

BDI considers eight percent export growth likely in 2010



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said BDI Director General Werner Schnappauf about the current outlook for foreign trade when presenting the new BDI Foreign Economic Report.

» The German export engine is working again. Business is now calling on the G8 and G20 states to resolutely address the issues of financial market regulation and distortions of competition at their forthcoming summit in Canada«

In the last three quarters, exports increased by an average rate of 4.5% on a quarter-by-quarter basis. Despite this growth, first quarter exports are still 12% below pre-crisis levels.

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Global Economy & Exports



Global developments

The global economy is expected to grow throughout the rest of the year at a higher rate than initially expected.

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German Exports



Positive outlook

German exports recovered significantly during the past three quarters.

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Regional Focus



Eastern Europe

Eastern Europe accounts for 15% of German foreign trade.

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Industry Trends



Mechanical Engineering

The mechanical engineering sector is one of Germany's most important industries and has an export ratio of 75%.

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Foreign Trade Policy

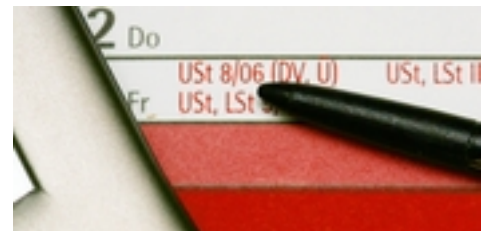


Current topics

The German Federal Minister of Economics and Technology rolled out the Foreign Trade and Investment Campaign.

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Dates



Key foreign trade dates

Find out more on BDI's interesting foreign trade events in this section.

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The Global Economy and German Exports

Global Development: The engine is working again

ifo Business Climate

Global economy, regions, Germany



Source: ifo Institut



After a strong first quarter, the global economy will also continue to grow throughout the rest of the year at a higher rate than expected initially. The IMF is now expecting global GDP to grow by 4.2% in 2010, with developing and newly industrialising countries growing at a significantly higher rate of 6% compared to the industrialised countries at just over 2%. For the US, growth is expected to exceed 2%, compared to only 1% for Europe. The reasons for the generally lower economic growth in industrialised countries include the weak state of the financial systems and the exhausted financial breathing space of public budgets and households in some countries. In Asia, the economy is expected to grow at a rate of 8.7% this year, and even 10% in China. Over the next years, the Chinese economy will contribute about one third of the global economic growth.

Global trade also increased, accelerating steadily since the beginning of the year. Overall, the prospects for global trade have improved since the last issue of BDI's Foreign Economic Report. In April, the IMF upped its growth forecasts and now expects global trade to expand by 7.0% in 2010 and by 6.1% in 2011.

The improvement of the global economic development is also confirmed by a number of economic sentiment indicators that have now returned to late-2007 levels. For example, the World Economic Climate Indicator issued by the ifo Institute and the ICC is beginning to rise again (illustration). However, this increase is based only on an improved assessment of the current business environment, while managers' expectations of future business trends have recently become somewhat bleaker, as have the latest ZEW indicators as well as the composite index of economic sentiment published by the European Union, which fell significantly in May.

Infobox:

	2009	2010 (forecast)	2011 (forecast)
Global economy (Source: IMF)	-0.6	4.2%	4.3%
Industrialised countries	-3.2%	2.3%	2.4%
Developing and newly industrialising countries	2.4%	6.3%	6.5%
United States	-3.2%	3.1%	2.6%
Euro area	-4.1%	1.0%	1.5%
Asia	6.6%	8.7%	8.7%
Russia	-7.9%	4.0%	3.3%
Global trade (Source: IMF)	-10.7%	7.0%	6.1%
	Q2 2009	Q3 2009	Q4 2009
Global trade (change relative to the previous quarter, Source: CPB World Trade)	0.7%	4.2%	6.0%
German exports (change relative to the previous quarter, Source: Statistisches Bundesamt)	-2.8%	5.4%	5.2%
German imports (change relative to the previous quarter, Source: Statistisches Bundesamt)	-7.2%	5.4%	-1.6%
Orders from abroad in relation to pre-crisis levels (Index September 2008 = 100 %, in seasonally adjusted terms; Source: Deutsche Bundesbank, BDI)	75.3%	81.6%	84.6%
			Q1 2010
Global trade			5.3%
German exports			2.8%
German imports			10.9%
Orders from abroad			91.3%



German Exports: Recovery and a positive outlook

In the second half of 2009, German exports rebounded by 6.5% compared to the weak first half of the year. However, this recovery process slowed down again somewhat during the first quarter of 2010, with exports growing by 2.8% relative to the previous quarter. After falling strongly in January by -6.5% compared to December, exports more than regained their lost ground by April. After growing by 5.1% in February, exports even increased by 10.7% in March over the previous month – the strongest increase in monthly exports since July 1992. The subsequent 5.9% drop in April highlights the highly volatile environment exports are currently facing. However, despite the figures for April, most market observers still believe that exports will

continue their upward trend. Compared to the previous year, when exports were in a virtual freefall, exports have increased by 19.3%. But there is still a long way to go before exports reach the pre-crisis levels of September 2008 – exports in April represent only 88% of the exports at the time. Orders from abroad also suggest a continued recovery of exports. Orders have improved steadily since December also due to increasing demand from non-EU countries. Foreign orders of capital goods, materials and supplies during the past months fared somewhat better than consumer goods. In April, foreign orders reached 98% of their pre-crisis mark.

