see this as highly beneficial relationship for China, they also believe it could undermine European strategic interests in the areas of foreign policy, human rights and climate change. The authors also state their view that the emerging EU-China relationship should be further cultivated and a European strategic partnership with China should be established. They should do this by helping Germany to create rules and guidelines for future trade deals and by working out a joint-EU relationship with China in order to allow the greater involvement of EU institutions.

Our next source is "Germany's Quest for a New EU Industrial Policy: Why it is Failing" by Mitchell P. Smith. Smith focuses on the question of why Germany has failed to gain headway in implementing its industrial policy views. During the early 2000s, Chancellor Schroeder expressed the view that, "that efforts by the European Union to promote growth and jobs neglected manufacturing industry and failed to take sufficient

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26 Dobrescu, Paul, and Malina Ciocca C 49-66.
27 Parello-Plesner, Jonas, and Hans Kundnani.
account of the external environment in which European industry operates". However these views were largely ignored by the greater European community, due in large part to the fact that the Union established its industrial policy during the 1980's and 90's when the German industrial model had begun to wane. For this reason Germany was not seen as a model for how best to implement industrial policy. Smith, however, also identifies another reason that the German perspective continues to be ignored. This is termed "path dependency" or the committal of the European integration program to support the single market system through a policy of "competitiveness through competition".

"Competitiveness through competition" comes from the belief that by eliminating all policy barriers to competition within the Union the industrial sector will become more competitive and will become capable of competing on the global market. This European policy, which follows economic liberal ideology, has led to a shift towards similar policies by national governments and Smith argues that this has led to state "hardening". State hardening is identified in the European context as the development by the state into an economic entity that does not have to adhere to the particular interests of factions within their own state. The political riskiness of state hardening helps to enforce the government's reluctance to change to different policies both at the Union and national levels. Thus there are fewer governmental controls over the industrial sectors of many European countries. Germany on the other hand focused on the creation of global competitiveness through subsidizing domestic industries as well as enacting other protectionist policies.


\[29\] Ibid

\[30\] Ibid
Smith supports Dobrescu and Ciocea’s conclusions that Germany was used as the model for the Union’s monetary policy, however Smith does not think that this has given Germany an abundance of power in Europe. He argues that German power in Europe, "consists of indirect institutional power rather than hegemonic power; derives from Germany’s role as an example of policy success; and is a product of institutional isomorphism between German federalism and the structure of the EU". Thus the extent of Germany’s power is its ability to influence those institutions that have always had a more German-looking policy path. However, where the other European institutions are concerned Germany must fight an up-hill battle against the simple inertia of policies decisions that it was not considered an expert on.

Another area that was discussed in both of these articles is that the EU failed to create ‘social Europe’ policies. When they were first striving to build the institutions of the EU in the late 90’s and early 2000’s the German social market economy was their model. However, Smith argues that the social elements of the model were never really developed after the liberal economic policies were given predominance. The EU’s social programs system thus tries to combine the goal of maximizing economic efficiency with those of job creation and flexibility in the labor force for older workers.

Our final source that of “Germany and Ireland Unemployment Compared, or Why Germany Profited from the World Economic Crisis” by Ralf Jeremias gives us an entirely different perspective on Germany and the economic crisis. This article looks at Germany as it compares to Ireland, one of the smaller Eurozone member countries that was also one of the first to feel the effects of the economic downturn. Jeremias argues that it was

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31 ibid
not Germany's policy decisions but other economic factors like capital flow and
demography that led to Germany's comparative economic success. Key to this is the
fact that prior to 2008 Germany had low economic growth rates, increasing
unemployment and a high level of government regulation over its economy. Conversely,
smaller states like Ireland had high economic growth rates, falling unemployment rates
and a low level of government regulation. Thus capital flowed in the early 2000s out of
Germany and into these states where it was more profitable for businesses to set up shop.
However the lack of government regulation over the financial sector in Ireland led to
vulnerability and created a "housing bubble" and like in the United States when this
bubble burst it sent the financial sector and then the whole economy into crisis.

