

## Foreign trade: Pre-crisis levels will not be reached before 2014



BDI President Hans-Peter Keitel.  
Photograph: BDI/Schinzler

» The German export industry is on the road to recovery, but catching up will take a long time. The export sector suffered a severe setback in 2009.«

This is how BDI President Hans-Peter Keitel characterises the foreign trade situation.

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## German exports



## Global developments

In 2009, the global economy suffered an extraordinarily severe downturn.

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After reaching a low in April and May, exports have been slowly increasing since June.

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By October 2009, car exports fell by 23%. Over the past three months, the downward trend seems to have come to a stop.

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## BDI industry survey



## 18% drop in exports in 2009

This year, the BDI's member associations were again asked about the foreign trade trends in their respective industries.

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## Foreign trade: Pre-crisis levels will not be reached before 2014



BDI President Hans-Peter Keitel. Photograph: BDI/Schinzler

»The German export industry is on the road to recovery, but catching up will take a long time. The export sector suffered a severe setback in 2009.«

This is how BDI President Hans-Peter Keitel characterises the foreign trade situation.

According to a recent BDI industry survey, industrial exports have fallen sharply in the course of the crisis in all regions of the

world and in all industry sectors. For the entire year, exports are expected to decline by about 18%. Annual growth rates during the years preceding the crisis were around 8%. According to the survey, exports are expected to grow by four percent in 2010.

»Given this rate of growth, pre-crisis levels will not be reached before 2014.«

The German export sector is still facing a number of risks. The expansive monetary policy pursued by central banks can result in new financial bubbles, and banks' balance sheets still show a substantial need for further write-downs. Furthermore, economic stimulus packages have ended in several countries. Also, protectionist tendencies are increasing globally – some of them well hidden in financing instruments or »buy national« provisions contained in economic stimulus packages.

With respect to the agenda of the new German federal government, Keitel stated that it has set the right course for reviving exports.

»The critical challenge now is to implement these measures in order to assist exporters in quickly regaining their footing on world markets.«

The main priority in the near term is to improve the export credit insurance instruments and the availability of export credits.

## The Global Economy and German Exports

### Global trend: Cautious recovery following turning point

In 2009, the global economy suffered an extraordinarily severe downturn. While during previous years global GDP and global trade grew at average annual rates of 3% and 6%, respectively, the global economy virtually crashed as a result of the financial market crisis, falling by 21% in the last quarter of 2008, and by 22% in the first quarter of 2009. Global trade bottomed out at the beginning of the second quarter of 2009, and has been growing since. Despite vigorous growth in the second (8%) and third quarters (10%), which is expected to continue in the fourth quarter, growth rates have been insufficient to compensate for the extraordinarily strong drop suffered at the beginning of the year. Global trade is believed to have contracted by around 13% in 2009 relative to 2008, even worse than the negative forecasts voiced in early 2009.

Cover Photo: BDI/fotolia (pdesign)

**Global economic crisis dampens global trade and exports**  
Global trade and German exports (percent change relative to previous quarter)



Source: WTO, OECD, Deutsche Bundesbank

## Exports: The development remains volatile

With its high export ratio of 47%, Germany is highly integrated in the international division of labour, which has made the effects of the global economic downturn on our economy all the more noticeable. After growing at an average rate of around 8% p.a. over recent years, German export growth slowed to 1.3% in 2008, before dropping by 21% by last October – the decline for the full year is expected to be about 18%.

The current export trend is rather volatile. Since reaching a turning point in April and May, exports have shown slow growth accompanied by repeated setbacks, for example last August. This development is underscored by the volume of orders received from abroad, which has grown slowly since February, but subject to substantial monthly variations. After dropping considerably in July and August, orders from abroad reached an annual high in September, only to fall by 5% again in October. This trend is expected to continue over the coming months.

In the annual BDI industry survey on export trends last published in November, BDI's member associations expect that in-

dustrial exports can potentially grow by 4% in 2010. If growth

**Exports and orders from abroad volatile**  
Level of exports and orders relative to September 2008



Source: Deutsche Bundesbank



## Conclusion and forecast: Recovery cannot be taken for granted

After reaching their low point in April and May, exports began to increase slowly since June. However, the setbacks for exports and orders from abroad indicate that the road back to sustainable growth will be long and difficult. The trend is overshadowed by a number of uncertainties.