Development of German exports Quarterly since beginning of crisis



Source: Deutsche Bundesbank



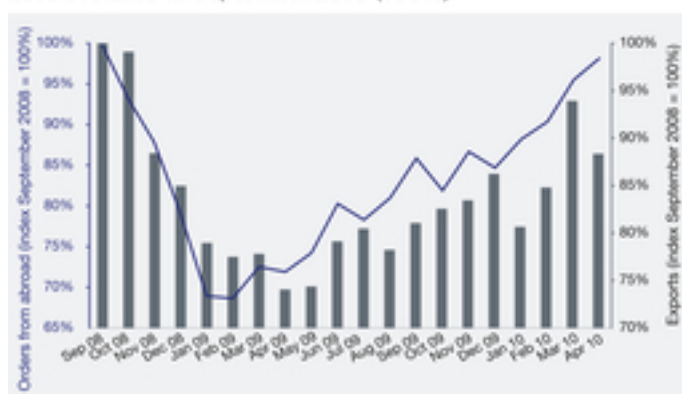
In individual industry sectors, the automotive industry exhibited strong growth during recent months; however, this growth will slow down somewhat when the various state support programmes are phased out in the course of the year. The downturn suffered by the exports of mechanical engineering products has slowed down significantly, but remains at a relatively low level due to the steep drop last year. The mechanical engineering and the electrical sectors expect a considerable growth in foreign orders over the full year. The non-ferrous metals industry also expects strong export growth in 2010, while in the textile industry hopes for a sustained recovery are fuelled by exports to Asia. The chemical industry, which is considered a leading indicator due to the fact that many of its products are inputs for other products, expects exports to all regions of the world to increase. Steel exports are currently profiting from a low euro exchange rate, which softens the effect of rising ore prices. Positive signs suggesting a sustained recovery are also increasingly appearing in the shipbuilding, paper-producing and food industries.

In the last year, the crisis led to a number of changes in the ranking of the most important destinations for German exports. The US fell from second to fourth place in the list of Germany's most important trading partners, which is also attributable to the drop in the number of cars exported to the US. The Netherlands jumped from sixth to third place. China in the eighth position is one of the new countries in the "top ten", displacing Spain, which is eleventh. This shows that the dynamics in Asia are now also reflected in Germany's export statistics.

A look at the »export performance« shows the continued, high overall competitiveness of the German export sector. This index measures the market share of German goods and services in the imports of the 25 most important trading partners. It increases if German exports to these countries increases faster than overall imports by these countries. Between 2000 and 2009, the German "export performance" grew by about 11%, much of which attributable to China, Austria and Poland.

Orders from abroad and exports

Levels relative to September 2008 (100%)



Source: Deutsche Bundesbank (seasonally adjusted figures)



Conclusion and forecast: Export growth exposed to risks

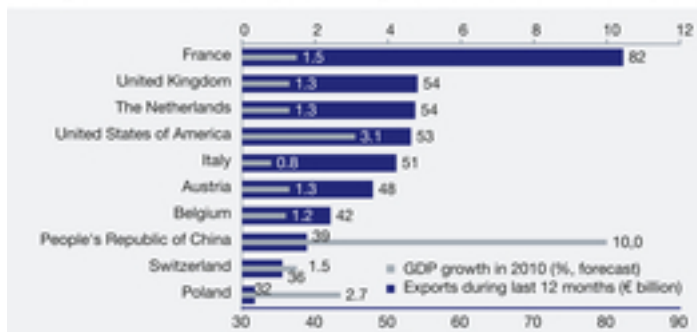
The significant upward trend in the number of orders from abroad and the general development in exports suggest further growth in the coming months. Overall, the growth in exports will tend to become somewhat weaker in the remaining year: The high growth rates in February and March were largely attributable to catch-up effects that faded away again by April. In other respects, exports bottomed out at the end of the first half of 2009 and have been growing again since. At the same time, significant increases in exports will tend to become more difficult the more exports approach pre-crisis levels.

Also, the acceleration of the global economy and global trade will not influence German exports to the same degree. The glo-

bal economy is currently picking up speed particularly in the newly industrialising countries in Asia. However, these countries account for only about 11% of German exports – not yet sufficient for having a strong effect on total exports. Around two thirds of German exports are still destined for European countries, which are expected to grow by about 1%. The countries of Central and Eastern Europe that in the past years have significantly increased their relevance in terms of exports (accounting for 10% of German exports in 2009) will not exhibit strong growth this year or next. The recovery in Asia will benefit mainly those industries in Germany that are already shipping a relatively large amount of goods there, for example the mechanical engineering, electrical and chemical industries.