With the economy in turmoil it was no longer for investors to remain in these
smaller states and thus capital flowed back to its source in Germany. This capital flow
was thus invested in research and development and lead to job creation and lower
unemployment in Germany. Jeremias also concludes that it was increased capital flow
and not a focus on manufacturing and exports that lead to Germany's success after 2008.
This view opposes those of both Dobrescu and Ciocca and Phillips, because it paints the
picture of pre-crisis Germany as one where Germany was still one of the major exporter
countries on the planet and yet German workers had to accept sinking wages in a
generally poor economic situation. Jeremias further argues that this repression of wages
on the part of the German government was a direct result of the policies enacted both
prior to and in conjunction with Chancellor Schröder's "Agenda 2010". They have
subsequently also resulted in an increase in income inequality that has continued to grow

33 Jeremias, Ralf. "Germany And Ireland Unemployment Compared, Or Why Germany Profited From The
34 Ibid
over the last two decades. Jeremias also points to the Hartz IV reforms\textsuperscript{35} and it’s so-called “one-Euro jobs” program, as measures that have been put in place to unrealistically decrease the unemployment rate\textsuperscript{36}. These reforms were intended, among other things, to provide increased unemployment benefits in exchange for work for government run charities. However, the result of the program has been to stigmatize long-time unemployed workers as “hard to employ” and thus as less desirable workers\textsuperscript{37}. It has also helped decrease the unemployment rate, because when these unemployed workers work more than 15 hours per week in these “one-Euro jobs” they are considered employed\textsuperscript{38}.

One final point that Jeremias makes to support his conclusions that it was the economic situation brought on by the crisis and not governmental policies that helped Germany is the demography of the employed. Jeremias cites that a majority of the reduction in the unemployment rate comes from the retirement and subsequent removal of workers from the labor force. Apparently statistics from the German Federal Statistical Office show that the number of retirees since 2010 has increased and Jeremias gives the example that, “If in May 2011 there were about 276,000 fewer unemployed persons than in May 2010... there are 200,000 fewer unemployable [retired] persons each year”\textsuperscript{39}. Therefore perhaps the best conclusion that can be gleaned from Jeremias analysis is that Germany appears to be doing better, and to some degree is actually doing better, more because most of the other states in the Union are doing terribly and are thus buoying its economy by allowing it to collect the stray investors no longer able to engage in most of the EU at a profit.

\textsuperscript{35} The last installment of “Agenda 2010”, which went into effect at the start of 2005.
\textsuperscript{36} Ibid
\textsuperscript{37} Ibid
\textsuperscript{38} Ibid
\textsuperscript{39} Ibid
These theories provide us with the building blocks of our analysis of how the German and French economies have grown to differ so wildly from one another during the relatively short period of the crisis. They make it clear that there are both structural and policy differences between the two states. However, there are many questions left unanswered as relating to our research question. We cannot yet be sure if Germany’s success is a result of effective policy reforms, its economic model or, as Jeremias would see it, the result of the economic circumstances in the other EU states.

IV. Research Design

My original research question addressed why the German economy has made a stronger recovery faster than its French counterpart since the start of the European financial crisis. After analyzing some of the theories connected with my question my hypothesis is that the German economy has succeeded, because it focused on an export and manufacturing based model for development and has implemented policies that are unique in the Eurozone. In order to answer this question and analyze the validity of my hypothesis I will make a normative and theoretical study of the crisis using library and archival research. Additionally I will use both qualitative, from scholarly articles and journals like German Politics and others and quantitative data in the form of economic data from such sources as the Observatory of Economic Complexity, the World Bank, Trading Economics, OECD, and indexmundi. By way of quantitative data we will particularly look at the real annual GDP growth rates of Germany and France, their unemployment rates and both export destination countries and annual export totals throughout the crisis period. In order to prove my hypothesis correct I would have to find
the export-manufacturing model and German policy reforms to be the most significant factors in Germany’s unexpected economic success.

V. Findings

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In order to explain Germany’s economic success we will begin by looking at the two factors that were given predominance in my hypothesis and which I initially believed were the primary sources of Germany’s economic success. These factors are Germany’s manufacturing-export development model and its internal economic policies.

i. Manufacturing-Export Development Model

The manufacturing-export development model is not unique to Germany. It has been used to great success by other states, most notably China, in order to achieve sustained economic growth. With China as our comparison it would be easy to conclude that this model is at the heart of Germany’s success, however the problem comes when we compare Germany to France. The problem is that both of these states are fairly major exporters. As Dobrescu and Ciocea pointed out Germany was second only to China in export volume as of mid-2013. It is particularly successful in the export of chemicals, pharmaceuticals and machinery. France on the other hand is one of the largest exporters of luxury goods and agricultural products in the world. There is of course a difference in scale. For Germany exports as of 2012 made-up roughly 52% of GDP and amounted to

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$1.46 trillion dollars\textsuperscript{41} where as in France exports in 2012 made-up only about 27\% of GDP\textsuperscript{42} and amounted to $567.1 billion dollars\textsuperscript{43}. Thus it is clear that Germany dedicates and benefits a great deal more from exports than France. Still, looking at the data provided by the statistical database, Trading Economics, we can see that it was not always the case that Germany received so much more than France from exports.

