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Germany is enhancing trade co-operation with emerging economies

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The Federal Statistical Office published complete data regarding German foreign trade on 18 February. The data for 2010 – in which the German economy strongly rebounded and GDP grew 3.6% – show how the trends in German foreign trade have changed in comparison to the pre-crisis in 2006. The crisis forced German companies to expand more aggressively into emerging markets, such as China, India or Brazil, at the expense of trade with the European Union and the USA. Such changes brought about a significant increase in trade turnovers with emerging economies. Additionally, China became the largest exporter to the German market. Everything indicates that this tendency will continue in the next few years, especially taking into account the expected stagnation of European economies and the rapid growth of emerging countries. As a consequence, since German business circles are showing stronger interest in emerging economies, German politicians will also intensify relations with those countries. More and more signs of this can be already observed in German foreign policy.

The crisis contributes to geographic shifts in German trade

In 2010, German exports increased by 19.4% to a level of 959.5 billion euros, and imports increased by 21.2% to a level of 806 billion euros. Such a high growth in trade turnovers during a crisis would not have been possible without the expansion of German companies into the emerging markets (see Appendix 1).

The USA and the European Union are still the key outlets for German goods, but their significance is decreasing. Over the last five years, the share of EU member states in German exports fell by 3 percentage points to 60.3%, and the share of the USA was reduced by 2 percentage points to 6.8%. In the same period, German exports to China increased by 95%, to India by 45% and to Brazil by 76%.

A spectacular rise in China's position has been observed: in 2010 its share reached 9.5% of German imports, thus making China the first largest supplier to the German market (a rise from third position). For example, China is a major supplier for Germany of rare earth metals which are used in hi-tech production, for instance in the process of manufacturing electric cars. Despite the crisis, imports from the developing countries were developing at a rapid rate between 2006 and 2010: imports from China increased by 53%, from India by 47% and from Brazil by 33%.

Government support for exports facilitated the expansion to new markets

The sector of small and medium-sized businesses plays an essential role in German exports, and governmental support instruments are an important element of risk reduction when entering new markets. The federal government used the crisis as a pretext for increasing the scale of its aid and easing the criteria for its granting, which also contributed to a significant rise in trade exchange with the emerging economies. Companies could use both previously available forms of support, i.e. loan guarantees as part of the Hermes programme and backing from the state-controlled bank KfW-IPEX (see Appendix 2), and new governmental programmes.

A programme for foreign trade support focused mainly on offering assistance to small and medium-sized businesses participating in tenders, especially on markets with a high potential for growth (for example, in the context of large sport events, such as the Olympic Games in Brazil) was launched at the beginning of 2010. The programme includes elements specially targeted at emerging markets, such as concluding bilateral free trade agreements to reduce the risk for German firms. The government hopes thus to increase the significance of German firms from such sectors of industry as pharmaceutical, biotechnology, medicine and environmental protection technology as well as transport related sectors. This is confirmed by data regarding exports. The branches of industry which are traditionally strong in Germany, namely the electromechanical (17.5% share in exports), automotive (16%) and electric technology (10.5%) industries, are still very important. However, innovative branches, such as pharmaceutical (5.1%) and optics (4.8%) look set to follow in their footsteps.

Conclusions

1. The share of exports in Germany's GDP between 1999 and pre-crisis in 2006 increased from 25.4% to 38.4%, and the share of imports in GDP in the same period increased from 22.1% to 31.6%. Data regarding German foreign trade for 2010 confirm that the German economic model is still based on a strong dependence on exports. This tendency, along with the dynamic development of emerging markets, is likely to intensify, which may lead to an increase in the German trade surplus.

2. The rapid development of the emerging economies makes them more attractive to German enterprises and stimulates German expansion to those markets. On the one hand, this may reduce the trade imbalance in the European Union. However, on the other hand, the dependence of German economy on the development of emerging markets will make German politicians more inclined to intensify relations with such countries as China. At the time of the crisis, China improved its status and became a strategic trade partner for Germany. In December 2010, the German economy minister, Rainer Brüderle, rejected a proposal for tightening control on investments from non-EU countries made by the European commissioner for industry as this solution would adversely affect China in the first order.

