

## Persisting Positive Prospects for Foreign Trade



»» The development of the global economy is affected by the dreadful natural disasters in Japan and the political upheavals in North Africa. The consequences of what has happened in Japan for progress in world trade and the German economy is still an open question«

stated BDI Director General Werner Schnappauf on Monday in Berlin.

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## World Economy



### Global developments

Developments are influenced by the upheavals in the Arab world and the disasters in Japan.

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## German Exports



### Export Developments

After more than 17% growth in 2010, industry exports will add on over 7% this year.

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### Japan

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## Regional Focus



### North Africa/Middle East

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## Persisting Positive Prospects for Foreign Trade



Global economy is affected. Foto: BDI/fotolia(diego cervo)

» The development of the global economy is affected by the dreadful natural disasters in Japan and the political upheavals in North Africa. The consequences of what has happened in Japan for progress in world trade and the German economy is still an open question«

stated BDI Director General Werner Schnappauf during publication of the new BDI Foreign Economic Report on Monday in Berlin.

» The disasters in Japan demonstrate that we are confronted globally with challenges that can only be solved collectively and across all borders«

emphasized Schnappauf. Japan's share in global trade is 4.6%, while Germany's share is 9.0%. Japan is a more important trade partner for China and the USA than for Germany. In 2010

Japan's imports from Germany ranked 14th (a 2.3% share), and exports to Germany ranked 18th (a 1.3% share). Nevertheless, in some product markets, for example that of controllers and memory chips, Japan has a globally outstanding market position.

The far-reaching effects of the developments in Japan and political events in North Africa make a valid assessment of the global economy particularly difficult at this time. On the positive side is the optimistic outlook for the US economy. In addition there is the unabated strong dynamic growth of the markets in Asia. Such dynamism was also seen last year in Eastern Europe, where 15.2% of German goods were exported, about as much as to Asia. According to final figures, German exports increased in 2010 by 18.1%. This offset a large proportion of the dramatic decline in exports in the crisis year (-18.3%).

Only a small proportion of Germany's total exports (3.8%) goes to the region of North Africa. However, 14.4% of German petroleum imports come from that region. In January import prices increased by 11.8% year-on-year – the most rapid increase since the oil crisis of the 80's.

» The supply of raw materials is already a huge challenge for our industry «

underscored Schnappauf. In January the import prices for iron ore were already 99.1% higher year-on-year; energetic commodities were 31.5% higher and steel prices increased 31.1%.

## Global Economy and German Exports

### Global Economy

Developments in global economy are noticeably influenced by the political upheavals in the Arab world and the dreadful natural disasters in Japan. It is too early to speculate about the consequences of the civil war in Libya and the earthquake in Japan. The primary goal must be to stabilize the situation in both countries and to relieve the human suffering of those who have undergone unbearable loss.

At length the world economy's fundamental outlook had continued to improve. At the end of January the IMF had increased its last prognosis for the current year by 0.2% to 4.4%. The improved perspective for the US economy in particular led to this

upwards revision. The IMF raised its prognosis for 2011 by 0.7% to 3.0% and justifies that increase with the new economic stimulation measures of the US government. (See the article "Regional Focus USA"). However, the developing and emerging countries predominate with a growth of 6.5%. The outlook for the industrial countries has slightly improved with an anticipated growth of up to 2.5% (+ 0.3%). Growth prospects for the Euro Zone remain at 1.5%, the EU-27 is likely to grow at the same rate.

## International Trade

Prospects for international trade have also improved slightly. The IMF has increased its prognosis by 0.1% to the current level 7.1%, which is roughly the rate that international trade averaged in the last 20 years. After the quick recovery last year of 12%, international trade is once more following a normal course. The catch-up effects have slackened for the most part and international exchange of goods is picking up again. A growth of 7.5% to 8.0% is anticipated for German exports: Germany will therefore maintain its share of about 9% of world trade in 2011, and perhaps even improve slightly.



Container handling. Foto: BDI/adpic.de (H.Dora)

## German Foreign Trade

### Exports

According to final figures, exports increased in 2010 by 18.1%; this made up for a better part of the dramatic decline in exports in 2009 (-18.3%). For two quarters now, monthly exports is nearly up to the pre-crisis level. International economic stimulus programs, strong catch-up effects, and the rising demand in the emerging countries for German capital goods determined this growth decisively. For both German export development and international trade it is predictable that catch-up effects will stagnate and the economic stimulation programs will expire. Thanks to a continuous high demand, especially in emerging countries, export growth will even off to the pre-crisis level, ranging at 7.5% to 8.0%. Hence, this year's German exports will presumably surpass the threshold of one trillion euros for the first time.

France has remained the most important buying country for German goods in the past year (9.5% of all exports), followed by the USA (6.8%) and the Netherlands (6.6%). The EU remains the primary destination of German exports; its share, however, has dropped since 2007 (64.6%) to around 60%. In this same period of time the share of exports to emerging and developing countries rose by 2.2% to 20.7%. The most energetic expansion of German exports is to the BRIC countries (Brazil, Russia, India, China). From 2000 to 2010 German exports to these countries grew by 366% and now constitute 9% of all German exports. Around 15% of all exports went to the Eastern European region, as much as to Asia. The proportion of exports to the current crisis area Middle East is 3.8%. Menacing dangers in this region are not so much related to exportation but arise from the shortage of energetic raw materials that inflate prices.