Exports and GDP growth forecasts

Slow growth in the most important target countries for German exports



Source: Statistisches Bundesamt, IMF



German exports continue to face a number of known challenges including growing protectionism, the approaching end of the global economic stimulus packages, and fears of an overly strong restriction of global growth in the context of a consolidation of budgets and households. Moreover, the following recent developments in Europe and global markets pose an additional threat to exports:

- The current turbulences in the European monetary union and the near collapse of the European financial markets in the context of the Greek budget crisis that was barely averted by politicians indicate the high degree of uncertainty for the global economy resulting from strained public budgets and households. These turbulences affect European countries, the main destination for German exports.
- While the rapid drop in the euro exchange rate to its current low of around USD 1.19 per EUR will initially stimulate exports and boost demand for German industrial products, the costs of raw materials and intermediate products from non-euro countries will also increase together with the euro. Therefore, a permanently weak euro is not in the interests of the German export sector.

As a result of the global economic boom, energy and commodity prices have risen strongly in recent times, increasing pro-

duction costs for the German export industry and potentially hampering growth and fuelling inflation further down the road.

Even if the outlook of the German export sector currently is brighter than even only a year ago, the current crises underscore the shaky foundations of the current recovery of exports. Sustained export growth will only be possible if global confidence in the European countries and markets is re-established and the conditions for global trade are improved further. This is one of the reasons why it is crucial to set the right course for the global economy at the upcoming G8 summit on 25 June in Huntsville and the subsequent G20 summit in Toronto. Specifically, the heads of government must act on the following issues:

- The risks resulting from the past turbulences in the financial markets must be contained as a matter of priority. Therefore, the attempts at international regulation of financial markets must be brought to a successful conclusion quickly.
- For governments to regain their scope of action also with respect to economic policies, the level of debt of public budgets must be reduced. At the same time, consolidation strategies must be developed that they do not stall the economic engine that has just started up again.
- The German economy with its international focus depends on further developing the global freedom of trade and investment. Open as well as hidden protectionist measures must be addressed resolutely.
- The German economy needs to import most of its raw materials. In view of increasing commodity prices and the falling euro, this issue is becoming increasingly problematic. Therefore, the conditions for a fair competition on the commodity markets must be improved globally.

With its "Foreign Trade and Investment Campaign", the German Federal Government is sending the right signal by intending to facilitate access to global markets particularly for small- and medium-sized companies. The measures that have been announced in this context must now be implemented quickly (see section entitled "Foreign Trade and Investment Campaign of the German Federal Government").

Industrial Sectors

Automotive industry: Strong growth over a limited period

In the first months of 2010, German automotive exports grew at a brisk pace. However, high double-digit growth rates – exports of passenger cars were up by nearly 50% during the first four months compared to the previous year – need to be seen in perspective. Firstly, they are the result of a base effect since exports in the first third of 2009 had fallen by more than 40% due to the economic and financial crisis. Secondly, the current trend is supported by state-sponsored economic stimulus packages that are expiring or are about to expire in many countries. In addition, the difficult situation facing public finances is causing new uncertainties. The special dynamics of the Chinese eco-

nomony will hardly continue at the same pace. The falling euro is having a positive effect on exports but should not be overrated due to the large significance of internal trade in the euro area and the hedging activities undertaken by German manufacturers. In the coming months, the growth in exports is expected to drop noticeably. Regarding commercial vehicles, one needs to differentiate between the two weight categories. While transport vehicles also exhibit high export growth, exports of heavy trucks remain very weak at just below last year's levels. However, a slight recovery is expected over the coming months.

Mechanical engineering: Rate of decline slows down

In the winter months from December 2009 to February 2010, German machinery exports fell by -13.7%, less than during the same period of the previous year, with diverging trends in different sales regions. While in 2009 the overall market contracted by -23.4% on average and the Chinese market at +4.1% was the only market to show positive growth during the entire year, other markets are now also showing positive or near-positive growth. India has rebounded with growth at 27.4%, Korea has grown by 20.5%, and Brazil by 17.9%. Since the beginning of the year, the Mexican market is growing again, as is trade with some countries in Central and Eastern Europe and Turkey. However, overall trade with high-volume markets in EU countries is still down by -17%, and trade with the US even by -21%. And exports to China also – unusually – also fell by -3.9% during these months. And strikingly, OPEC countries fell by -19.2% on average due to oil prices.



Machine tool. Picture: BDI/fotolia (Evgeni Hecht)

Electrical industry: Exports expected to grow

With total exports at € 12.6 billion, German electrical industry exports in March 2010 grew by 31.1% compared to one year ago. Electrical exports have thus grown four months in a row compared to the previous year. For the first time since the financial crisis, exports in February showed double-digit growth again. From January until March, accumulated exports were 15% higher than during the same period in the previous year. Imports of electrical and electronic products to Germany stood at € 10.8 billion in March, 31.9% higher than in the previous year. Over the entire period from January to March 2010, imports were 18.9% higher than during the previous year. Export expectations of electrical companies increased considerably in April. On balance, a quarter of the companies is expecting a further recovery of exports during the next three months.