- Financial market trends do not provide much ground for hope. The balance sheets of many banks around the world still show a substantial need for further write-downs, while continued expansive monetary policy by central banks is increasing the risk of renewed bubbles. Financial institutions are expected to further restrict the availability of export credits over the next months: The banks' liquidity is continuing to fall while ratings of companies are deteriorating as a result of the economic crisis.
- After individual stimulus programs such as the German car-scraping scheme have ended, growth in individual sectors can be expected to drop. Debt incurred in the context of financing the global economic stimulus packages is reducing future purchasing power, and debt service obligations will limit consumption and investment activities in the medium term.

- The risk of resurgent protectionism has not yet subsided. The economic stimulus packages launched around the world also contain "buy national" stipulations and financing programs targeted exclusively at the domestic economy.
- The European export industry has been hit in recent months by the rising value of the euro, while hedging exchange rate risks is very expensive, particularly for small- and medium-sized companies.

Also, when considering the growth in exports and orders over recent months, the base effect must be taken into account: In view of the low level of exports and orders received in the last months of 2008, even growth that is low in absolute terms represents a high growth rate in percentage terms. An 18% drop in exports in 2009 requires 22% growth to end up at the starting value. Given current growth rates, this means that recovery will take some time.

## Developments in target markets for German exports

### Europa: Growth remains weak

The European Union remains the most important target region for German exports, accounting for 57%. In 2009, EU GDP fell by around 4%. While important markets such as Italy (+0.6%) and France (+0.3%) returned to moderate growth in the third quarter, the United Kingdom's GDP still contracted slightly, by -0.4%. France, Germany's most important trading partner, was not hit as strongly by the economic crisis, suffering a 2.3% drop in 2009 compared to Germany, which fell by 5%. And France is less affected by the downturn in global trade, largely due to its substantially lower share of exports (26%). According to the BDI survey, industrial exports to EU countries will increase again in 2010 by approximately 3%.

Over 10% of German industrial exports are destined for non-EU European countries, especially in Eastern and South Eastern Europe. Countries such as Ukraine or Serbia have been strongly affected by the crisis. So far, support measures enacted by the IMF, the EU, the World Bank and other organisations have

helped soften the impact. Russia has its own means to stimulate its economy. Still, Russian GDP is expected to contract by 8.5 % in 2009. The recovery process in the entire region will begin in 2010, albeit slowly. Challenges will arise as a result of a subsequent rise in unemployment and loan defaults. According to BDI's 2010 industry survey, exports to Eastern Europe could grow moderately by 3% next year, after suffering a 25% drop in 2009. Dynamic growth in Eastern Europe will not begin before early 2011.

### America: Slight growth in 2010

About 10% of German industrial exports are destined for North America. The US economy is gradually working its way out of recession, and achieved growth in the third quarter of 2009; however, the US economy will have contracted by up to 3% in 2009. Growth impulses are particularly due to the economic stimulus program, which represents more than 3% of GDP. It remains to be seen whether this will fuel consumption. In October, the unemployment rate reached 10.2%, the highest rate in over 25 years. In particular, state and household debt levels do not leave much room for future programs and tax cuts. Despite these adversities, the US economy will slowly return to a more robust growth path over the course of the next two years. The BDI's industry associations expect German industrial exports to grow by 3.5% in 2010.

2.4% of German industrial exports are destined for Latin America. In recent years, the region became used to high growth rates, averaging 6% during the five years preceding the crisis. The financial market crisis has also affected the Latin American economies, causing GDP in the region to contract by more than 2% in 2009. German industrial exports to the region fell by 19% in 2009, a particularly severe drop. The region's prospects of overcoming the crisis in the nearer term are good, also as a result of comparatively low public and private debt levels. The

OECD is expecting the Brazilian economy to grow by nearly 5% in 2010. Also, the 2014 Football World Cup in Brazil and the 2016 Summer Olympic Games in Rio de Janeiro will require considerable infrastructure investments beyond 2010, which will presumably also benefit the German economy. Despite a slight recovery in the region, the BDI industry survey indicates zero growth for German industrial exports to the region in 2010.