### Information at a glance:

	2010	2011 (prognosis)	2012 (prognosis)	
<b>Global Economy</b> (source: IMF, World Bank)	5.0 %	4.4 %	4.5 %	
Industrialized countries	3.0 %	2.5 %	2.5 %	
Developing & emerging countries	7.1 %	6.5 %	6.5 %	
USA	2.8 %	3.0 %	2.7 %	
Euro zone	1.8 %	1.5 %	1.7 %	
Brazil	7.5 %	4.5 %	4.1 %	
Russia	3.7 %	4.4 %	4.4 %	
India	9.7 %	8.4 %	8.0 %	
China	10.3 %	9.6 %	9.5 %	
<b>International trade</b> (source: IMF)	12.0 %	7.1 %	6.8 %	
<b>German exports</b> (source: Federal Statistical Office, BDI)	-14.0 %	17 %	7.3 %	
<b>German imports</b> (source: Federal Statistical Office, BDI)	19.7 %	approx. 9 %	approx. 9 %	
	<b>Q1 2010</b>	<b>Q2 2010</b>	<b>Q3 2010</b>	<b>Q4 2010</b>
<b>International trade</b> (Change from prior quarter, CPB World Trade)	5.2 %	2.7 %	0.7 %	2.6 %
<b>German exports</b> (Change from prior quarter, Federal Statistical Office)	4.3 %	9.3 %	4.2 %	1.2 %
<b>German imports</b> (Change from prior quarter, Federal Statistical Office)	8.9 %	10.0 %	2.7 %	1.2 %
<b>German industry's incoming orders from abroad</b> (index Sept 2008 = 100%, seasonally adjusted, source: Federal Statistical Office, BDI)	91.8 %	101.4 %	105.0 %	108.6 %

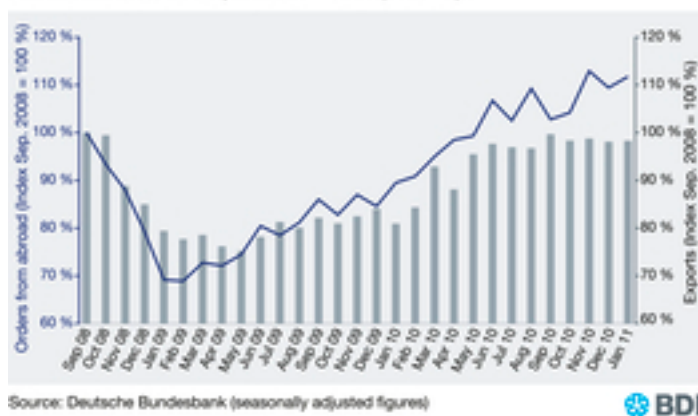
## Imports

The growth of imports last year was just over that of exports; a similarly strong import increase took place for the last time in the year 2000 (+21.1%). In 2010 19.7% more was imported than in the previous year (2009: -17.5%). The active trade balance compared to the previous month dropped by 16.8%. This trend will most likely continue in the course of this year.

One main reason for the rapid increase of imports was the sharpest increase in import prices since the oil crisis in the 80's. In January they exceeded the previous years' level by 11.8%. In particular, prices for raw materials rose sharply: prices for energy rose by 31.5%, for iron ore by 99.1%, for steel by 31.1% and for grain by 65.2%. Reasons for this sharp price appreciation are the growing demands in the ambitious emerging countries, expansive monetary policies accompanied by existing insecurity in the international markets (formation of bubbles), and political upheavals in the Arabic region. The interest reversal announced by the European Central Bank at the beginning of March is an indicator for the concern that the high commodity

### Orders from abroad and exports

Levels relative to September 2008 (100 %)



### ifo Business Climate

Global Economy, regions, Germany



prices could affect other branches of the economy.

By far the most important supplier country in 2010 was the People's Republic of China with a share of 4.6%. Year-on-year imports from China increased by 35%. Next, but at a considerable distance, are the Netherlands and France. The composition of imports from China is a clear indicator of China's increasing competitive capability: At the forefront are capital goods (39% of the imports), followed by intermediate inputs (28%) and consumer goods (22%).

### Foreign orders and leading indicators

Orders from abroad have been on the increase since January 2009. In the first quarter of 2011 this trend persists; the monthly levels, however, are prone to volatility. Most recently the entire foreign orders amounted to 12% above the level of September 2008 as the crisis began.

## Conclusions and Prognosis

With the realization of the appalling chain of disasters in Japan and the political upheavals in the Arab world, an assessment of global economic development and German foreign trade is particularly difficult. The further development is characterized by uncertainty. Figures for 2010 show indeed that Germany, like no other industrial country, has profited from last year's global upswing. Some factors suggest that this trend will continue in 2011. German companies are well represented in the growth regions of Asia, Eastern Europe and Latin America and are persistently expanding their business activities there. From the USA, a traditionally important market for Germany, there are

also positive signals. Besides current developments in Japan and in the Arab Region there are a number of other challenges:

- It is predicted that the political turmoil in the countries of North Africa will have little effect on German exports, of which only ca. 3.8% go to that region. But the situation on North Africa will have an increasing impact on energy prices. This reaffirms last year's BDI survey on foreign economy, in which the member associations of the BDI characterized the increase in commodity prices as the greatest challenge for 2011.

- If the announced turnaround of the ECB in interest rates will come in April, the already weak growth in the euro zone will fall under pressure. A growing reason of concern is the deterioration of the credit ratings of Greece and Spain.
- A possible overheating of the Chinese economy cannot be ruled out. The government, however, has recognized this danger and is striving for a clearly more moderate development of the economy with a maximum growth of 7% through a new five-year plan that the Chinese People's Congress passed in the beginning of March.