Just as at the end of 2009, exports of electrical products to South-East Asia and the BRIC increased stronger in February than exports to Europe. While exports of products and systems to countries on the own continent increased by a respectable

9% compared to a year ago, exports to China (57%), Malaysia (54%), South Korea (36%) or Brazil (34%) grew at a much larger rate. Regarding imports, trade with Europe also contributed to the recovery of the German domestic market. Imports of electrical products from Europe increased by 28% in February this year compared to one year ago, compared to 21% from South-East Asia and 23% from BRIC countries.

Of the ten most important destination countries for German electrical products, eight are in Europe, with the US and China representing the remaining countries among the top ten. The IMF anticipates that nine of these ten countries will continue growing this year, with China enjoying the strongest economic growth rate at 10% followed by the US (3.1%) and Poland (2.7%). The economies of Great Britain (1.3%) and Italy (0.8%) are expected to recover at a slower pace. The Spanish economy is believed to continue contracting slightly this year (-0.4%).

Chemical industry: Exports expected to grow by 10% in 2010

The export business of the German chemical and pharmaceutical industry is slowly recovering from the effects of the global economic crisis. Compared to the same quarter of the previous year, exports of chemical products grew by around 7% between January and March. Orders for chemicals from all regions have increased. In the European Union, which accounts for around 65% of exports and thus represents the most important foreign market, demand grew by more than 5%. Exports to Asia and Latin America were considerably higher than one year ago.

Compared to the same quarter in the previous year, orders of German-produced chemicals from East Asia were up by 46%. During the same period, exports to Latin America increased by 21.5%, and exports to newly industrialising countries are also increasing. At the same time, exports of chemicals to the US fell 19% due to a strong drop in pharmaceutical and petrochemical exports. In the course of the year, we anticipate further improvement of exports of chemical products. For the full year, exports are expected to grow by about 10%.

Steel industry: Exports fuelled by low euro

In the first three months of 2010, Germany continued to generate a foreign trade surplus in steel products, which was in particular also the result of continued low imports, which grew by only 7.5% over the same – already low – period in the previous year. By contrast, the volume on the German market increased more than threefold. Meanwhile, exports are benefiting from the recent recovery on the steel markets and the low euro exchange rate, growing by more than a third, with exports to North America, the Middle East and Asia showing above-average growth. Imports from North America and Asia, however, dropped significantly. The share of imports in the German market was around 45% during the first quarter of 2010 (2009: 51%), which is still considerably higher than the average over past years. The prospects for German rolled steel exports remain good. In particular, orders from abroad proved to be robust and were 25% higher in the first quarter of 2010 than during in the previous quarter.



Carbon steel. Picture: BDI/fotolia (fotohansi)

Non-ferrous metals industry: Double-digit growth in 2010

Exports account for around half the sales revenue of the non-ferrous metals industry. In 2009, Germany exported products worth € 14.8 billion, about 28% below previous year's levels. In January and February of 2010, exports increased again strongly, increasing by 23%. Sales of non-ferrous metals are influenced strongly by the high volatility of their listed prices. After the steep drop in the course of 2008 and the lows in late 2008 / early 2009, the prices of most non-ferrous metals recovered considerably by now. Exports to Asian countries, especially to China, developed briskly. After falling by 27% to € 5 billion in 2009, aluminium industry exports (foils, tubes, cans etc) increased 15% in January and February of 2010. Export sales in the non-ferrous metals industry (copper, zinc, lead, tin and nickel) grew by 44% in January and February after falling by 32% in 2009. In January and February 2010, non-ferrous metals foundries exported over 13% more products after falling by 27% in



Copper. Picture: BDI/Norddeutsche Affinerie AG

2009 to € 1 billion. Overall, foreign sales of the non-ferrous metals industry are expected to grow by a double-digit percentage in 2010.

Textile and fashion industry: Growth in Asia

With an export ratio of more than 40%, the German textile and clothing industry is strongly exposed to fluctuations on the global markets. Particularly in the traditional export markets in Central and Eastern Europe, orders are continuing to decline significantly. In the first quarter of the current year, indications for a recovery of demand are mounting. The market for consumer goods in the countries of Central and Eastern Europe is slowly stabilising, which suggests that the capital goods industry can be expected to pick up steam in the near term. At the same

time, new markets in Asia are becoming more important and can compensate the lack of dynamics in the classical export markets. In 2009, exports to China increased by 18%, and to India by 14%. It is reasonable to assume that the German textile and clothing industry will continue to increase its exports in the coming months, in particular to Asian regions.