Photograph: BDI/fotolia (Brandon Seidel)

## Asia: Economic growth drives prospects for exports

13% of German industrial exports are destined for the growing markets in Asia. Despite the crisis, the Chinese economy again grew considerably in 2009 at a rate of 8.5%, only slightly less than during the previous year (2008: 9%). The enormous economic stimulus program representing more than 8% of GDP

prevented a stronger decline. Another emerging economic powerhouse in the region is India, where the economy grew by 5% in 2009 (2008: 7%). For 2010, the IMF is forecasting GDP in the ASEAN states to grow by about 5%, and by 9% for China. For German industrial exports, the BDI survey suggests 3% growth

## Middle East and Africa: Growing importance

Around 3% of German industrial exports are destined for the Middle East. As a result of the financial and economic crisis, the region will achieve slight economic growth in 2009 of around 2% despite the strong decrease in commodity prices. While German exports to Libya (+54 %) and Iraq (+81 %) showed strong growth, exports to the region's most important markets – United Arab Emirates (-21 %) and Saudi Arabia (-7%) – dropped significantly during the first nine months of 2009. The IMF predicts growth of around 4% for 2010, and the BDI industry survey published in November estimates that German industrial exports to the region will increase by more than 3%.

Africa accounted for around 2% of German industrial exports in 2008. In 2009, exports fell by around 16%. Exports of goods and services to South Africa alone, an important export destination country, fell by around 28%. This reduction in exports reflects South Africa's economic development. In 2009, the economy is expected to contract by about 2%, with growth in 2010 remaining low. However, German industrial exports this year will grow by 6% according to the recent BDI industry survey. The region with the lowest share of German exports also has the highest growth rate.

### Industry sector trends

## Automotive industry

Like all German industry sectors, the automotive industry with its export ratio of 63% and exports totalling € 180 billion (2008) is focused on exports, of which many are destined for non-European markets. Accordingly, the global financial crisis has affected the automotive industry severely. By October 2009, car exports fell by 23%. Over the past three months, this downward trend seems to have come to a stop, and in October 2009 exports grew again for the first time, increasing by 8%. For the next few months, the industry anticipates low growth. Low increases are also expected for 2010 in all non-EU regions, with China even achieving double-digit growth. In the utility vehicle segment, however, the situation on export markets remains difficult. In particular, this concerns the heavy trucks segment, exports of which fell by between 70% and 75% in 2009. For 2010, the automotive industry expects the situation on the international utility vehicles markets to stabilise, with exports increasing by up to 5%.



Production in the Automotive Industry.  
Photograph: BDI/fotolia (Philippe Minisini)

## Mechanical and plant engineering

With exports totalling € 146 billion and an export ratio of 71%, the mechanical and plant engineering business is largely export-driven, with Asia representing a particularly relevant destination region. In the first eight months of 2009, exports of machines and plants were 24% lower than in the previous year. Exports to the EU-27 markets developed poorly, falling by 30%. Only exports to China (+3%) and the OPEC states (+1.7%) re-

gistered increases. In August alone, exports to North America were 43% below the previous years results. In the first eight months of the year, exports to Russia also suffered in the same order of magnitude, while business with Brazil and India fell by around 26%. Total exports for 2009 are expected to fall by around 20%. For 2010, the BDI industry survey expects exports to increase by 3%.

## Electrical and electronics industry

With total exports at € 145 billion and an export ratio of 80%, the electrical and electronics industry has the highest share of exports of all German industry sectors. The Asian markets are also particularly important for this industry. By August, exports in 2009 fell by 22% in relation to the previous year. All major sales regions were affected by the decline. Exports to India and China were least affected during the first eight months of the year when compared to the other regions, each falling by only 5%. In August, exports to China then increased by 5% relative to the previous year. Virtually all electrical industry sub-sectors recorded declining exports during the first eight months of this year. Exports of capital goods fell by 18%, materials and supplies by 36%, and durable consumer goods by 25%. Total exports in 2009 are expected to drop by around 20%. However, expectations of future exports improved again in October for the fifth time in a row, and are now positive again. All in all, nine percent of the companies in this industry are expecting their exports to increase again over the next three months. For 2010, this year's BDI industry survey anticipates a growth rate of around 4%.