In fact looking at a statistical comparison of the export volume, of the two states from January 2006 to January 2014 we can observe that France consistently received more than Germany until, after volume plummeted in 2009, 2010 when Germany began to overtake their neighbor and it has continued to consistently have a higher export volume ever since\textsuperscript{44}. This suggests that Phillips and Dobrescu and Ciocca are correct and that a focus on exports is important to Germany’s success in quickly recovering from the crisis. However the pronounced change in the relationship between the countries’ export volumes after the most serious part of the European financial crisis, shows that exports cannot be the only factor. Thus the question is what is this other factor and why is 2010 seemingly the starting point for this change. Therefore let us look at the other indicator suggested by our hypothesis, that of internal economic policies.

\textbf{ii. Timing and Nature of Economic Reforms}

Both the article by Dobrescu and Ciocca and that of Smith speak positively about German economic reforms as the vehicle by which Germany saved itself from the trauma


\textsuperscript{42}“Exports of Goods and Services (% of GDP).”

\textsuperscript{43}“France vs. Germany.”

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of the economic crisis, yet we must ask the extent to which this is true. It all began in the 1990's with the long awaited reunification of the two halves of Germany. Along with the fanfare and jubilation this historic event also brought great economic worries for the new state. Western Germany had a highly developed and flourishing economy while the former-Soviet Bloc Eastern Germany had developed little in the past forty years. Thus the new German state inherited a consequent nightmare whereby their economic stability was dependent on dragging the economy of the East into the modern age. So the government went to work supplying subsidies and massive capital inflows in order to help eastern growth. However, this economic strain proved too much and as a result the economy went into a downturn during the early 2000s. During this period economic growth stagnated and unemployment steadily increased from 7.5% to over 10% between 2000 and 2005. Real GDP growth also fell from 3.2% to -0.2% in 2003 only to rise again and stay below 2% until 200645. “Agenda 2010” also known as the 'Hartz Reforms', which were implemented between 2003 and 2005 by than Chancellor Schroeder46, were introduced in order to combat these problems.

The “Agenda 2010” reforms particularly focused on reducing government funded health care benefits, cutting taxes, overhauling the pension system and restructuring labor regulations47. The health reforms alone would increase the amount of health care costs shouldered by the German people by requiring, among other things, that citizens pay co-

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pays for doctors' visits\(^{48}\). Regarding the labor market, the reforms shortened the period during which someone can receive unemployment benefits, reorganized the Federal Labor Office into the equivalent of a government-run placement agency; which is now known as the Federal Job Agency, and it combines unemployment and welfare benefits together and sets caps on how much government aid an unemployed person can receive in order to encourage them to seek employment\(^{49}\). Reforms to the tax system decreased taxation on the poorest and richest segments of society while increasing the taxes placed on businesses and extending them to freelancers, doctors and lawyers who were not previously taxed. These tax changes were joined with a cut in federal subsidies and the privatization of government-owned properties. The intention was to encourage consumer spending and to decrease government deficits at the local and state levels through the increase in tax revenues. Yet another part of these reforms issued an increase in the retirement age, a decrease in pensions as a percentage of the workers previously held income and a decrease in costly requirements for being able to practice in a skilled trade as a master craftsman\(^{50}\). Still other reforms were implemented in 2008 and 2009 with a focus on stabilization and economic stimulus, and these were followed up with tax cuts in German Chancellor Angela Merkel's second term\(^{51,52}\).

Looking at available economic data it is clear that the reforms supported a decrease in cyclical unemployment and coincided with an increase in economic growth.