Shipbuilding industry: Difficult global market and credit crunch

Global demand for new merchant ships in the first quarter of 2010 remains low, with orders concerning mainly bulk cargo vessels that were mainly exported to China, Korea, and Japan. The German shipyards with a focus on special-purpose vessels were able to acquire a few orders from abroad, but are facing stiff competition on the global market, which is characterised by excess capacity, state subsidies and predatory pricing. The number of new orders is not yet sufficient to stabilise the declining order backlog. Also, financing new orders has become ex-

tremely difficult as banks remain very cautious. Thanks to the long-term nature of existing orders, production of new vessels will remain stable in most businesses in 2010. However, some construction sections in the shipyards are increasingly suffering from underutilisation. The world's leading German shipbuilding supply industry is also suffering from cancellations and a lack of follow-on orders. They are also still benefiting from the export orders of shipyards in the Far East dating back to pre-crisis times, but are anticipating a declining business volume.

Paper-producing industry: Orders improving

The beginning of 2010 was characterised by improving demand in broad areas of the paper market. In the first quarter of 2010, production and sales increased by around 11% relative to the previous year's quarter; foreign sales grew by a significantly higher degree, at 17%, than domestic sales, which grew by 8%. Overseas demand increased 46% followed by Eastern Europe (19%) and Western Europe (13%). However, these strong growth rates must be seen in relation to the first quarter of 2008; based on such a comparison, today's production levels are down 5%, and 2% in the case of foreign sales. Western Eu-

rope accounted for 64%, representing the largest share of German exports, while the share of exports destined for Eastern Europe is 23%, a share that has increased considerably over recent years. The share of total overseas exports is back to 13% after dropping to 10% in 2009 – the area that suffered the worst consequences from the crisis. The orders received from abroad suggest that the situation will improve further and that foreign sales of German paper mills will again reach pre-crisis levels.

Food industry: Slight improvement

German food industry exports increased slightly during the first two months of 2010, growing by 0.5% compared to the same period in the previous year. At around 85%, the EU's single market by far represents the most important foreign market for German food. Food industry exports now contribute 26% to total sales.



Food industry. Picture: BDI/fotolia (SP)

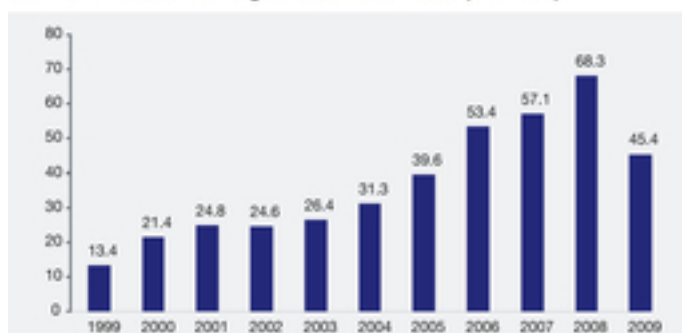
Regional focus: Eastern Europe

Together with the countries included in the EU's enlargement to the East, the Eastern European region currently accounts for more than 15% of German foreign trade and buys more German goods than the United States, China, India, Japan and Brazil combined. For that reason, the region is crucial for the economic recovery of Germany and the development of overall German exports. Up to September 2008, Eastern Europe was one of the strongest growing regions globally. Many Eastern Europe countries were considerably affected by the global economic crisis. The economy of the region was very dependent on

foreign direct investments, income from the sale of raw materials and steel trade, and credit-fuelled consumption. What is needed now is to consolidate public budgets and reduce private debt levels. Still, growth has returned in 2010. More moderate, but also more sustainable. German companies maintained their strong presence in Central and Eastern Europe despite the crisis and now stand to benefit from the beginning recovery.

Russia

German-Russian foreign trade 1999-2009 (€ billion)



Source: Ostausschuss der Deutschen Wirtschaft



After a difficult 2009 during which GDP declined by 7.9%, Russia is also returning to the growth path. The Russian government currently anticipates growth of at least 3% for 2010, while the IMF forecasts a growth rate of 4.0%, and the World Bank even considers 5.5% possible. The oil price, which is crucial for Russia, has doubled over the course of a year, with stocks following the trend. The rouble is also appreciating. The German-Russian trade volume (imports plus exports) was € 45.4 billion in 2009, which represents a 30% decline relative to 2008. Still, Germany remains the Russian Federation's most important trading partner, with China a close second.

Last year's profound crisis has started a broad debate on modernisation in Russia that was shaped in particular by the initiatives of President Dmitry Medvedev. Key points on the agenda include a reduction of Russia's dependency on the trade in raw materials, the establishment of a large middle class and the development of products that can compete on global

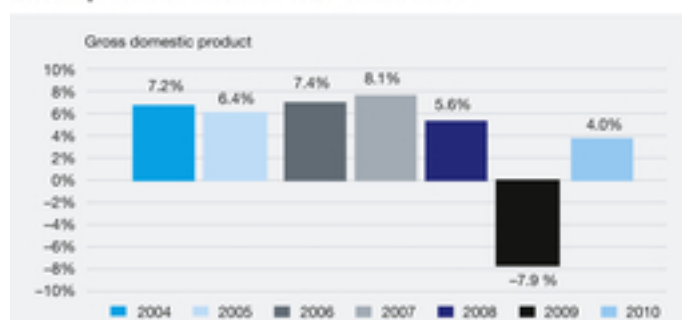
markets, for instance in the area of nanotechnology.

