



IJMRRS

**International Journal for Multidisciplinary
Research, Review and Studies**

Volume 1 - Issue 2

2024

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Germany's Economic Crisis and Its Implications for India

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Abstract

Germany was once Europe's economic leader, but economic woes are being exacerbated by the rise in political unrest and broad public discontent. Increasing inflation, a severe shortage of housing, and an energy crisis are also being fueled by the country's dependence on Russian gas and the slow growth of renewable energy. An aging population and labour shortages make these problems worse and threaten economic stability.

These developments for India provide valuable insights, as the country is on track to overtake Germany's economy. Focusing on SMEs, promoting innovation, growing renewables, and developing workforce skills are critical drivers of this type of sustainability and resilience growth in India. Germany's experience emphasizes the critical importance of economic diversification and maintaining social unity to navigate challenges and secure long-term success. As India ascends on the global stage, learning from Germany's missteps could be key to establishing a robust and sustainable economy.

Keywords: Germany, economic crisis, political unrest, inflation, housing shortage, energy crisis, renewable energy, labour shortages, SMEs, workforce development.

1.0 Introduction

Today Germany stands as the world's third biggest economy and the economic leader in the EU, estimating at \$4.25 trillion USD. Its healthy basis for an industrial economy combined with the large export-based economy forms a global growth leader through constant innovations and productions.

After the end of the Second World War, Germany gained an "economic miracle" or rather an "Wirtschaftswunder" facilitated by the "Marshall Plan". This step helped revamp the country's industries, firmly putting Germany in the sphere of major economic powers. However, this nation encountered significant problems at the end of the 1990s and beginning of the 2000s, having even earned it the designation "the sick man of Europe", but labour and

industrial reforms managed to get past that, helping Germany restore itself as one of the leading actors on the global economic level.

Recently, though, Germany's economy has been facing difficulties. Over the past two years, its GDP shrank by -0.3% in 2023, with a predicted -0.1% decline in 2024. The manufacturing sector, which has always been the core of its economy, is struggling. Even Volkswagen, the country's largest employer, has had to close factories for the first time in 90 years.

This economic downturn has been compounded by political instability. Chancellor Olaf Scholz's coalition government collapsed after a no-confidence vote, and although snap elections were planned, delays caused by a shortage of ballot papers have left the political situation uncertain. These developments highlight a critical moment for Germany, raising concerns about its ability to overcome both internal and external challenges.

For India, now the world's fourth-largest economy, Germany's economic journey offers valuable lessons. By understanding Germany's past successes and current challenges, India can learn how to avoid similar issues while making the most of the changing global economic landscape to strengthen its own position.

2. Historical Context

After the Second World War, Germany was in a despicable situation and had incurred significant losses, being one of the major Axis powers. It continued to suffer losses even after the war, both in lives and industrial power. Approximately 6.9 to 7.5 million Germans died, representing roughly 8.5 percent of the German population. Both the cities and its industrial base were in ruins.

The victorious Allied powers (the United States, France, Britain, and the Soviet Union) divided the nation for themselves at the Potsdam Conference of 1945, and its policies were dictated by the "Five Ds," decided upon at Yalta: demilitarization, denazification, democratization, decentralization, and deindustrialization. As agreed at Potsdam, an attempt was made to convert Germany into a pastoral and agricultural nation, allowing only light industries.

The United States understood that Europe's recovery could not be separated from Germany's economic recovery, and so launched the Marshall Plan, or European Recovery Plan, which laid the groundwork for Germany's "economic miracle." Between 1949 and 1952, West Germany received loans totaling \$1.45 billion. From 1948 on, the economy was dominated by economic reforms and trade-oriented policies.

The Berlin Blockade cemented the commitment of Western powers to West Germany's recovery. Under the leadership of Ludwig Erhard, West Germany adopted a social market economy, which combined free-market capitalism with social welfare policies. The Wirtschaftswunder was driven by West Germany's rapid industrial revival. Major sectors such as automotive, machinery, chemicals, and engineering grew exponentially.

By the 1950s and 1960s, West Germany's economy became heavily export-oriented, and its economy became one of the strongest in Europe, earning it the title of the "economic powerhouse" of the continent.