*The electrical and electronics industry has the highest share of exports of all German industry sectors. Photo: BDI/fotolia (jeancliac)*

## Chemical industry

With exports totalling around € 140 billion, the German chemical industry achieved an export ratio of almost 79%. European markets account for a particularly significant 65% share of exports; demand dropped by more than 16% during the course of the current year. Exports to the US fell by more than 10%. Pharmaceuticals, which tend to be comparatively less sensitive to economic fluctuations, and which account for approximately half the trade in chemical products between the US and Germany, helped ensure that the situation did not deteriorate further. In the course of the year to date, exports to Latin America were about 16% lower than during the corresponding period in the previous

year. Exports to Asia also fell, albeit by a comparatively lesser degree, dropping by about 5%.

After declining strongly in the middle of the year, exports have rebounded recently due to Asia's sound economic development. For 2009, the BDI industry survey anticipates a drop in exports by 15%. Overall, the export business is expected to recover somewhat over the coming months, but at a low level. For 2010, experts predict 5% growth.

## Food industry

With exports worth € 42 billion, the food industry accounts for a significant share of German exports, even if the export ratio is lower than in other industries, at 27%. Most exports are destined for Europe, and mainly for EU countries. Between January and August 2009, goods worth € 24.6 billion were exported, corresponding to a 5.5% drop compared to the same period in the previous year.

The drop in exports is largely due to price effects. In September

2009, export prices for food were 5.9% lower compared to the previous year. This is due to the appreciating euro and food prices, which have fallen globally, which means that the food industry is performing relatively well compared to other industry sectors. In the course of the year, the situation has slightly deteriorated, also due to increasing non-tariff barriers to trade. For 2010, the industry anticipates that exports will increase by 8%.

## Shipbuilding industry

In 2008, German shipbuilding industry exports stood at € 4.5 billion, representing an export ratio of 59%. As a result of their high dependence on exports, the drop in global demand for shipbuilding products has affected German shipyards significantly. In the first nine months of 2009, the merchant ships segment – which accounts for roughly 55% of total turnover – recorded only 12 construction orders for new vessels totalling € 387 million; of these orders, 55% originated abroad.

By contrast, 43 ships were delivered, representing an order volume of € 2.3 billion; of these, 73% pertained to exports. Since numerous orders were cancelled at the same time, the volume of existing orders fell again, by 24% since the end of 2008. This figure still includes orders for which financing and final acceptance by customers have not yet been secured.

The shipyards are trying to focus their construction programs on high-quality orders in niche markets. Competitors in China and Korea are receiving massive government subsidies in the context of special support programs for shipyards, suppliers and ship owners that are helping to bridge imminent employment shortfalls as a result of order cancellations. According to the BDI industry survey, the shipbuilding industry is expecting ex-

ports to drop by 40% in 2009. A further drop of 10% is anticipated for this year.



*The drop in global demand for shipbuilding products has affected German shipyards significantly. Photo: BDI/fotolia (Hans Sehringer)*

## Paper-producing industry

German paper industry exports total € 6.4 billion, representing an export ratio of 43%. Compared to other industry sectors, the European Single Market plays a particularly significant role in this regard.

The paper industry has also been affected strongly by the crisis. The drop in the volume of orders received from abroad has led to a massive reduction in paper production in the first half of 2009. Recovery did not begin prior to the third quarter, and started at a very low level. In recent weeks, foreign sales performed significantly better than domestic sales. Demand from Western

Europe fell by 12%, while demand from Eastern Europe fell by a comparatively moderate 8%. By contrast, overseas exports suffered a higher reduction, dropping by 22%. Eastern Europe accounted for 23% of total exports, a share that has increased considerably over recent years.

The overseas share of total exports is only 10%. The orders received from abroad appear to suggest that the situation is improving. In 2010, the base effect from 2009 alone will result in a marked increase in exports; all in all, the industry is anticipating 5% export growth.