Sould the situation in Japan and North Africa should not worsen significantly, the BDI prognosis of 7.3% made at the end of

last year can be revised upwards because of the continued growth momentum in Asia and brighter prospects in North America. Securing the future supply of natural resources is priority; together with the federal government, partnerships with countries such as Kazakhstan, Mongolia and Chile must be stimulated. Further talks are already planned for the beginning of April, for example in Astana. At the same time negotiations need to be carried out on the G-20 level with countries rich in raw materials and with China in order to eliminate protectionist measures.

## Developments in the Industrial Sectors

### Automotive Industry: Growth continues in 2011, though less stable

In the past year the automotive industry exported 4.24 million passenger cars and 242,000 commercial vehicles. In comparison to the crisis year 2009, exportation of passenger cars increased by 24% and fell slightly short of the record quantity thus far of 4.3 million in 2007. The export rate of passenger cars based on number of units (76%) even reached a new high. In the first two months of 2011 exportation of passenger cars increased by just under 10%. Because of the present high level, growth rates will quite likely slacken in the course of the year; for the entire year 2011 passenger car exports are calculated at 4.45 million (+5%).

The significance of Asian markets has intensified continually in the last few years. Asia was the destination of 18% of all passenger car exports, 11% alone went to China. Manufacturers of commercial vehicles were hit particularly hard by the economic slump of 2009. A steep increase followed in 2010; nevertheless exportation of commercial vehicles is still clearly under the pre-crisis level. Exportation of transporters rose in 2010 by 51% to 165,000 units, and exports of heavy trucks over 6 tons even increased by 68% to 72,000 units. In spite of this rapid recovery, levels do not match up even halfway to the record results of 2008. According to the industry association VDA, this growth

will carry on in 2011, but indeed in a weakened form.

See also the article "Industry Sector Focus on Automotive Industry".



Automotive industry. Foto: BDI/Fotolia (Mikhail Malaysehev)

### Mechanical and Plants Engineering: Exports exceeded prior year figures

German machinery exports rose in December 2010 by 16% year-on-year. Exports in 2010 were 12.5% higher year-on-year. With the exception of North Africa and Australia, export volumes to all global regions were higher. The weakest developments in 2010 were the markets of the oil exporters, yet even here business boomed in the fourth quarter. Europe lost three percentage points of its share in all machinery exports. China's share of German machinery exports, on the other hand, rose two per-

centage points to 35%. Demands from the USA for German machinery were a pleasant surprise, and 19% more mechanical systems were delivered there in 2010. Machinery imports to Germany rose in 2010 by 17.5%, including 12.6% more goods purchased by German customers from EU partners.

## Chemicals and Pharmaceuticals Industry: Growth trend continues

In the course of 2010 exports of chemical products rose sharply, but in the final quarter could no longer adhere to the strong activity of the previous months. Year-on-year, though, the quarter had a 13.5% distinct upsurge. Still, exports to the various target regions developed non-uniformly. Exports to the core states of the European Union grew robustly; business with customers in the “new” member states was even better. Exports to Asia displayed a continual growth tendency. In contrast to that, exports to the USA remained on a negative course, and the pharmaceuticals trade in particular did not perform well. This observable trend in foreign trade will most likely continue in the months ahead. Trade with the emerging countries – first and foremost China, India and Brazil – will continue to grow strongly. Due to restrained growth perspectives, trade with our European neighbors will have moderate success. Business with North American will recover slightly at the very best.



Chemistry laboratory. Foto: BDI/Fotolia (Suprijono Suharjoto)

## Electrical and Electronics Industry: Electrical exports at an all-time high

In December 2010 exports of the German electrical and electronics industry amounted to 13 billion euros. That was 20% more than in the previous year. For the eleventh month straight exports have achieved two-digit growth. In the entire year 2010 electro exports grew by 23% to a volume of 151 billion euros. In 2009 they had dropped by 15% to 122 billion euros. Pre-crisis level was already surpassed last year, and thus exports have reached an all-time high. The industry's export expectations are

pointing upwards: 92% of the industry's companies are currently anticipating better or comparable export results in the coming quarter. Effects of the political unrest in the Arab world on this sector's foreign trade should be fairly limited. Electro exports to North Africa and the Middle East have indeed risen by 23% and 9% respectively, but the respective export volumes constitute only 1% / 3% of all exports from this sector.

## Aviation and Aerospace Industry: High strategic significance

The German aviation and aerospace industry is attributed with high strategic significance for Germany's export achievements and German economic and technological policies. New global markets and expanding leasing business ensure good production figures in civil aircraft construction. Facing massive sales decreases in the worldwide private and corporate market, the civil helicopter sector is in a critical phase. The defense technologies sector of aviation and aerospace is directly affected

through the structural reform of the German armed forces and will have to adapt their industrial structures in 2011. In light of tough international competition, up-to-date promotion of exportation must be generated here in order to prevent long-term incapacitation of German industry. The aerospace division is developing well. The recently announced national aerospace strategy is setting a substantial agenda for the successful expansion of this segment in Germany and Europe and requires imme-

## Steel Industry: Exports still under pre-crisis level

In 2010 exports of German steel companies amounted to around 20 million tons of rolled steel. In spite of a rise of 20% year-on-year, they lagged about one-sixth behind the peak level of 2007. Exports to third countries came rapidly closer to the peak level than deliveries to EU countries. On the import side, the previous year level was surpassed by 24% with a volume of

19 million tons, but still almost one-fourth under the record level of 2007. While imports from third countries to Germany continued to sink slightly, imports from other EU countries had a powerful upsurge. In light of relatively good domestic needs, the German steel trade surplus will likely decrease moderately in 2011. Besides the EU imports, importation from third countries

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## Non-Ferrous Metals Industry: Confidence for 2011