A key element of the reforms and modernisation of the economy concerns the resumption of the privatisation process in Russia: The difficulties experienced in the nineties were followed by years of standstill. The Russian state currently owns around 3,700 state unitary enterprises (GUP) and 3,300 public limited companies. As a result of its growing budget deficit, the Russian government initially plans to sell their stakes in 450 joint stock companies and generate € 406 million in proceeds. Regarding the specifics of the privatisation process, which could



Moscow. Picture: BDI/fotolia (bluemap)

Development of Russian GDP since 2004



Source: Ostausschuss der Deutschen Wirtschaft



also offer investment opportunities to German companies, the Committee on Eastern European Economic Relations (Ost-Ausschuss) is engaged in intensive talks with the Russian government. A recent meeting in this regard was attended by German and Russian experts in April 2010. Currently, 6,000 German companies and companies with German shareholders are registered in Russia.

Belarus

Due to its geographical location, the Republic of Belarus represents a bridge between the European Union and Russia. The EU's Eastern Partnership that was established in May 2009 provided EU-Belarus relations with an organisational framework, helping to achieve progress in normalising the relationship. The international economic and financial crisis has strongly affected the Belarus economy despite the country's comparatively low level of integration into the international financial markets. Since

about two thirds of the country's GDP stem from exports, the crisis with its massive drop in exports has caused a strong decline of the Belarus economy. As a result, the country is battling high deficits in its national budget and in the international trade of goods as well as high inventory levels. The growth rate of the Republic's economy dropped from 10% in 2008 to 0.2% in 2009. For 2010, GDP is expected to grow by 3%.

Central Asia

The strategic importance of the countries in Central Asia for the German economy has been increasing for years due to the remarkable growth rates of their economies of 7% - 11% since the beginning of the past decade as well as their enormous wealth in terms of resources. Of all five Central Asian Republics, Kazakhstan is Germany's most important economic partner: The country, which is the region's largest and most populous after Uzbekistan, accounts for approximately 85% of German foreign trade with Central Asia. However, the global economic and financial crisis also did not spare the Central Asian Republics. In particular, trade suffered heavily from a serious banking crisis in Kazakhstan. Overall trade of German goods with Kazakhstan,

Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan fell by approximately one third in 2009. Only Turkmenistan recorded a growth in trade with Germany. While economic growth in the five countries averaged 5% in 2008, it fell to a mere 0.9% in 2009. The economy is expected to recover in 2010, with Turkmenistan widely expected to take the lead with anticipated GDP growth of 14%. The fact that such a strong need for modernisation still exists even twenty years after the collapse the Soviet Union and the sovereignty of the five Central Asian Republics explains the strong demand for German products, and especially for German expertise.

South-East Europe

After several years of impressive growth, Romania and Bulgaria are currently suffering strongly as a result of the economic crisis: Romania's economy contracted by 7.1% in 2009, while Bulgaria's economy shrank by 5%. The situation is expected to stabilise in 2010 – however, the governments of both countries due to high budget deficits will need to implement enormous cuts in their state budgets. Moreover, the region is suffering from the crisis affecting Greek banks, which have a considerable market share in the Balkans.

For the countries in South-East Europe that have not yet become EU members even the prospect of joining the EU has proven to be a stabilising factor in the region. The abolishment of visa requirements between the EU and Serbia, Macedonia and Montenegro at the end of 2009 represented a milestone for the region. Also, Croatia was able to resolve a border dispute with Slovenia, thus removing an obstacle to EU accession, which is believed to occur by 2012. However, the economic crisis brought the region's economic growth trend to an abrupt halt. Croatia (bilateral trade volume with Germany: around €3 billion) and Serbia (€1.7 billion) are Germany's most important trading



Dubrovnik. Picture: BDI/fotolia (LianeM)

partners in the Western Balkans. The German Croatian Economic Forum on 15 – 16 June 2010 in Zagreb underscores the increased commitment of the Committee on Eastern European Economic Relations to the region.

Ukraine

Ukraine was one of the Eastern European countries most affected by the financial and economic crisis; its nine percent budget deficit in 2009 almost resulted in the country's insolvency; bilateral trade with Germany dropped 42% in 2009 compared to the previous year. The country's industrial production fell by a double-digit percentage. Initial figures for the first quarter of 2010 suggest that a turnaround is materialising. All relevant indicators show that the Ukrainian economy is beginning to grow again. For 2010, the European Bank for Reconstruction and Development (EBRD) predicts three percent growth.

At the same time, the country is facing an upheaval after the presidential elections in February and the beginning of the new government's term in office in March. The first activities of the new President Yanukovich show that the Ukraine is moving closer to Russia in terms of its political and economic orientation. The signing of a treaty giving Ukraine a discount of nearly 30 percent on Russian gas imports and guaranteeing the continued use of the Sevastopol base by Russia's Black Sea Fleet until 2042 will have consequences for the European supply of gas and the security architecture in Europe. Ukraine gains some financial leeway. Renewed Russian-Ukrainian tensions and interruptions in the gas supply now appear less likely.