Following the end of World War II, Germany played a key role in establishing the European Economic Community, which would later become the European Union in 1957. It joined the European Economic Area in 1973 and consolidated its position in Europe by the end of 1990, following the reunification of East and West Germany.

By 2010, Germany had established itself as the European economy's economic leader and one of the world's top exporters, making it an important component of the EU's economic engine and a role model for the rest of the world. Germany's economic powerhouse image expanded to the political sphere. It became an important member of international organizations such as the United Nations, the G7, the G20, and NATO, contributing to peacekeeping and global governance.

Germany successfully recovered after WWII and from later setbacks, such as the development of East Germany after reunification and the Eurozone debt crises of 2008-2009, becoming the 3rd largest economy in the world. However, in recent years, there has been a decline in the industrial domain and a rise in political instability and extremism, which is further straining its economic and political situation. Several factors are at play in this, which are discussed in later sections.

3. Political Challenges

The instability in Germany's political mechanism has been one of the major concerns and drivers of its current economic situation. It has been riddled with problems on various fronts, including farmers' protests, the budget crisis, the rise of populist extremism, and other issues that have splintered the political landscape for quite a while now.

3.1 Political Tensions and Consensus Challenges

The German "traffic light" coalition was formed after the federal elections in September 2021. The coalition, consisting of the Social Democratic Party (SPD), the Greens, and the Free Democratic Party (FDP), but after three years, the coalition led by Chancellor Olaf Scholz has finally collapsed. Since its formation in 2021, there was little that the three parties in the coalition with their different ideologies saw eye to eye on, but the tensions finally exploded after months of rifts over budgetary policy, when Scholz fired Finance Minister Christian Lindner from the FDP for blocking his economic proposals aimed at reviving Germany's ailing economy.

For a long time, tensions in the coalition had been building up; in 2022 they became more visible. They began with the controversial deal on increasing greenhouse gas emissions between the state government and the energy provider RWE. Soon after, disputes over a range of other critical issues arose. The FDP opposed the Social Democrats' and Greens' calls for higher public spending, pushing instead for strict fiscal control, which deepened the divide. Additionally, the coalition could not agree on how to address the energy crisis worsened by the Russia-Ukraine conflict. The government's divisions were further exposed by ongoing debates over raising the minimum wage and other significant policy matters.

The main source of contention turned out to be sharp disputes over tax reforms and budget allocation. While the FDP insisted on austerity measures, the SPD and Greens sought to concentrate spending on social welfare and climate change. Internal government strife had been increasing rapidly. It had gotten to the point where coalition members were convening separate high-level meetings and presenting individual investment proposals rather than united ones.

Indeed, the government has accomplished a great deal: it has demolished some bureaucratic obstacles, raised the minimum wage, increased student grants, changed citizenship, and successfully ended its 50-year reliance on Russian energy. However, the coalition proved incredibly unpopular with Germans. The Greens were known for being "prohibitionists," the liberals were perceived as "being austere even when it came to the bare necessities," and the SPD and its chancellor were criticized for being "weak and indecisive" in both foreign and domestic affairs. Thus, although the parties received 52 percent of the vote in the 2021 election, their combined vote was only 31 percent at the time of the coalition's dissolution, which was less than that of the German conservatives. Public Discontent: Voter dissatisfaction and the rise of political extremism.

3.2 Public Discontent: Voter dissatisfaction and the rise of political extremism.

Farmer protests: The year opened with extensive farmer demonstrations, with tractors blocking roads in nearly all 16 federal states. Farmers organized rallies over the government's intention to phase out a tax incentive for agricultural fuel and apply new environmental regulations. Farmers also fear that aid for Ukraine has come at the expense of their secondary benefits. Farmers are concerned that these measures will have a significant impact on their livelihoods, and far-right extremists used the opportunity to push their goal.

Immigration and integration: Germany has not accepted as many refugees since the 2015 refugee crisis. More than three million refugees currently live in the country. In Berlin alone, around €1.5 million is spent every day to provide accommodation and support for migrants, for a total of €547 million per year. The new citizenship law makes it easier for migrants to obtain citizenship. Public discontent with migrants has been growing for some time, , but the incident of a car attack on a Christmas crowd, in which 5 were killed and 200 injured, has again sparked agitation, leading to protests across the country under the banners of “Defend Democracy” and “Nazis Out.”