\(^{48}\) Ibid

\(^{49}\) Ibid

\(^{50}\) Ibid


\(^{52}\) A member of the Christian Democratic Union party, Chancellor Angela Merkel has been elected for three terms as Chancellor. The first was from 2005-2009, when she took over from Chancellor Gerhard Schroeder, her second term was from 2009-2013, and she was just elected to her third term, which extend from 2013-2017.
Looking at statistics from the OECD database we can see that as of 2005, when the last of the Hartz reforms went into action, the unemployment rate was over 10% after having risen steadily over the previous five years. However, after the reforms were implemented the unemployment rate began to drop and has continued to drop with the exception of in 2009 when, at the height of the economic crisis, the rate rose a few tenths of a percent again. The current rate is roughly 5%. The credit for this drop in unemployment to pre-2000 lows is largely given to the Hartz reforms. However, criticisms are also leveled that these reforms mandated low unemployment rates by forcing workers to take low-paying part-time jobs with limited job security, health benefits, and hours. Similarly, these reforms are also seen as having promoted an increase in the wage gap and inequality, as well as causing a strong divergence between real wage and real GDP per capita.\(^{53}\)

An April 2012 OECD report stated that, "Disposable income growth has been very low...in Germany...in particular in the lower deciles. This is especially evident from the mid-1990s to 2008 when 30% of the poorest Germans actually had negative real income growth\(^{54}\). Additionally the report concluded that this inequality has established Germany as, "... the only country [in the EU] that has seen an increase in labor earnings inequality from the mid-1990s to the 2000s\(^{55}\) The genuine constitutionality of these reforms has also been called into question in recent years. German courts in Berlin and elsewhere have concluded that the Hartz IV payment amount for the unemployed is not


\(^{55}\) Ibid
high enough to allow for adherence to the Constitutional requirement of promoting the inviolability of "human dignity."\(^{56}\)

Still other scholars believe that, although the Hartz reforms affect the unemployment rate, they did not create the circumstance of Germany's economic growth. This growth came instead as a result of the threat of outsourcing to Eastern and Central European states after the fall of the Soviet Union. Faced with the potential for a catastrophic loss of industrial sector jobs, Germans were forced to change the power relationship between unions, workers and the firms with which they are affiliated. In short the power of unions and collective bargaining was greatly limited moving from national, regional and industry-level negotiations to negotiations directly between employees and employers. This made salaries more "flexible" and responsive to changes in the global market and the economy, which meant that wages and the cost of manufacturing goods in Germany both dropped.\(^{57}\) These changes were implemented in the early 1990's and began the process of "wage moderation", which, it is argued, is a process that was sped up by the "Agenda 2010" reforms.\(^{58}\) However the pattern of real GDP growth does not point to either the Hartz reforms or earlier reforms in collective bargaining conditions as the cause of German economic growth and recovery.

Real GDP like unemployment did begin to improve after the full implementation of the Hartz reforms staying at around 3% in 2006 and 2007. Both indicators also decreased in 2008 with the onset of the crash, however, while the unemployment rate

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\(^{58}\) Ibid.
began to decrease again in 2009, GDP growth hit -6.8% that year and did not begin to recover until a year later\textsuperscript{59}. Furthermore, the GDP growth that emerged as of 2010 was remarkably high at around 4.3%\textsuperscript{60}. After this point, GDP growth decreased slightly only to jump up to 5.2% in the first half of 2011. Real GDP annual growth rate then fell steadily and has not as yet increased past 1.8\textsuperscript{61}. These numbers and their timing suggest that the quick recovery was caused by a factor other than economic reforms.

Looking at how these reforms and economic indicators compare to those of France, we find a great discrepancy in the timing of reforms as well as in both unemployment rates and inequality. Most of Germany’s major reforms took place prior to the Eurozone crisis in 2008. France on the other hand held-off on reforms until after the crisis began. A chief reason for why is the relative economic prosperity and competitiveness that France enjoyed during the early 2000s. From 2000 through to the end of 2005 Germany’s unemployment rate was significantly higher than that of France. The French rate stayed largely under 9% till 2005, while the German rate, as was discussed above, averaged over 10% from roughly 2003 to 2005. Although the French rate continued to increase it stayed under the slowly decreasing German rate until late 2009 when the two rates passed each other with the German continuing to decrease and the French continuing to increase to its current position of over 10\textsuperscript{62}.