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The German non-ferrous metals industry began the year 2011 with confidence. In 2010 47% of the sector's revenue was produced by exports, which rose considerably by 28% year-on-year. Even so, exports were still 9% under the pre-crisis level of 2008. The sales trend is strongly influenced by the volatile stock exchange listings for non-ferrous metals: After the low levels of 2008-2009, most prices for non-ferrous metals have now recovered and, under the strong influence of financial investors, are heading toward new highs. The non-ferrous metals industry is experiencing new impetus for growth chiefly from non-European

countries, primarily from China, but also increasingly from the USA. In 2011 the aluminum industry delivered products abroad amounting to 5.9 billion euros (+18% year-on-year); but exports were still 14% under the 2008 pre-crisis level. Exports of the non-ferrous heavy metals industry (copper, zinc, lead, tin and nickel) increased in 2010 by 31%. Non-ferrous metal foundries recovered in 2010 by 28% to 1.2 billion euros, still a drop of 7% compared to 2008.

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## Shipbuilding and Offshore Technology: Difficult conditions

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The situation for shipbuilding is still problematical, largely due to financing. The shipyards are intensifying their orientation towards special ship construction. Because there were major orders for ferries, passenger ships, and offshore installation vessels, the incoming orders in 2010 attained an enhanced volume of 2.7 billion euros year-on-year. At the same time, however, through the delivery of new ships amounting to 4.7 billion euros, the orders on hand for the construction of new commercial ships declined to 7.4 billion euros, 97% of which do not apply to export orders. At the beginning of 2011 orders for special-pur-

pose ships were taken in. For naval shipbuilding and for ship repairs and alterations the workload deteriorated in 2010, so that manpower in the shipyards had to be reduced. The drop in demand could also be seen in the shipbuilding supply industry. Competition has sharpened; competitors in China and South Korea have tremendous support from their governments. In addition, efforts to achieve an OECD agreement for fair competitive conditions in shipbuilding failed in December due to blockade tactics of the two market leaders, South Korea and China.

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## Textile and Fashion Industry: Pleasant results in 2010

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The year 2010 came to a pleasing close for the textile and fashion industry. The overall turnover was just under 10% year-on-year. The textile sector contributed well to the sales increase and chalked up a plus of 16.8%. This positive development also appears in foreign trade, in which textile exports increased by 10.3%. In Europe the most important customer country for texti-

les was once again Poland. Even former supply markets are now becoming destinations for textile sales: Textile exports to China increased by 55% and to India by just under 60%. The exportation of technical textiles expanded especially well in the new markets.

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## Food Industry: Exports in 2010 reach record level

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Food exports were able to gain greater momentum at the end of 2010 and beginning of 2011 after a weak year 2009. With a nominal export growth of 9.2%, exports increased in 2010 to a record level of 42.9 billion euros. One-third of export growth can be attributed to price increases. Since May 2010 the global

commodity prices in the agricultural markets have risen by over 50%, which has an impact on the foreign trade prices. The German Association of Food Industries (BVE) reckons with a moderate export advance for 2011. Besides the EU states, the main purchasing countries of German foods are foremost Russia, the

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## Ceramic Industry

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For the German manufacturers of dinnerware and ornamental porcelain it was primarily the exports that had a stabilizing impact on the total revenue. But ceramic exports also experienced a slow-down of 1%-2% in the final quarter of last year. The Ger-

man Ceramics Industry Association (VKI) assumes that this decline can be attributed to the economic developments in the EU and is anticipating continued negative developments regarding incoming orders for the first half-year 2011.

## Industry Sector Focus - Automotive Industry

The automotive industry is Germany's largest industrial sector. With a turnover of 317 billion euros, the sector generated last year more than 20% of the total German industry revenue. The automotive industry is also Germany's largest employer. More than 700,000 persons are employed directly by the automotive industry.

### The Automobile: Germany's most sought-after export product

Cars, transporters, trucks and automobile accessories "made in Germany" are also Germany's most popular export products. Motor vehicles and auto parts were the most important exported goods in 2010 with a share of 17.9% (171.6 billion euros) of Germany's total exports. The German automotive industry is, in addition, the world's leader in quality and technology. German manufacturers produce 80% of all motor vehicles in the premium segment. Global German automobile production achieved a new record level of 12.6 million motor vehicles in 2010. Every sixth car produced worldwide bears the brand name of a German corporation.

The automotive industry is a "global player" in every way. Three of four automobiles produced in Germany are delivered to customers abroad. With an export volume of more than 4.2 million cars in 2010, the volume fell just slightly below the highest export volume to date of 4.3 million in 2007. 53% of those went to markets in Western Europe. 12% of the cars were exported to the USA; last year this share was still under 11%. The share of exported cars to China (462,000) was almost 11%. In the growth market of China almost every fifth newly bought car is from a German producer.

With such export strength, the automotive industry contributes substantially to the foreign trade surplus of the German economy. In 2010 the German automotive industry exported products amounting to 172 billion euros, while cars and parts amounting to 73 billion euros were imported. The balance of trade surplus with automotive products is therefore almost 100 billion euros and thus contributed to the balance of trade surplus of the total German economy to a high degree.

### The automotive industry: Technology leader

The automotive industry again made a huge contribution last year to research and development (R&D). According to preliminary figures, the expenditures for R&D in 2010 rose by a good 3% to almost 20 billion euros. Domestic manufacturers and suppliers were responsible for every third euro invested in R&D. The German automotive industry was therefore in 2010 once again by far the most highly innovative sector. And in addition, German carmakers and suppliers belong to the world's leading patent applicants. German technology and auto industry know-how enjoy high acclaim internationally. With their presence in over 2000 foreign locations, car manufacturers, and increasingly the suppliers too, are sharing in the global growth of this sector. Around the world automobiles with German brand marks are considered status symbols. While the EU offers a vast open automobile market with around 15 millions units yearly, many countries try concurrently to protect and expand their own automotive industries. By doing so they wall off their markets.