Climate policies: Upon gaining control, the coalition committed to phase out coal by 2038 and massively boost renewable energy. The Greens have advocated for broad policy changes, but they have resulted in economic problems, particularly for rural regions, working-class individuals, and certain businesses. The imposition of carbon taxes has raised the cost of living for ordinary citizens. These policies have particularly affected working-class families and those living in rural areas, leading to the perception that climate policies are out of touch

with the realities faced by ordinary people. On the other hand, the NGO BUND has accused the government, suing it and labelling the climate law as insufficient.

Cost of living and housing: In 2024, Germany experienced a severe housing crisis that afflicted a huge section of its people. Surveys revealed a nationwide scarcity of over 800,000 units, forcing more than 9.5 million individuals, particularly single-parent families, to live in tight and overcrowded conditions. This scarcity increased rental costs, making residences expensive, particularly in cities like Berlin, Munich, and Hamburg. There is a growing backlash against private landlords who own large property portfolios. The crisis also resulted in a huge increase in homelessness, with some areas seeing a tenfold increase in just a few years.

Rising Populism: The policies of the coalition government have shaken public sentiments and have not found acceptance from voters, as its support is declining gradually. Anger in the public concerning immigrants, high house prices, and climate policies is increasingly being filled by parties that are far-right. Here, parties such as the Alternative for Germany (AfD) and newly formed BSW are taking up such niches and are finding wide acceptance in a few weeks. These issues have been capitalized on by these extremist groups, which has enabled them to broaden their political base. Notably, the AfD made history by becoming the first far-right political party to win a state election in Germany since World War II.

4. Economic Struggles

4.1 Inflation and Economic Slowdown in Germany (2024):

Germany's economy has been grappling with worsening issues throughout 2024, as it has done since 2023. It fell by 0.3% in 2023, making Germany the only G7 countries whose economy shrunk last year. According to Economy Minister Robert Habeck, this trend will continue into 2024, when GDP is anticipated to fall even further to 0.2%.

And this has not made it any easier for many German citizens who are already stretching to cope.

Inflation has also increased, now at 2.20% in November 2024, up a bit from 2% in October. Although this rise seems to be minor, it has had a profound effect on daily life.

Prices for basic products, electricity, and food have surged, raising the cost of living and greatly influencing the financial difficulties that households face, particularly those with the lowest incomes.

The real estate industry is beginning to feel the effects of the economic slump. Until recently,

overseas consumers acquired only 35% of commercial property sales in early 2024.

Remember that this is the lowest level in Germany's property market since 2013, and it will drop below 37% by 2023. This waning interest among foreigners is indicative of the general economic indeterminacies that are engulfing every global or domestic market.

As living costs keep shooting up in the midst of an economic slowdown, public frustration has touched new highs. Average working-class families are struggling to manage their living costs. Consumer confidence is declining, and protests have erupted throughout the country in which citizens demand measures by the government to combat inflation, a stagnating economy, and a housing crisis that is growing out of control.

4.1 Energy Crisis and the Shift from Russian Imports

It was in 1989, during the fall of the Berlin Wall, that Soviet gas accounted for a third of West Germany's gas supply and further increased its imports as the Soviet Union turned into Russia. Cheap Russian gas became an attractive energy source for industry once Germany's energy market liberalized. Additionally, German leadership saw natural gas as a “transition fuel” between coal and renewable, carbon-neutral energy sources. This arrangement worked well for two decades, but things fell apart when Russia invaded Ukraine, and the West began to heavily sanction Russian gas. Energy prices quickly rose by 35 percent compared to pre-war levels, leading to inflation and serious economic woes.