## BDI Industry Survey

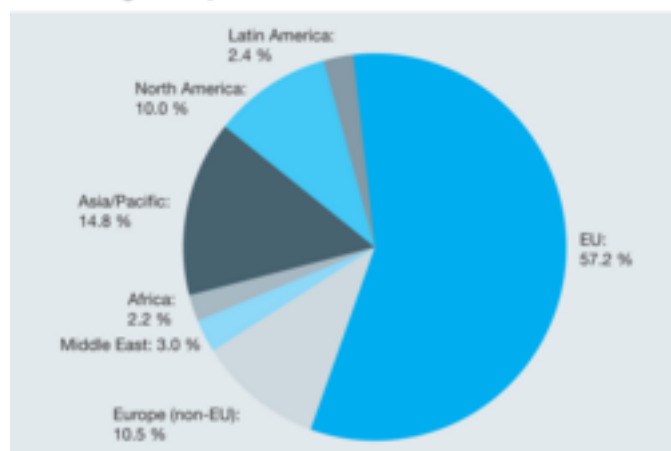
## BDI industry survey: Growing importance of new markets

This year, the BDI's member associations were again asked about the foreign trade trends in their respective industries. The BDI's questions focused on total turnover and total exports of the German industry sectors, the importance of the individual regions of the world and an assessment by the associations regarding future export trends. A particular focus was on the issue of whether the importance of target regions will shift as a result of the economic crisis.

Also in this year, the survey highlighted the large significance of international business for German industry. 86% of the goods exported represent industrial products. Industry reached an export ratio of 62%, compared to 47% for the overall economy (2008). Individual industries and industry sub-sectors generate the largest share of their turnover abroad. The export ratio is 80% for the electrical and electronics industry, 79% for the chemical industry, and 71% for the mechanical engineering industry.

## Industrial exports in 2008

Share of regions in percent



Source: BDI survey



## Development of German industrial exports

Africa growing strongly



Source: BDI survey



The survey results also show possible trends regarding the relevance of the individual world regions for German industrial exports.

In 2009, German industrial exports to all target regions suffered considerably, particularly exports to non-EU European countries (-22%) and to Latin America (-19%). According to the survey, total industrial exports fell by almost 18%.

By the end of 2010, exports to the Middle East and Africa will have suffered least from the crisis. Exports to these regions suffered only from relatively low reductions in 2009 and will experience relatively high growth rates in 2010. Until now, approximately 5% of the exports are destined for this region, which however is becoming increasingly important for German industry.

Overall, industrial exports will increase by 4% this year. Growth of exports to Africa, while low in absolute terms, will show the strongest growth rate, at 6%.

Photo Cover: Hapag Lloyd

## EU competence for investment protection agreements remains unclear

In all, German companies employ more than 4 million persons at over 20,000 foreign locations. So far, these foreign investments by German companies were protected by bilateral investment promotion and protection agreements. Germany has concluded 126 such agreements with third countries and is by international comparison a pioneer in this regard. Under Article 207 of the Lisbon Treaty, which entered into force on 01 December 2009, the EU is now responsible for member states' foreign direct investments. In future, these agreements will presumably be primarily negotiated by the EU itself; however, details remain largely unclear.

Together with the German Federal Ministry of Economics and Technology (BMWi) and auditors PricewaterhouseCoopers (PwC), BDI organised a survey of German companies on foreign direct investments. For the companies surveyed, the most important target areas for direct investments were Asia (31%), Europe (29%) and America (25%). The most common activities pursued with these investments abroad are production (24%) and distribution (15%). The overwhelming majority of the companies surveyed confirmed that their foreign investments tend to create additional jobs also in Germany (69%), and / or tend to help secure their domestic jobs (83%). Nearly all companies

(95%) carry out such investments in order to improve their position on foreign markets, while one half of the companies surveyed (55%) does not believe that foreign production replaces their previous exports.

Almost all companies surveyed (89%) have had experiences in the context of securing their foreign investments. The majority of the companies (71%) stated that bilateral investment protection agreements were highly important in reaching their decision regarding where to invest. Two thirds of the companies have already benefited from BITs by means of political support. Most companies (78%) are aware of the scope of the protection offered by investment protection agreements and have already benefited from such agreements themselves (70%). Half of the companies (56%) believes that the treaties that the EU and Germany are expected to negotiate will be sufficient provided

that they offer a comparable level of protection. Approximately one third (27%) plans to review their foreign investment decisions critically in future. Almost all companies (88%) demand that Germany should strive to ensure that the EU maintains a level of protection that is comparable to the high degree of protection offered by the national agreements.