### High priority given to trade policy

Germany's export-oriented marketplace must assert itself in worldwide competition. Current figures demonstrate that the automotive industry manages to do this. In 2009 more motor vehicles were built abroad than at home for the first time. In 2010 there were roughly one million more units: 6.8 million cars were manufactured abroad and 5.8 million domestically. Therefore, when it comes to maintaining competitive capability, open markets are an essential factor for the German automotive industry, and thus trade policy must be part of economics-based industrial policy. Growth in the international marketplace is absolutely imperative for securing domestic employment. The finalization of the Doha Round with enhanced market access to future world markets should remain a top priority, complemented by free trade agreements with dynamic growth markets such as India and the ASEAN countries. At the same time, regulatory dialogue with important partners such as the USA and Japan are of great importance for the auto industry.

» Three quarters of our domestic production finds their buyers in foreign countries. Trade policy must therefore be a part of economics-based industrial policy«

Matthias Wissmann, President of the VDA (German Association of the Automotive Industry)



President of the VDA Matthias Wissmann. Foto: VDA

## The VDA (German Association of the Automotive Industry)

The Association of the German Automotive Industry (VDA) consists of more than 600 companies involved in production for the automotive industry in the Federal Republic of Germany. Sustainable and modern mobility are some of the VDA's main goals. The VDA is committed to promoting the interests of the entire German automotive industry at home and abroad. The members comprise three groups: automobile manufacturers, automotive suppliers, and producers of trailers, special bodies, and buses. These groups are not organized in three separate associations, as is usual in other countries. This cooperation results in direct dialogue and rapid decisions that can offer the German automotive industry key advantages. The Association is active in pursuing the interests of its members in all areas of the motor transport sector, including economic policy, traffic policy, technical legislation,



quality assurance and taxes. Of special importance to the VDA are matters of environmental and climate protection. In addition, the VDA is the organizer of the International Motor Show (IAA), an exhibition of passenger and commercial vehicles that is always extremely popular with both the professional world and the general public. The VDA also accompanies its member companies to all important foreign trade fairs.

[www.vda.de](http://www.vda.de)

## Regions in the Spotlight

### Regional focus: Japan

Global economic developments are faced with the aftermath of dreadful natural disasters in Japan. The results of these catastrophes on global production, world trade and the German economy cannot be fully estimated. Japan's share in global trade at 4.6% is certainly less than Germany's share (9.0%), but still ranks fourth in international rankings. In 2010 Japan's imports from Germany ranked 14th (2.3% share), and exports to Germany ranked 18th (1.3%). Japan therefore hypothetically plays only a minor role in German foreign trade. But these figures are totally insufficient to express Japan's significance to global economy and German production, considering that the high-tech production country Japan supplies products that are important to German production and can scarcely be substituted. The more complex products are, the more difficult it is to find alternative suppliers.

Japan has an outstanding market position worldwide for several products, such as controllers and memory chips. Although most factories are located in the south of Japan, which was not hit so hard by the earthquake, sites in the north have electricity shortfalls. The catastrophe could lead to enormous shortages of important preliminary products. Many electrical products coming from Germany's most important supplier country China are affected because Chinese products are particularly dependent on Japanese vendor parts, including the so-called flash-chips that are built into numerous electrical appliances. Prices for these components have already escalated. 60% of the premium commodity silicon, which is the basis for all semi-conductor and solar cell production, is produced in Japan.

Added to that are the downstream repercussions of the crisis on the financial markets, experienced around the world. The dramatic climb of the yen will become an additional handicap for

the Japanese export economy, particularly after an already difficult decade. A further increase in the already excessive national debt is foreseeable. The crash of the Nikkei index heralds a challenging phase ahead.

In spite of the difficult situation and the foreseeable period of weakness, Japan will assume a determining role in global economy in the years to come. Japan as a highly developed high-tech production country will continue to be in a key position regarding energy efficiency, chemistry, electronics and the automotive industry. As strong players in innovation and research, Japanese corporations will continue to be a driving force for new and better ideas. German industry will therefore want to promote unreservedly the expansion of cooperation with Japanese firms.



Flag of Japan. BDI/Fotolia (Juergen Priewe)

## Regional Focus: North Africa and the Middle East

### The significance of the MENA region for Germany by European comparison

In 2010 Germany exported goods and services valued at approx. 36 billion euros to countries of the Middle East and North Africa (MENA). Thus, by European comparison, Germany is once again market leader, followed by France and Italy with export volumes of 31.7 billion euros and 29.7 billion euros, respectively.

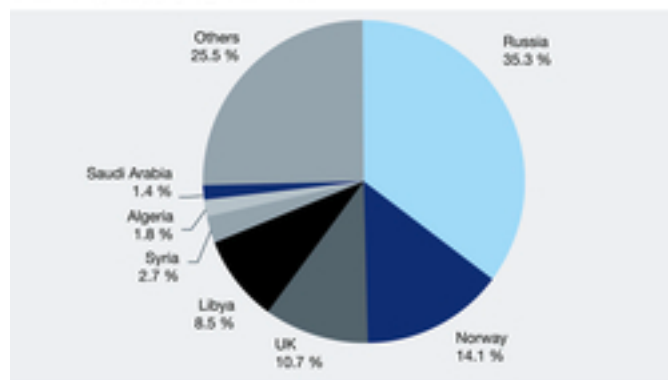
With an increase of 14.1% year-on-year, German exports to MENA are slightly above the pre-crisis level of 2008. Only France experienced a slightly stronger increase last year of 14.6%. The most important destinations for German distributors are still the United Arab Emirates (7.4 bn euros) and Saudi Arabia (5.7 bn euros). The increase of German exports to Egypt is noteworthy and now amounts to almost 3 billion euros. Exportation to Tunisia recovered nicely in 2010 with a plus of over 30% to 1.6 billion euros.