It also moved away from nuclear power in its broader *Energiewende*, or energy transition. This decision, while it enjoyed the support of environmental groups, has its consequences. Without Russian gas and nuclear power, Germany burned more coal to generate its energy, resulting in an increase in emissions. The phaseout of nuclear power was agreed on only if replaced by renewable energy sources. However, the renewable energy infrastructure isn't developed enough to meet the demand of Germany's industrial base. Currently, clean energy projects are slowed down by extensive bureaucracy and “not-in-my-backyard” resistance. Spatial limits from homes keep the annual construction of wind turbines in the single digits, with only 300-400 turbines installed per year, far from the 1,000 turbines needed to meet energy demands.

The government relied on cheap Russian gas to replace nuclear energy, and the decommissioning of coal plants further increased its dependence on external energy sources. Thus, the war has been a major setback for the country, contributing to its economic slump. Though in 2022, about 46% of Germany's electricity came from renewable sources, the

country still faces challenges in fully transitioning to sustainable energy, with coal and gas still playing significant roles in the energy mix. generated from renewable sources and govt plans to push it to 80% by 2030 but that doesn't seem plausible in the current situation.

4.2 Industrial Decline and Unemployment

Germany's industrial sector has experienced difficulties, making its position globally quite weak. At the start of 2022, the world's largest chemical company, BASF, suffered with high energy expenses that it accrued due to western sanctions imposed on Russian gas that led to about €3.2 billion worth of extra expenditure. Other sectors have mirrored this situation, with over half (55.2%) of companies in Germany's residential construction sector citing a lack of orders. In 2023, construction sector insolvencies rose by more than 20%, signalling a sharp downturn in economic activity.

Energy price hikes because of Russia's invasion of Ukraine have dramatically driven up production costs for German firms. Inflation in general, as well as increasing competition from China, add to the problem. Policies of the German government, which rolled back subsidy programs for heat pumps and electric vehicles, affected sales at home as well as the net-zero goals.

These shifts have left industries grappling with higher operating costs and uncertainties surrounding future growth.

Germany's unemployment rate in 2023 was 5.6%, with youth unemployment at around 6%. Despite low overall unemployment, certain groups, particularly older workers over 55 or those with lower education levels, face higher unemployment rates.

Structural unemployment has worsened with a significant reduction in the working-age population and skill mismatches in the labor force. The country faced a shortage of 1.7 million workers in 2022, with additional gaps in healthcare and engineering industries. Long-term unemployment and investment in vocational training are still in the works, but demographic shifts significantly impede these efforts.

5. Social and Demographic Issues

5.1 Aging Population and Its Impact on Workforce and Social Systems

Like all developed societies, Germany is a population that ages: so, it has relatively more retired people and fewer workers. *Ceteris paribus*, the lower the number of workers relative to the rest of the population, the higher the tax burden on each person who does work and the lower the per capita output.

This demographic shift is tough since the working-age population decreases, and less labor force population exists to contribute to economic growth. The IMF predicts that the medium-term decline of Germany's annual working-age population growth rate will be 0.7%. In 2035, one-third of the German population will be older than 60 years. Just like other developed nations, the aging of Germany's population has brought severe problems.

Older, relatively more retirement and fewer young workers and heavier tax burden and lower per-capita output as the working group bears the same tax burden will be the two main consequences an aging population generates. The World Bank projects medium-term annual German working-age growth to decline to 0.7%.

This demographic change poses various challenges in the sense that the working population is diminishing with the shrinking of the labor force, which is an economic setback. Soon, one-third of all Germans will be over 60 years old by 2035.

The Germany of 2022 lacked 1.7 million workers in areas like healthcare, engineering, and skilled trades.

A proportionate increase is witnessed in age-related needs in long-term care services and medical facilities with increasing age groups. As claimed by the German Federal Ministry of Health, for 2030, there is going to be a 40% rise in the demand for elderly care. This already surmounting trend is making waiting lines longer with worse service qualities because of greater demand and unavailability of healthcare workers.

Social security agencies are under immense pressure due to the increasing number of pension claimants. The chances of a budgetary deficit are rising as fewer workers are contributing to the social security system. If changes are not made to increase payments or decrease benefits, the pension system may become unsustainable, according to a report by the German Institute for Economic Research.

This indicates degradation in the German education system. Estimates project that the economy could lose as much as nearly €14 trillion in GDP at the end of the century, based on

reduced arithmetic skills. The government is being restrained in funding crucial reforms due to these, the demographic crisis, political strikes, and austerity measures.