Berlin is also efficiently co-operating with China at the G20 forum (for example, by stifling US initiatives for imposing restrictions on excessive exports). Furthermore, Markus Ederer,

former head of policy planning at Germany's foreign ministry, was nominated EU ambassador to China.

3. In contrast to stagnation in Germany-EU trade turnover, it is worth noting the intensified trade exchange between Germany and Central European countries. Since 2006, exports to Poland have risen by 31%, and to the Czech Republic by 20%. Poland, holding a 4% share in German exports, occupies the ninth position among the major outlets for German goods. Imports from the new EU member states have been developing at an equally rapid rate as they have increased by 28% over the past five years.

4. The financial crisis has also revealed the weakness of the foundations of trade exchange between Germany and Russia. According to statistics, neither special political backing nor extraordinary support in the form of loan guarantees have so far translated into growth in trade exchange. This is especially evident in the case of exports of German goods, the growth rate of which significantly differs from that of exports to the Central European countries. One of the major impediments to the development of mutual trade is the fact that German small and medium enterprises, which are especially unsatisfied with the unfavourable conditions of doing business in Russia, find it a rather unattractive market to make investments in. Despite this Russia, exporting strategic for Germany raw materials, is still an important partner.

Appendix 1

Germany's exports and imports with its key trade partners (in billions of euros)

EKSPORTS	2006	2010	Change (%)	Share 2010
France	85,0	90,7	7%	9,5%
USA	78,0	65,6	-16%	6,8%
Holand	56,5	63,2	12%	6,6%
United Kingdom	64,7	59,5	-8%	6,2%
Italy	59,3	58,5	-1%	6,1%
Austria	49,5	53,7	9%	5,6%
Chiny	27,5	53,6	95%	5,6%
Belgium	46,7	46,4	-1%	4,8%
Poland	29,0	38,1	31%	4,0%
Spain	41,8	34,4	-18%	3,6%

Czech Republic	22,5	27,0	20%	2,8%
Russia	23,4	26,4	13%	2,7%
New EU member states	93,9	106,5	13%	11,1%
EU	564,9	578,2	2%	60,3%
Total exports	893,0	959,5	7%	100,0%

IMPORTS	2006	2010	Change (%)	Share 2010
China	50,0	76,5	53%	9,5%
Holand	60,7	68,8	13%	8,5%
France	62,1	61,8	-1%	7,7%
USA	49,2	45,1	-8%	5,6%
Italy	41,5	43,7	5%	5,4%
United Kingdom	40,8	38,6	-5%	4,8%
Austria	30,3	34,3	13%	4,3%
Belgium	33,4	33,7	1%	4,2%
Russia	30,0	31,8	6%	3,9%
Czech Republic	21,9	29,6	35%	3,7%
Poland	21,2	28,4	34%	3,5%
New EU member states	77,4	99,4	28%	12,3%
EU	423,7	455,9	8%	56,6%
Total imports	734,0	806,2	10%	100,0%

Source: Federal Statistical Office

Appendix 2

The Hermes guarantees protect German firms from political and economic risks on foreign markets (for example, in case of failure to pay for products or services). The German state increased their coverage in 2006–2010 from 20.3 billion to 32.5 billion euros. Companies could expect the highest level of support of this kind on the markets of Russia (3.4 billion euros), China (2.2 billion euros), Switzerland (1.9 billion euros) and Brazil (1.8 billion euros). The high level of guarantees for firms operating in Switzerland may be linked to deals entered into by German companies with firms from emerging markets registered in Switzerland.

During the crisis, KfW-IPEX bank, which offered loans and other instruments aimed at financial support for German exports, adopted more flexible criteria for granting aid and intensified support for the weaker sectors of industry. While before the crisis in 2006 total support for exports offered by KfW-IPEX stood at a level of 42 billion euros, during the crisis in 2009 the scale of financial backing for exports increased by 52% reaching 63.8 billion euros. Additionally, the state improved the availability of loans to those sectors which had a weaker structure or needed long-term financing. In 2006, the greatest share of the aid went to companies from the chemical, raw material and steel industries, while in 2009 the strongest support was offered to the shipbuilding and energy industries.