Source: Eurostat, BDI

nary calculations of the IMF, the growth rate in 2010 could even have increased by 5.3%. After production declined intermittently to 20% due to work stoppages and massive impairments in the transport sector (passenger and freight transport), several banks adjusted their GDP prognoses for 2011 from 5.5% to 3.7%. Considerable damage was suffered primarily in the tourism sector, which accounts in Egypt for 13% of the GDP, 11% of the jobs, and 12% of the investments.

**Oil imports to Germany 2009**  
Shares by supplying countries



Source: Annual reports MfW



Up against the large volume of German exports are the relatively few imports valued at only 11.8 billion euros, which places German clearly behind Italy (40.3 bn euros), Spain (23.1 bn euros), France (21.9 bn euros) and the UK (19.3 bn euros). The import of energy sources is predominant. For example, these five countries purchased petroleum and gas from Libya in 2010 for more than 24 billion euros jointly. Italy alone imported 11.8 billion euros worth.

### Effects of political upheavals on the local economy

Short-term effects of the political conflicts on the local economy are formidable. For example, Egypt's economy will expand much more slowly than it did in the last two years. With a GDP increase of 4.7% in 2009, Egypt presented itself in the global economic crisis as outstandingly stable. According to prelimi-

### Effects on the German economy

The ambiguity concerning coming political developments in this region affects the behavior of local and international economic agents. In light of the large number of countries in this region affected directly by political protest movements, a prognosis of exportation for the current year is difficult. A slight decline is most likely. Firstly, it cannot be expected that large-scale orders for strategic projects will be placed by the respective authorities or state-owned enterprises until formation of new legitimate governments. There is considerable uncertainty as to whether such business deals would endure after a change of government – on the side of the local agents, as well as on the side of foreign companies. Secondly, it is becoming apparent that financial institutions, especially private ones, will hold back on financing projects, or that required funding will become more expensive, whichever the case may be.

Regarding imports, the textile and automobile supply industries were hit at short notice by production downtimes in Tunisia and Egypt. This situation is expected to normalize again in the medium term. Libya as energy supplier in that region is of special interest to Germany. After all, Germany imported energetic raw materials in 2010 for more than 3 billion euros. Relatively speaking, the Federal Republic of Germany covers its petroleum imports only to a small extent through Libya (8.5%), Syria (2.7%), Saudi Arabia (1.4%) and the other Arab countries. Therefore, direct effects on Germany from any losses of production will be limited.

## Industry Sector Focus: Security and Defense Industry

Loss of production will lead indirectly, however, to higher oil prices on the world markets and thus to increasing commodity prices for the manufacturing industries in Germany. This will ultimately have negative effects on the whole economic situation. According to calculations by the DekaBank, a 20% rise in oil prices will cause 0.5% less economic growth in Germany.

At the same time, it must be emphasized that German economic performance today is de facto much less dependent on oil than it was 30 years ago. While in 1980 around 120 million tons of petroleum were imported, in 2009 there were only 98 million tons. Concurrently the nominal GDP more than tripled with an increase of 767 billion euros in 1980 to 2.4 trillion (2400 bn) euros in 2009.

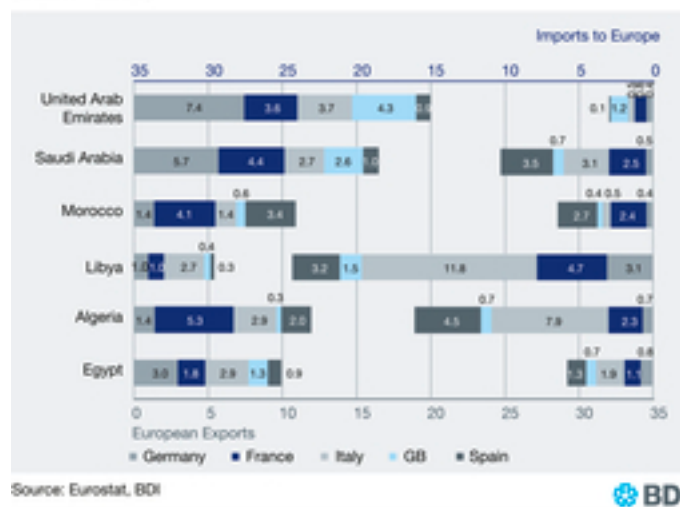
### Prospects

So far Tunisia and Egypt are on a relatively well-ordered path of political transformation. In numerous other Arab countries, for example Jordan and Bahrain, the citizens are demanding more political participation. In the event that a peaceful, sustainable liberalization and pluralization of the political landscape is accomplished, then in the medium term positive impulses for dynamic economic growth can be expected. However, a swift pacification in Libya cannot be expected at present. Foreign business people were evacuated. The clearance of goods in Libya's ports is massively impeded, as are international and national payment transactions. Europeans have reacted to this by im-

sing initial sanctions and in doing so hope to contribute to ending the violent conflict there.