The Committee on Eastern European Economic Relations also hopes that the new government will focus on renewing Ukrainian-German economic relations after the crisis year 2009. On 23 March 2010, a delegation of the Committee on Eastern European Economic Relations visited Kiev for initial talks with Prime Minister Azarov. Future collaborations are to include the modernisation of the energy sector, measures to improve energy efficiency and a gradual modernisation and restructuring of the gas transit system. One main issue in this context that is to be discussed again in greater detail is the idea of a gas transit consortium involving Ukraine, Russia and the EU and including a strong German component. Another point concerns the stabilisation of the financial sector. Moreover, there is an intensive collaboration in the farming sector, which enjoyed a record harvest in 2009, making Ukraine the world's third largest exporter of cereals. The working group on agriculture of the Committee on Eastern European Economic Relations has been providing its close support over several years.

German industry's Committee on Eastern Economic Relations (OA)

Founded in 1952, the Committee on Eastern Economic Relations has 150 member companies and is supported by business associations including the BDI. It represents the interests of German business in more than 20 Eastern European countries.

www.ost-ausschuss.de



Foreign trade policy

German Federal Government's Foreign Trade and Investment Campaign

On 23 March, German Federal Minister of Economics and Technology Rainer Brüderle presented the Foreign Trade and Investment Campaign of the German Federal Ministry of Economics and Technology. By launching this initiative, the Federal Government wants to help companies through the crisis and emerge in better shape than before, and pursues the objective of establishing the best possible conditions for competition and trade to develop as freely as possible. How should the individual measures be assessed?

The first part of the Foreign Trade and Investment Campaign

consists of actions meant to support German companies in foreign countries in political terms, with a particular focus on small and medium-sized companies. This focus is welcome – however, the next concrete steps should take place in close consultation with industry. A further positive aspect is the suggestion of the German Federal Ministry of Economics and Technology to work towards a uniform presentation of German industry abroad. As a brand, the BDI proposes using the business location initiative under the auspices of the German Federal President entitled »Germany – Land of Ideas« as it is broadly positioned and has already been established.



Container port. Picture: BDI/fotolia (diego cervo)

The second part of the Campaign consists of measures with which the existing set of tools for promoting foreign trade and investment is to be used more effectively. Here, too, the proposed measures should be coordinated closely with industry. Positive aspects in this regard include suggestions to further develop the instrument of export credit guarantees and to focus it more strongly on the needs of the Mittelstand. The Campaign also provides for an extension of enhanced hedging mechanisms and the doubling of federal funds for the KfW / ERP Export Financing Programme. A particularly welcome aspect is that the German Federal Government aims to support fair and market-driven competitive conditions on an international level, especially with respect to environmental assessments and the BRIC states. From the BDI's perspective, the »OECD Common Approaches« as well as the »OECD Guidelines for Multinational Enterprises« should not be tightened further; rather, their scope should be expanded internationally (so-called »outreach«). As a part of this package of measures, the Campaign also addresses the transfer of competencies in the area of investment promotion and protection agreements to the EU within the scope of the Lisbon Treaty. Here, the German Federal Government wishes to further improve the degree of protection of German foreign investments in the interests of German investors. As an additional point, the Campaign highlights the significance of participating in trade fairs and exhibitions abroad. Therefore, the BDI considers it necessary to strongly increase the budget of the foreign trade fair programme.

The third part of the Campaign consists of measures designed to cut back the red tape that hampers exports. Thus, the Federal Government wants to ensure that new EU proposals in the area of export controls are examined with respect to their effects on the international competitiveness of companies. We believe that this increased level of attention is welcome – past measures often increased such burdens without providing any recognisable benefit in terms of security. Also, the Federal Government wants to delete provisions in the foreign trade legislation that have become irrelevant in the mean time. Such thinning out is just as necessary as speeding up export licensing procedures as proposed. However, efforts in the context of aligning the German licensing process to that of other EU states as proposed must not worsen the status quo for instance regarding the introduction of Community General Export Authorisations for German exporters. Another welcome issue is the announced simplification of customs procedures and the commit-

ment to a reform of the GSP system that takes into account economic considerations.