We can also look at the differences in real GDP growth in both states. France’s growth rates remained around 3.5% during the late 1990s and early 2000s reaching its

\textsuperscript{60}Ibid
\textsuperscript{61}Ibid
peak of about 4.5% in late 2000 and slowly decreasing down to just under 1% at the start of 2002. After this point, the rate generally improved staying around 4% until 2009 when it reached a low of -4%. More currently it began slowly to improve reaching a high of 2.8% in early 2011 and then decreased to negative tenths of a percent in early 2013 and then rising again later that year to a high of 0.8%63. Now these annual growth rates compare to those of Germany in that France had higher GDP growth from 2002 till early 2008 at which point German growth surpassed that of France. French growth rates surpassed German during 2009 and maintained predominance till 2010 when German growth spiked and since 2010 Germany has generally had higher growth rates64. From this data we can understand that one of the reasons that France did not begin to implement far reaching economic reforms until after the 2008 crisis is because it didn’t need to. Its unemployment rate was within reasonable levels and it had a fairly steady and prosperous growth rate. France was thus not forced to reform as Germany was. These numbers also show an intriguing difference in steadiness of growth, whereby the German rates are perpetually spiking up and down while the French remain steady, and they show that France actually began to recover growth faster than Germany did. The French economy began to grow again in 2009, exceeding Germany’s growth. However yet again 2010 changed this situation showing Germany surpassing France and maintaining greater economic growth into the present.

Once the crisis had occurred and reform was necessary, President Nicolas Sarkozy implemented a €26 billion or $32.9 billion stimulus plan in 2009 that focused on

64 ibid
The programs being aided were largely those that sought to build-up domestic industries, fund state-owned industries like rail, energy and postal companies, build up infrastructure, and encourage research and development. Yet another reform policy from roughly the same period promised €11.5 billion in credits and tax breaks to companies that went forward on investment plans in 2009. Still other reforms have been made to France’s tax laws starting with Sarkozy’s 2007 changes to the Inheritance Tax so as to make it less costly for close family members to inherit from the deceased, and his introduction of the TEPA Law removed all taxes on overtime work in the hopes of fostering a desire to work more hours. These reforms and other tax reforms passed with them, largely benefited the wealthiest segment of French society and amounted to around €13.8 billion in cuts. However, these reforms were undone in 2012 by Sarkozy’s successor, President Francois Hollande, who raised taxes amounting to nearly €7.2 billion on the wealthiest households, banks and big businesses. The taxes to be raised were primarily the Inheritance and Wealth Taxes and these came along side new taxes aimed at bank profits, dividends, stock options, bonuses, big businesses and energy companies. Those reforms are designed to increase tax revenues and decrease France’s staggering public debt by forcing the wealthy to shoulder more of the burden.

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66 Ibid
70 Ibid
They are also in line with the French orientation towards using laws and government resources to force equality and limit wide wage gaps like that which has formed in Germany as was discussed above.

In the end we find that the major differences between French and German policy reforms are context, timing, and orientation. Germany implemented its reforms earlier than France and the French reforms strove to maintain economic equality. Conversely in making their social programs system more economical the German reforms managed to create greater inequalities between the different economic classes. Thus we can conclude that the differences between the policies implemented in either case are important, however as was discussed briefly in regards to the GDP growth rate statistics above these do not seem to be the only factors. It seems that something happened in 2010 that was unique to the German economy and caused a strong and relatively sustained spike in its growth. Therefore, based on the readings and analysis above we will pursue some other potential factors namely the role of policy orientation, regional status, the identity of major export partners and the amount of investment in the economy.

iii. A Question of Policy Orientation

What role policy orientation may have played in the differing economic success of Germany and France during the Eurozone Crisis ties strongly with the other two factors, which we have already been discussing. Likewise this factor also has a strong historical element, for if it were not for Germany’s poor economic performance in the late 90’s and early 2000’s it is possible that it would have had a different policy orientation. However, as Smith argued, Germany has focused increasingly since the 90’s
on its own national interests over those of the Union. This has led policy makers to see social and economic developments as congruous to one another and to reform their economy to make it competitive in the global market and not just the regional.