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### European foreign trade in the MENA region (Billion Euro)



## Regional Focus: USA



Transatlantic partnership. Foto: Obermeier

### Perspectives of American economy 2011

Positive signals from the USA are increasing. The chairman of the Federal Reserve Bank, Ben Bernanke, considers an economic growth of 3% to 4% possible for 2011. It is anticipated that industrial growth will continue on a solid basis in 2011. Critical factors are the robust domestic order situation and rapid export expansion, especially to the BRIC countries. Additional positive impetus is hoped for through tax breaks that will likely free up 150 billion USD over the year 2011. This could result in a further upturn for US domestic consumption. President Obama also announced that an additional 60 billion USD would be invested in infrastructure, which would definitely strengthen the real economy. The slow recovery of the US labor market continues. The rate of unemployment fell in February from 9% to 8.9%, the lowest level since April 2009. According to the US

Labor Department at the beginning of March, employment has increased in almost all economic sectors.

### Transatlantic economy as "stability anchor"

Even though ambitious emerging countries like China, India and Brazil are playing a more and more important role in global economy, the USA is the most important economic partner of German industry outside the EU. Around 7.5% of German exports and about 30% of Germany's foreign investments are allotted to the US. The USA and Europe are the largest economic regions of the world. Jointly they generate 54% of the world gross national product and account for 62% of worldwide direct investments. US consumers make up 40% of international purchasing power. The total revenue of both markets in 2010 amounted to five trillion US dollars.

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The full article can be read at the Internet address <http://bit.ly/hB2DRW>.

## Trade Policy

## Interview with Dr. Hubertus Erlen



Dr. Hubertus Erlen

Dr. Hubertus Erlen is chairman of the Foreign Trade Committee of the BDI (Federation of German Industries) and chairman of the international Relations Committee of BusinessEurope, the umbrella organization of European trade associations. Dr. Erlen kindly gave an interview for the BDI Foreign Economic Report.

» Dr. Erlen, the Lisbon Treaty has reorganized the competencies in European trade policy. How do the interim results look to you after a good year?«

»I observe a mixed picture. Let me give you three examples. The first one relates to the strengthening of the role of the European Parliament in trade policy through the Lisbon Treaty. My assessment here is positive: The trade-policy debate has become on the whole more transparent and democratic. This was quite visible in the struggle that ensued over the free trade agreement with South Korea. Finalization and adoption of the agreement in mid-February in the European Parliament demonstrated that the EP members take their new responsibility seriously and want to work together constructively on the various trade-policy issues.

Not so positive are experiences with my second example, the investment protection agreements. The EU received from the

member states vital competence for investments, but these matters show that the team play amongst the European Commission, European Council and European Parliament is not good enough. Till today it is not clear how long the bilateral investment promotion and protection agreements concluded by the member states will be valid and what standards future agreements of the EU will have. Evidently the three institutions so far could not unite on basic principles for a future investment policy.

The third example is the reform of international processes for implementing trade defense instruments. Surely it is right that the Commission wants to de-politicize the process with its planned changes. But whether this has positive effects on the economy will depend largely on whether it succeeds in avoiding delays in the processes. We will be able to evaluate this when it has been put into practice.«

» The EU trade commissioner Karel De Gucht introduced the new trade agenda at the end of 2010, which sets the course for European foreign trade policy until the year 2015. Is German industry satisfied with the agenda?«

»In its basic orientation: Yes. In the concrete realization of planned measures: No. Following a strategy change that was introduced in 2006 with the trade agenda "Global Europe", Commissioner De Gucht is committed to continuity in the new trade agenda. Existing trade guidelines should be given more attention, and European economic interests will be pushed. This approach is certainly welcome. The new strategy paper, however, does not yet provide concrete answers to a whole range of important issues.«

» Which issues are still open?«

»It is still vague, for example, how new markets should be opened and how access of EU enterprises to public contracts in foreign markets should be better secured through the intended new instruments. Here the EU must reach an intricate balance between pushing our legitimate interests and avoiding protectionist backlashes. Another example is the shaping of strategic cooperation with our primary trade partners, the USA, China, Russia and Japan. We must consider the fact that the weight of world economy will further shift in favor of the emerging countries. In 2015 90 percent of global economic growth will presumably be generated outside Europe. In order to guarantee the prosperity of the EU in the next 10 to 15 years, does a "keep up the good work" suffice in regard to multilateral and bilateral negotiations? We will discuss this and other questions in April during the meeting of the BDI Foreign Trade Committee with Trade Commissioner De Gucht.«

»» What current challenges does European trade policy have to deal with? «

»At WTO negotiations in Geneva there is apparently a certain dynamic, following a disappointing year 2010. If nothing happens in the next months that would bring about a breakthrough, then this may just be the last chance for a longer period of time. Everything will depend on whether the key players, USA, China, India, Brazil and the EU, will really mobilize their repeatedly announced political will for a successful round. The BDI and BusinessEurope are giving high priority to a multinational conclusion, and are pointing again to the necessity of better market access through agreements for individual sectors, immediate clarification of the flexibilities, and liberalization of the services sector. There are also difficult matters to solve in the negotiations of bilateral free trade agreements. I am thinking here especially of the negotiations with India. It has to remain the primary goal of the EU to finally reduce all industrial customs.«

»» The Indian government has made it plain that it will not sign a free trade agreement that contains a sustainability chapter on human rights, democracy, and environmental and social standards. This is, however, the prerequisite of the European Parliament. Should sustainability chapters be a feature of free trade agreements? «

»Firstly, I do not assume that the agreement will fail because of this question. It is clear that the EU trade policy is part of European foreign policy, and therefore a coherent, mutually supportive course of action of all policy areas must be the goal. Because of the global shifting of weight, the EU must watch out, though, that our own trade agenda does not become overloaded with the so-called "trade plus ..." topics, such as environmental and climate concerns. Trade policy cannot replace lack of international coordination or lack of consensus in other policy areas.«

»» Ensuring raw material supply is another global challenge. What has to happen here so that in the future supply is securely established for domestic industries? «