The survey results support the BDI in its continued efforts at the national and the European level to strengthen and maintain the high degree of protection of German foreign direct investments. The international commitment of German companies facilitates market access and improves the global competitiveness of German companies. By investing abroad, companies not only secure existing jobs, but at the same time create new jobs in Germany.

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## No »Exportmodell Deutschland«

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In recent months, the international balance of payments ("global imbalances") has been mentioned repeatedly in the context of discussing the causes and consequences of the international economic and financial crisis. At its core, the debate centers on how to achieve more sustainable economic growth in response to the crisis. The main focus in this regard will be on countries with trade surpluses such as Germany or China on the one hand, and countries with trade balance deficits such as the United States, where the trade balance deficit totals USD 840 billion (2008). In debating global balances, the following points must be taken into consideration:

- The notion that a balance of trade can be entirely even is unrealistic. There will always be countries with surpluses and countries with deficits; assuming floating exchange rates, any imbalances should remain reasonable. However, it is also true that currency fluctuations in recent years have no longer only been affected by developments on the commodity markets, but increasingly also by developments on the financial markets.
- An "Exportmodell Deutschland" does not exist. Trade surpluses are not the result of central planning efforts undertaken by states, but rather an indication of international competitiveness. In past years, German industry has positioned itself successfully around the world, has streamlined its structures, and has succeeded in the world market with its innovative products.
- Germany continues to be a high-wage industrial location. In recent years, wages increased in line with productivity, a wage policy that is sensible.
- Around two thirds of German exports are destined for EU countries, which in effect represent a domestic market. Exclu-

ding this share would lead to substantially smaller export surpluses.

- The one-sided discussion of German exports neglects the relevance of imports. Between 1991 and 2008, imports increased from 21% to 41% of GDP. Nowadays, nearly 45% of German exports are attributable to imported goods – in 1995, this figure was only 31%.

**Conclusion:** In principle, there is no reasonable alternative to the role the German economy plays in the international division of labour. Taking advantage of and further developing competitive advantages together with industry's focus on the needs of the global market will remain the foundation of prosperity and employment in Germany. However, this does not mean that German economic policy can neglect its own domestic market. The only sensible path to a robust domestic market is a regional economic policy that focuses on promoting the creation of added value. Ensuring that investments and the establishment of enterprises become attractive again in Germany will also serve to reinvigorate the domestic market. To this end, investment conditions need to be improved, and further incentives must be incorporated in the tax system that result in higher after-tax income. Finally, deregulating markets, particularly in the service sector, can also help strengthen the domestic market. Rules such as the requirement to possess a master craftsman certificate for certain services (the so-called Meisterzwang) or binding fee schedules for certain professions need to be abolished in order to create market access, employment opportunities, jobs and the necessary demand.

## Euro exchange rate: A problem for the German export industry



A strong euro in principle increases the pressure on the German export industry and limits its competitiveness. Photo: BDI/fotolia (Antonio Alcobendas)

German industry exports many products for which demand is relatively insensitive to smaller price variations. For example, a BDI survey of its member associations carried out in October showed that the increasing euro exchange rate does not yet pose a major problem. However, a strong euro in principle increases the pressure on the German export industry and limits its competitiveness, especially in relation to the US dollar. In September 2008, directly prior to the beginning of the financial crisis, one euro was worth USD 1.60. In the course of the crisis, the exchange rate fell to USD 1.25 per euro. The current rate is back up to around USD 1.50 per euro. The exchange rate development not only affects exports to the US. For example, more than 50% of exports in the export-intensive electrical industry are costed and invoiced in US dollars, but only 8% are destined for the US. This is due to the fact that many currencies such as the Chinese Renminbi are linked to the dollar.

However, the development is not solely the result of a weak dollar. The euro is appreciating in absolute terms. In relation to 41 other currencies, the value of the euro has increased by more than 22% since its introduction in 2002.

## New government coalition's foreign trade policy

The new German federal government has been in power for a few weeks. Its work is based on the coalition agreement, which is entitled "Growth-Education-Solidarity". Pages 46-48 and 110-115 of this coalition agreement contain the foreign trade policy objectives for the next legislative period. How does the German export industry assess these policies?