5.2 Immigration and Integration Challenges to Social Cohesion

Germany is the largest refugee-hosting country in the EU and the third largest in the world, with well over 1 million people moving there each year since 2013. 27% of the German population has a migration background. Germany had taken in waves of migrants before. In the 1950s and 60s, their economy was experiencing rapid growth, and they made deals with primarily Turkey to recruit large numbers of workers and their families to solve a considerable shortage of workers. Even today, many feel that they have a “special responsibility” due to its Nazi history to be wary of social exclusion and xenophobic rhetoric.

Germany's population is aging, and the workforce is diminishing. Official estimates reveal that Germany's workforce is forecast to decline by 4.4 million by 2040, owing in part to low birth rates. Furthermore, baby boomers born in the 1950s and 1960s are now entering retirement, adding a significant cost to German society. With these tendencies, Germany would require 400,000 immigrants each year to keep its population from declining. In 2015, they accepted far over 440,000 refugees, accounting for one-third of all asylum seekers in Europe that year. The next year, they captured 722,000, or around 60% of Europe's total.

This method is known as "replacement migration," which holds that migration is required for a region to attain a specific demographic, economic, or social goal. Currently, nearly half of children under the age of five are first- or second-generation immigrants, preparing Germany for a future with a substantially higher proportion of inhabitants with a migration background.

The demographic change happened quickly and without warning. An increasing number of Germans were alarmed from the start. Illegal border crossings were discovered 70% more frequently. Due in part to the relaxation of travel restrictions during the pandemic, the bulk of refugees were from Syria, Afghanistan, and Turkey. More uncertainty, inequality, and future pessimism have already been brought on by two years of restrictive measures.

Furthermore, 4.2 million Ukrainians were granted temporary refuge in the EU, with Germany accounting for roughly a fifth of them. Official government records show that Germany's crime rate has climbed by 6% since 2022, with officials attributing the increase on higher levels of migration. While foreigners constituted only 15% of the population, they were responsible for 41% of all crimes in 2023. A Christmas automobile crash caused by a migrant

has also generated concerns among natives, prompting a shift in their viewpoint. Merkel's initiatives were effective in the sense that they achieved many of the goals she set out to achieve. However, whether these objectives are desirable is a matter of judgment.

5.3 Youth Disillusionment Rising Dissatisfaction Among Germany's Younger Generations

The socio-economic landscape and living situations have dissatisfied the youth of the country. Two out of three young Germans aged between 14 and 29 are concerned about consumer prices, which have risen sharply in recent years. Meanwhile, half are worried about expensive housing and are afraid of poverty in old age, according to the "Youth in Germany" study.

Almost every second young German is worried about a "social division." The topic of immigration is particularly important in this, with 41 percent concerned about refugees. Concerns about climate change are declining, they claimed, but concerns about inflation, the economy, and elderly poverty are increasing. Young people were particularly concerned about inflation (65%), high housing costs (54%), elderly poverty (48%), social divisions (49%), and an increase in migrant and refugee flows (41%). The study reveals a significant level of unhappiness with the current environment, as well as a rise in the likelihood of right-wing populist attitudes.

While the parties of the current German government continue to fall in favor, the AfD is becoming particularly popular. The study team sees the reasons for this in young people's dissatisfaction with their lives and their political situation: 65% of respondents are currently worried about inflation, 54% are concerned about expensive housing, and 48% are afraid of poverty in old age.

The youths express stress at 51%, weariness at 36%, and a sense of powerlessness at 17%; 11% are undergoing psychiatric therapy. Since the COVID-19 pandemic and the energy crisis, young people in Germany have complained of a "persistent state of exhaustion," with half experiencing stress and one in ten requiring psychological assistance.

6. Global Geopolitical Shifts

6.1 Germany's Role in Global Politics: Shifts in Germany's influence

Germany is the once unchallenged powerhouse of the European Union and seems to face a number of challenges that could compromise its domestic stability as well as its influence within the EU. The economic situation has directly influenced the country and its people; the International Financial Fund predicts that Germany will be the only G7 economy to contract in 2023, with a 0.3% loss in GDP.