Germany's practices have thus led to a balanced budget and little public debt. France on the other hand looked to the single market and trade in Europe while dividing economic and social development from one another. These policies have meant staggering public debt as the French government has been unwilling to sacrifice its social programs and welfare state for the sake of economic growth. The true price of a wholly Euro-centric policy orientation is that once the economies of Europe begin to fall apart they take all of the other countries in the region with them. This was the case of France whose major trade and economic policy partners were its fellow Eurozone members. Thus when Ireland, Italy, Spain, Portugal, and Greece began to crumble the French lost a sizable amount of their export profits and were required to expand still more capital in order to help bail out these states so as to save their own interests. Thus in addition to increasing public debt from trying to save their own businesses, banks and social programs they have also been trying to take on the burden of the rest of the Eurozone. This is not the case for Germany largely because of the reforms and export orientation, which has already been discussed in earlier sections. Germany has contributed along with France in the bailing out of Europe, but it did so from a place of power and relative stability. It has also helped states, particularly Greece, so as to ensure the perpetuation of the Eurozone as an economic entity that Germany hopes to use as a destination for its exports and over which it hopes to propagate more power and authority.

Regarding Dobrescu and Ciocea’s view that the Eurozone institutions were designed with the intention of limiting German economic and political growth, we find no evidence to support it. Though this theory does support the general claim that other member states like France focused on beefing up the Union instead of on their own economic development, this seems to be more logically a result of the fact that other states had less cause to make changes prior to 2008. Likewise as was stated by Smith Germany tried to focus on development through the auspices of the Union during the late 90’s and early 2000’s. It was only when these policy ideas met with opposition from other countries, like France, that Germany began to go its own way and focus more nationally. It also seems more logical to conclude that it was more ignoring, not focusing on Germany, that has led to these divergent policy orientations.

iv. Regional Status

The discussion of policy orientation likewise ties into our next factor, that of regional status. Herein we describe regional status as the place and power of a given country within the Eurozone and European Union. For Germany their regional status has historically been complicated. Their industrial policies; which include the mild protection of some key industries and a focus on making sure all sectors are efficient and market competitive; have been largely overlooked as Smith said due to the countries poor economic showing during the period when Union’s own policies were being written. However, Germany has always been the model for the Eurozone’s financial sector. As such it has steadily gained power over the Eurozone’s financial institutions and ultimately over the Union itself. We see this in Smith’s analysis when he points to the fact that
Germany made its joining of the EU contingent on its financial institutions following the anti-inflation, highly independent model of the German National Bank. Germany also asked for something that is relatively unprecedented and this was that the European Central bank be stationed not in Brussels at the heart of the EU but in the German city of Frankfurt. This seemed intended to serve as a declaration of German authority and it appears to have worked as such. Fiscal policy decisions have become increasingly decided by German politicians as Smith says, though it is likely a result of the fact that Germany is presently one of the EU’s most successful states and any EU policy decision regarding, particularly the bailing out of troubled states, will directly affect the German people the most. Additionally, the German economic success has in many eyes proven its monetary, financial and even industrial policies to be valid, therefore other countries are more willing to accept the German view on policy matters. France on the other hand lacks this special control over the Union’s financial institutions and due to its support of now delegitimized economic policies, and its own staggering public debt, its views on how to fix the Union are not seen to carry as much weight.

v. Major Export Partners

As was briefly addressed in the section on policy orientation, the recipients of a state’s goods are an important factor in the success or failure of an economy, particularly if that economy is export oriented. We have already addressed the fact that both France and Germany are large export economies, so the question remains where do they export their goods to. As of 2012 Germany exported 10.2% of its goods to France, 7% to the

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72 Technical assistance for graphical materials in this section were provided by Brian Rakovitis, Graduate Assistant in the EMU Political Science Department.
Hill: The Eurozone Economic Crisis and the Divergent Paths of Unity

United Kingdom, 6.9% to the Netherlands, 6.3% to the United States, 5.6% to Austria, 5.4% to Italy, and 5.1% to China. France on the other hand exported 16.7% of its goods to Germany, 7.5% each, to Belgium and Italy, 6.9% each, to Spain and the UK, 5.6% to the US and 4.3% to the Netherlands. This data shows just how Europe-oriented the French economy is, for of the top seven destinations for French exports six are member of the EU and five of those are members of the Eurozone specifically. In contrast, the data also shows how diversified Germany's export partners are in comparison to France. Of Germany's top seven export destination countries only five are member of the EU and four are members of the Eurozone.