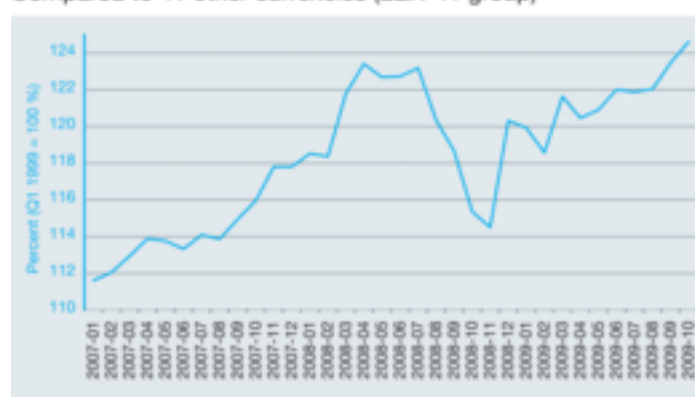
One positive aspect is that the government coalition clearly emphasises the major significance of an open and rule-based global trade regime for Germany's future. The wording in the coalition agreement corresponds to the approach favoured by the BDI of pursuing a multilateral strategy for establishing uniform framework conditions for trade and services that facilitate market access, especially for small and medium-sized companies. Furthermore, bilateral free trade agreements should additionally

Not only exporters are suffering from the strong euro. An appreciating euro means that domestic producers face increasing competition from cheaper rival products from abroad. If the euro continues to rise, the recovery of German exports from the crisis could be delayed.

What are the options companies have at their disposal to hedge against further increases in the euro exchange rate? Two thirds of exports are already going to European countries are thus largely unaffected by exchange rate fluctuations. However, an increasing number of companies depends on exports to non-European countries. Many of these companies rely on exchange rate hedging instruments. The fact that a large proportion of intermediate products is procured from non-European countries also helps protect against currency risks. If the euro appreciates, leading to more expensive exports, at least the intermediate products can be procured at a lower cost. This effect should not be underestimated, since German industry not only has a high export ratio, but also a high import ratio.

### Effective euro exchange rate

Compared to 41 other currencies (EER-41 group)



Source: Deutsche Bundesbank



help establish market access to particularly attractive countries and regions.

The coalition agreement stipulates an intensification of efforts to promote foreign trade and investment, and we see this as an important signal. Unfortunately, the agreement does not specify any concrete measures. For German companies, the political support in developing markets provided by the German federal government is crucial. Furthermore, the BDI supports efforts to strengthen the foreign trade fair program and increase the budget for trade fairs in 2010 to €45 million. A further welcome aspect is the coalition's plan to expand location marketing activities abroad. As a trademark, the BDI proposes »Germany – Land of Ideas«.

And also the objective of more closely aligning German development cooperation efforts with companies is a right step. In order to implement this objective, the BDI has proposed a comprehensive set of measures that also aims at further developing and massively expanding the public-private-partnership model. These proposals were discussed in recent weeks with the new leadership of the German Federal Ministry for Economic Cooperation and Development (BMZ). One promising approach is the BDI's healthcare infrastructure initiative in developing and emerging countries that is now being continued under the heading »-German Hospital Partnership«.

One particularly important point for the export industry are the plans to streamline the procedures for financing and securing exports as announced in the coalition agreement. The German federal government must now rapidly concentrate its efforts on further developing the existing instruments in order to assist companies in overcoming the financial crisis. Also, the German federal government must work towards reviewing economic policy requirements such as the Common Approaches on Environment and Officially Supported Export Credits.

The government coalition must also work towards re-establishing a reasonable balance between security and freedom in foreign trade. Therefore, streamlining foreign trade legislation as

proposed in the agreement represents an important signal. The BDI believes that this should also include the cancellation of the 13th amendment to the German Foreign Trade Act for the control of foreign investments.

Harmonising the export licensing policy with those of other EU states as announced must not be allowed to lead to results that are worse than the status quo, for instance with respect to the introduction of EU general export authorisations. Germany already has an effective export control system. The German federal government must therefore prevent the inclusion of banks in the export control system.

The connection between foreign policy and foreign trade in the coalition agreement is positive, particularly where it concerns transatlantic relations. The new government must work towards continuing the transatlantic economic integration (TEC).