For the majority of Germans, the recession means job uncertainty, rising energy prices, and an uncertain future. Growth in 2024 will stay at 0.9%, well below the 1.4% average of advanced economies. The economic downturn is not just about numbers; it's deeply affecting everyday lives.

Energy-dependent industries are especially heavily hit, with individuals and companies dealing with increasing energy prices. The labor shortage adds another degree of complication, with many industries struggling to obtain the skilled people they require.

This economic slump is also diminishing Germany's ability to influence EU policies, where it has traditionally played an important role. The country's shrinking share of the EU's GDP signals a diminished economic power, and Germany's leadership role in the EU's recovery is now in question.

Political tensions are growing as Chancellor Scholz confronts criticism for policies such as the €60 billion climate fund being declared unconstitutional. These issues, together with the emergence of populist and Eurosceptic groups, have resulted in a shift in the political climate.

The 2024 European Parliament elections illustrated Germany's declining power, with populist movements gaining ground, signaling a widening gap between the government and the public.

With more than 200,000 refugee applications in 2023 alone, migration is a highly polarized issue. As the internal problems of Germany increase, the question is: will it be able to maintain its role as Europe's driving force, or will it continue to fall behind in the economic and political arenas? The future of Germany and the European Union seems to be more uncertain than ever.

6.2 Relations with the U.S. and China

The historically strong U.S.-Germany alliance, crucial during the Cold War in countering the Soviet Union, is now facing strains. Germany's reliance on Russian natural gas, especially

through the Nord Stream 2 pipeline, has raised concerns in the U.S. about Europe's vulnerability to Putin's influence. Despite the U.S. offering itself as an alternative gas supplier, Germany is unwilling to strengthen its military or fully align with NATO under pressure from Trump. Furthermore, Germany's independent approach to China—supporting the China-EU investment deal and hesitating to curb technology transfers—clashes with U.S. goals.

Donald Trump's return to the White House has put U.S.-Germany relations back into tension. His "America First" strategy, emphasizing trade, defense, and energy terms aimed at getting the best deal for the United States, collides head-on with Germany's fundamental beliefs in and commitment to multilateralism and international cooperation. Now, add current global challenges and the picture is even more complicated.

Defense spending is one of the toughest issues. Trump has constantly bashed Germany for not even reaching the NATO benchmark of its spending 2% of GDP in its defense spending. Even recently, Germany unveiled a record €100 billion defense fund to update its military partly in reaction to Russia's invasion of Ukraine but still hasn't breached the NATO benchmark. For Trump, that's a potroast symbol of unfair burden-sharing inside the alliance.

Germany has been more focused on diplomacy and enhancing its role in NATO missions, especially in Eastern Europe. It's a fundamental difference: where Trump sees numbers and dollars, Germany sees the bigger picture of European stability.

Germany's energy policies have also drawn criticism. One of the most contentious projects has been the now-suspended Nord Stream 2 pipeline, which was to bring Russian natural gas directly to Germany. Trump complained that it made Europe too dependent on Russia. After the invasion of Ukraine by Russia, Germany stopped working on the project and turned toward importing liquefied natural gas from the U.S. and other allies.

However, the war has brought about an energy crisis in Germany, which has had to scrounge for supplies. The balancing of short-term energy needs with long-term climate goals has been challenging, and the political talking point of Trump's criticism of the pipeline has not been forgotten.

Indeed, Germany's position on China might be the most tricky piece of its foreign policy. If the United States stands with a hard stance on Beijing, Germany treads more softly because it is heavily dependent on the markets of China to export its products, especially automobiles.

Chancellor Olaf Scholz's visit to Beijing was a telling example of that balancing act. He called for stronger trade ties with China but also voiced his concerns over human rights and security. Washington remains frustrated with Berlin's reluctance to fully align itself on China, particularly on the sensitive technology that is 5G. Berlin has limited the role of Huawei in its networks but hasn't banned it fully like the United States.

That will translate into one other tension-Germany attempting to secure its economy without losing sight of the broader growing geopolitical risk-tied implications toward China.