Now we will look more closely at trade with large economies outside of the EU, namely the US and China. These two states will be examined due to the US's status as a major trading partner of both France and Germany and China's status as one of the largest economies on the planet, whose significance is thoroughly expressed in both Phillips and Dobrescu and Ciocca’s works. What we see when we focus on these two countries in particular is telling. Looking at the US we see that though both France and Germany trade with the US, Germany exports more than France amounting to a difference of 0.7%. Although this percentage sounds small, given the size of the economies of France and Germany it equals several billion dollars. We can also compare the ranking of the US for both countries. The US is Germany’s fourth largest trading partner as compared to France for whom the US ranks sixth. An examination of trade with China is also both interesting and easy to analyze, for Germany ranks China as their

74 Ibid.
75 The United Kingdom is not a member of the Eurozone.
seventh most important trade partner, while for France China doesn’t even rank in the top seven.

Looking at the data above as well as that on GDP growth from the section on policy reform, we find that, as was addressed by Parello-Plesner and Kundnani, trade with China has played a crucial role in the success of the German economy. As Figure 1.1 shows, growth in German trade with China began to pick up nearly as soon as the economic crisis hit the Eurozone.

![Key Destination Countries for German Exports](image-url)

**Figure 1.1:** The amount of German exports to select countries as a percentage of Germany’s GDP from 2001 to 2011.\(^{26}\)

In the span of a single year, 2008-2009, German trade with China jumped 1.53% and continued to grow, while the US and UK, Germany’s traditional trading partners’, fell steadily. This pattern continued until 2011 when German exports to China actually...
exceeded German exports to the UK. I construe that the reason that Germany was able to overtake France by way of GDP growth in 2010 was because of increased trade with China resulting from the signing of a comprehensive trade deal at the start of that year. France on the other hand has not benefited nearly as much from trade with China, for, although Figure 1.2 shows that French exports to China have also increased since 2008, the increase has been small and slow.

**Key Destination Countries for French Exports**

<table>
<thead>
<tr>
<th>Year</th>
<th>United Kingdom</th>
<th>United States</th>
<th>China</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>11.00%</td>
<td>9.00%</td>
<td>7.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td>2002</td>
<td>10.00%</td>
<td>8.00%</td>
<td>6.00%</td>
<td>4.00%</td>
</tr>
<tr>
<td>2003</td>
<td>9.00%</td>
<td>7.00%</td>
<td>5.00%</td>
<td>3.00%</td>
</tr>
<tr>
<td>2004</td>
<td>8.00%</td>
<td>6.00%</td>
<td>4.00%</td>
<td>2.00%</td>
</tr>
<tr>
<td>2005</td>
<td>7.00%</td>
<td>5.00%</td>
<td>3.00%</td>
<td>1.00%</td>
</tr>
<tr>
<td>2006</td>
<td>6.00%</td>
<td>4.00%</td>
<td>2.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>2007</td>
<td>5.00%</td>
<td>3.00%</td>
<td>1.00%</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>4.00%</td>
<td>2.00%</td>
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<tr>
<td>2009</td>
<td>3.00%</td>
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<tr>
<td>2010</td>
<td>2.00%</td>
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<tr>
<td>2011</td>
<td>1.00%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 1.2: The change in French exports to select countries as a percentage of France's GDP from 2001 to 2011.

Germany chose to diversify its export partners to other regions as a part of its policy goal of making Germany globally competitive, perhaps also they feared depending on Europe for their economic development. Regardless of the reason for such diversification the result is apparent. Germany's greater trade with countries like the US and China allowed it to recover more quickly than most Eurozone states as well as to

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achieve a 4% GDP growth rate only one year after having -6.8% growth. As we can see in Figure’s 1.1 and 1.2 trade with the US has also become less important since the start of the financial crisis due to the fact that the crisis started in the US. However, as Phillips said developing states like China and Russia were not as significantly impacted by the crisis in the Western developed states and as such trade with such developing states was highly profitable as the case of Germany shows. Trade with Russia did not increase to the same degree that trade with China did, but Figure’s 1.1 and 1.2 do show that it increased during much the same period.

vi. Capital Flows

The flow of investment from Germany to the smaller Eurozone states, and back, is our last significant factor. As Jeremias argues minimal government regulation in small Eurozone countries meant that prior to the crisis investment flowed into these countries and out of countries like Germany with higher government regulation. In 2006 alone the German National Bank calculates that €175.474 billion flowed out of Germany and this amount was on track to increase, however by 2010 capital flow had decreased to roughly €131.361 billion. Regarding flow from Germany to Ireland in particular, capital flow rose from €10.521 billion to €76.305 billion between 2005 and 2008. This trend slowed in 2009 and by 2010 it had reversed direction completely so that €99.684 billion flowed from Ireland to Germany. The trend in capital flow out of highly regulated countries like Germany reversed around 2010 because the smaller less regulated economies were