»Ensuring the supply of raw materials is primarily the task of the concerns, but for this the companies need well-operating markets. Taking into account over 1000 export restrictions regarding global commodities, it is clear that policy makers are called upon to improve framework conditions. For example, it is a fact that China's drastic export restrictions with respect to rare earth presently affect production in Germany. We need to use all bilateral, plurilateral and multilateral channels and join together with other partners to push for open markets in the raw material sector. Therefore the BDI supports such initiatives of the federal government and the EU Commission to continue action in the framework of the WTO against China's export restrictions. Parallel to that, entrepreneurs must consistently use all options of action open to them. In order to secure the supply of raw materials from abroad, diversification of supplier relationships, long-term supply agreements and basic participation in commodity projects in foreign countries must be utilized. Of course, the worth and opportunity of direct participation in commodity companies vary depending on the size and position in the value-added chain. But the possibility of doing so must be investigated.«

»» Dr. Erlen, the largest American trade association, the US Chamber of Commerce, suggested recently that all customs duties in transatlantic merchandise traffic be eliminated.

How do you view this initiative, particularly against the backdrop of a possible stalemate of the Doha Round? «

»The EU and the USA are linked by close trade relationships and the average duties are at around 5-7 percent. In this context a comprehensive reduction of customs duties could provide new momentum in the event that the Doha Round is not concluded this year. We should not forget, though, that the challenges in transatlantic trade relationships are not so much in the tariff area as in the reduction of non-tariff trade barriers, agreeing on common standards, and the reciprocal recognition of test procedures. For these issues there are existing talks in progress, e.g. with the Transatlantic Economic Council. With our US American friends we ought to clarify how we can advance on these issues before we tackle other problems.«



Container harbor. Foto: BDI/Fotolia(soleg\_1)

»» Dr. Erlen, during its G8 and G20 presidency France would like to contribute to combating macro-economic imbalances in global economy. Do you believe in the success of these efforts? «

»The finance ministers of the G20 states agreed recently on indicators with which the contribution of individual countries toward the reduction of macro-economic imbalances can be measured. It is nevertheless still open, how these indicators should be measured and interpreted and which consequences need to be taken into account. In our opinion there must be no doubt that the countries with the greatest deficits must undertake major adjustments. Parallel to that, competitive distortions, for example through currency devaluation, must be prevented.

Germany has no reason to be ashamed of its successful export business – on the contrary. Structural reforms, productivity-based wage policy, budget consolidation and monetary policy that promotes stability are the vital and fundamental factors that strengthen competitive capacities, growth, and the reduction of macro-economic imbalances.«

»» Thank you for this conversation. «

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## OECD Guidelines for Multinational Enterprises

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The OECD Guidelines for Multinational Enterprises are the world's most important standards for corporate social responsibility (CSR). The guidelines date from 1976 and were revised and amplified in 2000. They are an integral part of the OECD Declaration on International Investment and Multinational Enterprises and are recommendations for business conduct in multinational enterprises abroad that are directly or indirectly owned or controlled by national citizens. This investment nexus follows the Western concept of a market economy order, in which private ownership and responsibility are inseparable – also on foreign soil. Therefore the guidelines should motivate companies to protect human rights, employment rights and consumer rights in those locations where they have the power of disposition due to investments, as well as to protect the environment and combat corruption. The OECD states have obligated themselves to set up contact points in which citizens can give notice when companies have transgressed the guidelines. Although observance of the guidelines is voluntary in principle, adherence to them is monitored by non-government organizations (NGOs). Charges of transgression brought against a company in a con-

tact point attract widespread media interest and have an unfavorable, detrimental effect on the company. The OECD Council of Ministers resolved in 2010 to revise the guidelines. The initial draft will be introduced during the celebration of the 50th anniversary of the OECD in June 2011. The BDI participates actively in the revision of the guidelines via the Business and Industry Advisory Committee (BIAC) in the OECD, but also through position papers to the federal government, in which the BDI advocates a balanced revision. From the industrial viewpoint, maintaining the voluntary character of the guidelines is uppermost, because the social involvement of enterprises does not lend itself to being standardized or quantified. There is also the aim of hindering the fundamental expansion of the guidelines beyond the areas of direct investments into the area of trade. Responsibility for all stages of the entire supply chain would put small and medium-sized companies face-to-face with almost impossible tasks. The OECD should rather undertake to place responsibility on the emerging countries such as China and India so that a "level playing field" will be created for all internationally operating companies.

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## BDI Foreign Trade Events

<b>04.04.2011</b>	BDI series "Internationalization of SME Sector"	<b>Hanover</b>
<b>04.04.2011</b>	BDI Committee on Foreign Trade (Hanover Trade Fair)	<b>Hanover</b>
<b>05.04.2011</b>	Committee on Eastern European Relations: Business Forum Ukraine	<b>Hanover</b>
<b>06.04.2011</b>	ECOS Japan Consult with BDI (Hanover Trade Fair)	<b>Hanover</b>
<b>13.04.2011</b>	BDI working group Trade Fairs and Exhibitions	<b>Berlin</b>
<b>14.04.2011</b>	BDI working group: Export credit insurance/Export financing	<b>Berlin</b>
<b>14.04.2011</b>	Russia event (Hanover Fair)	<b>Hanover</b>
<b>16.05.2011</b>	BDI working group USA	<b>Berlin</b>
<b>30.05.2011</b>	APA trip of German Chancellor to India	<b>New Delhi</b>
<b>31.05.2011</b>	German-Russian SME conference	<b>Moscow</b>
<b>18.09.2011</b>	German-Brazilian Economic Congress 2011	<b>Rio de Janeiro</b>