Overall, it is fair to say that the new coalition is pursuing the right strategy for strengthening the German export sector. In certain instances, concrete regulations and more courage would have been desirable. In the course of the legislative period, the BDI will work to incorporate the interests of the German export industry in the implementation and further development of the agreement.

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## Trade and the environment: Take advantage of opportunities, avoid protectionism

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Climate protection has become a high-priority task for the entire world. This became abundantly clear at the climate change summit in Copenhagen last month. In order to achieve ambitious climate protection objectives and compensate competitive disadvantages for the domestic economy, trade policy instruments are being considered in Europe and elsewhere, in particular so-called border adjustment measures, or BAMs. Such measures could for instance take the form of additional duties for imports that are not climate-friendly. Further implementation options being discussed include an obligation for companies to buy emission rights for imports that are not imports. Also, current negotiations are discussing the option of reducing tariffs for environmentally friendly goods and services, for example within the scope of the World Trade Organization's (WTO) Doha Development Agenda (DDA).

The BDI rejects the use of such border adjustment measures as a matter of principle. BAMs bear the risk of protectionism, additional bureaucracy, and international trade disputes. In order to not endanger the global economic recovery, additional obstructions of international trade must be avoided. But also plans for liberalisation regarding certain environmentally friendly goods and services create definition-related problems and distortions of competition that can only be tackled with additional customs bureaucracy. Therefore, the BDI supports an approach in pursuing climate-related and environmental objectives that prima-

rily uses international climate agreements and environmental policy. Ambitious and comprehensive tariff reductions within the scope of WTO's Doha Round would be the most promising route to improving the conditions and incentives for spreading climate technology. Measures that lead to distortions of competition and additional bureaucratic controls for global trade must be avoided.



*Climate protection has become a high-priority task for the entire world.  
Photo: BDI/Christoph Sprich*

## New book: Economic forecast for 2010

The annual economic forecast published in November by the F. A.Z. Institute provides a clear and competent overview of the situation of the German and the global economies. The authors from the Frankfurter Allgemeine Zeitung, the Kiel Institute for the World Economy, Ifo Institute and DZ Bank describe the relevant developments from a range of different perspectives. The book analyses the conditions in economically important regions of the world while also examining developing and newly industrialising countries. A sector-by-sector assessment examines the economic state of key industry sectors. Regarding economic policy, the book also discusses financial, fiscal and regulatory considerations. It has a well structured overview section as well as a statistical appendix containing key economic parameters. The study concludes that the German economy has begun to recover from the depths of the recession. However, the future prospects of companies and consumers are still heavily burdened

by the costs of the governmental economic and rescue packages. Hopes for growth in Germany are again focused on exports; however, a significant revival of demand in the various markets is required. The emerging markets in Asia and South America, but also in Africa, have proven remarkably stable throughout the crisis.

Overall, the book provides a clear and well-founded overview of the economic situation of the German economy and its future prospects, thus representing a welcome and recommended contrast to the more voluminous official situation reports. Wirtschftsprognose 2010 is a hardcover book with 112 pages and is published by the F.A.Z. Institute. It costs 45 euro.

## BDI Events

<b>14.01.2010</b>	Opening event of the series entitled »Internationalisation of the Mittelstand«	<b>Munich</b>
<b>14.01.2010</b>	Global Forum for Food and Agriculture (3 days)	<b>Berlin</b>
<b>28.01.2010</b>	TABD Executive board meeting	<b>Davos</b>
<b>05.02.2010</b>	(tbc) BDI US Congressional Round Table	<b>Munich</b>
<b>05.02.2010</b>	Supply of raw materials as a risk factor (series entitled »Internationalisation of the Mittelstand«	<b>Munich</b>
<b>25.02.2010</b>	Conference on Central Europe	<b>Munich</b>
<b>22.03.2010</b>	2nd German-American Energy Conference (2 days)	<b>Berlin</b>
<b>19.04.2010</b>	BDI Committee on Foreign Trade	<b>Hannover</b>
<b>19.04.2010</b>	Opening of Global Business & Markets	<b>Hannover</b>
<b>28.04.2010</b>	G8 Business Summit (2 days)	<b>Ottawa</b>