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79 Ibid
80 Ibid
crashing and thus were no longer stable enough to be profitable. As a result companies started investing in the higher regulated but notably more stable states like Germany. This helped Germany recover and prosper after the crisis because, instead of being shipped abroad, capital was being invested domestically particularly into research and development. Research and development is noted for its ability to create jobs and by so doing decrease the unemployment rate, and we do see in 2010 the beginning of a period of unemployment rate decline, which has continued to the present. Although it seems plain that the flow of capital from smaller states was an important factor in Germany's growth there is no evidence to suggest whether this was also true for France.

VI. Conclusions regarding Germany's success and thoughts on the future of the European Union

It is an uncontestable fact that the German economy has done well in the face of the Eurozone financial crisis. After analyzing this situation we find that the credit for Germany's success is due to more than just their focus on an export-manufacturing development model or policy reforms. Thus we find that our hypothesis that Germany's success stemmed from its reliance on exports and the issuance of unique policy reforms is both right and wrong, for although, these factors are significant, it is the factors that played into them that have donned the greatest role. These additional factors are the orientation of policies towards national or regional concerns, the status and subsequent power a state holds within the region, the countries with whom the country trades and the

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amount of investment capital flow being received by the state. Of particular importance in this crisis is trade with the large developing and prospering country of China.

China's relationship with Germany and the EU states in general poses the greatest threat to the future independence and unity of the EU. This stems from the concern that the EU's largest economies will become so dependent on the Chinese economy that it becomes China and not the EU member states who are calling the shots regarding foreign and economic policy. Although at present the majority of the Eurozone's citizens wish to maintain the economic union there is the possibility that, if this crisis does not end soon, countries like Germany will cut their losses, leave the Union and perhaps create a new economic union with a more selective and economically stable membership. This would lead to the consequent disintegration of the Union. There are also concerns that policy differences between Germany and France will lead to the Eurozone's destruction, for as has been discussed in the analysis above, these two countries have long disagreed on how to run and design the Union's fiscal, industrial, and monetary institutions. These differences have already lead Germany to separate from mainstream Europe, an act which ironically saved them from the same economic ruin, however there remains a potential that with the added strain of economic crisis and the German people growing increasingly weary of bailing out the southern Eurozone states, particularly Greece, these divisions may become irreconcilable. There is also the potential that the future of the Eurozone will be one solely dominated by Germany, where the Euro would amount to a new 'Euro-mark'. With Germany growing in its authority over the Union's financial institutions this seems relatively likely. Then there is the question of what would happen if the Chinese economy were to falter, fail, or significantly reorder itself. 2012 saw the
beginnings of an economic slowdown in China with growth dropping closer to 8%, the lowest since the late 90’s\(^\text{82}\). If China continues to slow significantly and likewise if its government’s reforms orient towards increasing reliance on its domestic market instead of on imports, then the effect could be that Germany will plummet into yet another economic crisis and this crisis would likely be worse than they faced in the early 2000s.

With China no longer available to save the German economy or the economies of other export dependent states the result could be the perpetuation of the Eurozone crisis or another recession. What seems certain is that regardless of what happens to the Union itself, without China as a major trade partner, Germany would lose much of the power it has gained in the Union over the last six years.

For the future I believe it would be best to further track each of these factors. It would be particularly prudent to examine German-China relations and the burgeoning EU-China relations in greater depth going forward. If possible the flow of capital to and from France should also be examined and subsequently compared to that of Germany. It would also be wise to look at how the smaller economies like Ireland that were the first to fall victim to the crisis are doing today, and how this compares to the progress of Germany and France. Another fascinating new element to this discussion would be to look at how the situation in the Ukraine and the renewed strain in relations with Russia, which is also a close ally of China, will affect the future of the EU and its economic recovery. However, at the present the only conclusion that can be made about the future of Germany, the European Union and the Eurozone is that for now, and barring any new

unforeseen catastrophe, it is likely that all three will continue to hold themselves together and work towards a more prosperous, though perhaps less united future.
VII. Bibliography


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