6.3 Lessons for India

A nation should never take the growth of their country for granted because economic depressions can unmask weaknesses that might have existed but were concealed by prosperity. International and home factors can trigger a crisis that sets up political discontent and instability; more often than not, such situations breed extreme ideologies. Extremist thoughts can destabilize countries without mass revolutions, as is evident in Pakistan, Bangladesh, and Sri Lanka. An agitated populace can be easily exploited, and once hatred is unleashed, it is hard to contain. The recent re-election of Donald Trump points out this trend where, due to "economic woes," migrants were blamed. Once such hatred is cultivated, entire communities can be unjustly vilified.

Looking at Germany, the third-largest economy in the world, India has the potential to overtake it due to Germany's stagnant growth. With a projected growth rate of 6-7%, India could soon claim this position. Germany's decline in manufacturing is benefitting both China and India. India's post-COVID manufacturing initiatives, particularly in renewable energy, offer opportunities to tap into European markets.

As Germany's supply chains experience disruptions, India can emerge as a manufacturing hub in the automotive and electronics sectors and bridge the gap of skilled labor in Germany.

More important, lessons can be drawn from the German model of the *Mittelstand*-the small and medium-sized enterprises or SMEs-which form the majority of its industrial base. This *Mittelstand* model has been crucial in the economic success of Germany and allowed the country to bear challenging economic conditions.

The model of *Mittelstand* can then be adopted to look towards improving the SME environment in India to support the diversification of the economy while generating steady long-term growth.

By encouraging innovation, adopting efficient production methods, and enhancing the ability to scale, India can build a strong industrial base that will drive growth, much like Germany.

However, India must focus on building a trained and skilled workforce to sustain its momentum. While Germany's decline may seem inevitable, it's crucial not to underestimate its resilience. Germany boasts a diversified economy with a strong history of overcoming setbacks, including the challenges posed by World Wars. Its manufacturing sector remains robust, and it can recover from challenges. To surpass Germany, India must focus on reducing its dependency on China, promoting self-reliance, boosting exports, and strengthening democratic fundamentals. Without focused action, India may face external threats that will make future challenges harder to navigate.

In addition, India must learn from these global dynamics by prioritizing economic diversification to avoid dependence on one sector. Investment in innovation and R&D, particularly in renewable energy and technology, will keep India competitive. Infrastructure improvements will help attract investment and streamline supply chains. Workforce development, through education and skill-building, is essential for reducing reliance on foreign labor. Domestic supply chains for critical goods should be built to minimize disruptions. Focusing on sustainable growth with green technologies will help position India as a forward-thinking global leader. Finally, addressing internal inequality and promoting political and social cohesion will ensure stability and unity.

Conclusion

Once the most industrialized country in the world and a major economic force in the center of Europe, Germany is now at a turning point. The nation's economy shrank by 0.3% in 2023 and may fall even worse in 2024. Stagnant industry, rising inflation, and skyrocketing energy costs are what plague the country.

Much of this is due to its reliance on Russian gas and delays in fully shifting to renewable energy sources. Meaning the country lost stable leadership at the hands of Chancellor Olaf Scholz's coalition government and brought forward public anger that paved the way for the emergence of far-right populism and unprecedented victories of parties such as the AfD.

Social issues exacerbate the pressure. Germany lacks 800,000 homes, as rising rents send thousands into economic crisis. Unemployment, job insecurity, and expensive living costs

contribute to the disaffection of young people. Germany is aging and experiencing labor shortages: 1.7 million workers are lacking in critical areas.

Despite these challenges, Germany's foundations—a resilient industrial base, skilled workforce, and history of innovation—offer hope. To recover, it must accelerate renewable energy development, simplify bureaucratic hurdles, and strengthen small and medium-sized enterprises (Mittelstand). Tackling labor shortages through immigration and skill-building, and addressing housing affordability, are vital. The restoration of trust politically and the need to counter populism would entail inclusive governance and responsive leadership.

In the case of India, what the German experience teaches is to diversify with robust SMEs and investments in renewable energy and skill development to be economically resilient. Like Germany, India will have to bridge social inequalities to maintain political stability to sustain growth.

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