The fourth part consists of regulatory measures meant to define the foreign trade policy framework. The BDI supports the proposal to involve the G8 and the G20 more strongly in the fight against protectionism and for a stable international monetary system. Also, the German Federal Ministry of Economics and Technology intends to strongly support the EU in implementing the current trade agenda at the multilateral, bilateral and unilateral levels. The BDI in principle welcomes the stance on foreign trade policy adopted by the Ministry of Economics; however, they should be spelled out in more concrete terms; for example, the Campaign does not specify by which means it intends to achieve a conclusion of the Doha Round of the WTO. Furthermore, the Foreign Trade and Investment Campaign supports the BDI's position to promote the reduction of non-tariff barriers to trade by means of international standardisation and standards. The BDI also welcomes the German Federal Government's intention presented as part of the Campaign to bring the ACTA agreement (»Anti-Counterfeiting Trade Agreement«) for the protection of intellectual property rights to a successful conclusion in 2010. Particular mention should also be made of the German Federal Government's announced plans to directly approach foreign delegations from resource-rich countries to promote Germany as a business location and to address the issue of investments. However, by issuing the 13th amendment of the German Foreign Trade Act (Außenwirtschaftsgesetz) in 2009, Germany risks losing its credibility as an investment-friendly location because the legislation allows the German Federal Government to restrict foreign investments. Therefore, this 13th amendment to the German Foreign Trade Act must be repealed within the context of the Campaign.

Conclusion: The Foreign Trade and Investment Campaign launched by the German Federal Ministry of Economics and Technology represents a package of measures designed to bolster existing political instruments and the position of the German export industry in the global markets. The Campaign is focused on supporting German companies abroad in political terms, strengthening the existing means for promoting foreign trade and investment, reducing red tape and opening up international markets. A positive aspect is that the German Federal Government by presenting this Campaign has reaffirmed the high priority it attaches to the German export sector and free trade. However, some parts of the Campaign should be spelled out in great detail, and to the extent possible in close consultation with industry. Overall, the export industry welcomes the Foreign Trade and Investment Campaign. It represents a further contribution to overcoming the challenges associated with the global economic and financial crisis. The key issue now is to follow up with a rapid and comprehensive implementation of the measures that have been announced.

Further details on the Foreign Trade and Investment Campaign can be found online at:

<http://www.bmwi.de/BMWi/Navigation/Aussenwirtschaft/aussenwirtschaftsoffensive.html>

SES: Ambassadors of German business in action around the world

The Senior Experten Service (SES), a foundation established by German business in support of international cooperation, has been providing help for self-help for 27 years with the assistance of retired experts. The Bonn-based non-profit organisation is active around the world. The SES is supported by Germany's key business associations BDI, BDA, DIHK and ZDH. High-level representatives of the four associations and from German companies are involved in the board of trustees of the SES foundation; since the end of October 2009, BDI Executive Board member Dr. Carsten Kreklau has served as deputy chairman.

» Senior experts provide important stimuli. Due to their profound expertise and practical experience, their advice is highly sought particularly by small and medium-sized enterprises in developing countries. This strengthens private entrepreneurship and small and medium-sized businesses in the partner countries involved in international cooperation.«

Dr. Carsten Kreklau

(source: SES Annual Report for 2009)

The SES experts represent the foundation's "capital". More than 8,400 retired experts volunteer their know-how and experience in the context of assignments in emerging and developing countries as well as in Germany. The services provided by these experts promote international cooperation, technology transfer and economic development in these countries. In 2009, the SES carried out nearly 1,600 assignments in around 80 countries, mostly in African, Asian and Latin American countries.



Dr. Carsten Kreklau. Picture: BDI/Kruppa

The service of the SES experts is typically requested by small and medium-sized companies working abroad, public administrations and educational and healthcare institutions. SES experts consider themselves ambassadors of German business. In 2009 alone, they facilitated contacts between SES clients in foreign countries and domestic firms in more than 100 cases upon concluding their assignments, resulting in export orders for German manufacturers totalling several million euro.

Infobox: Senior Experten Service (SES)



SES is constantly looking for experts, at this time especially mechanical and other engineers, but also experts from other areas. Typical SES assignments take about three to six weeks. The SES is responsible for organising travel, coordinates meals and accommodation together with the client, and obtains the required insurance coverage.

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Industry focus: Mechanical engineering



Ulrich Ackermann, Head of department VDMA, Image licensing: VDMA

» More than ever before, the export-intensive mechanical engineering sector depends on open markets in the partner countries and a level playing field with respect to the conditions for exports.«

Ulrich Ackermann, VDMA
Head of department, foreign trade department

The German mechanical engineering sector is one of Germany's five most important industries. Mechanical engineering performs a key function, because without it none of the new technologies such as information technology, materials science or photonics would ever make it from the laboratory to real-world applications. In the mechanical engineering sector, new technologies and services combine to form production technologies that form the basis of industrial production and thus our own prosperity.

With more than 900,000 employees, the German mechanical engineering sector is Germany's largest industrial employer. The industry is characterised by made-to-order and small-series production. With their tailored-made solutions for their customers, the companies, most of which are small or medium-sized, are active in many niche markets. Of these companies, almost

90% have fewer than 250 employees, while only 2% have more than 1,000 employees.

As a result of the financial and economic crisis, industry turnover in 2009 fell by 23%, to € 160 billion. This decline is not an indication of a structural crisis, but rather the result of the global reduction in demand. Because technologies for environmental and climate protection, heat and electricity generation and the efficient use of energy are in very high demand by mechanical engineering customers around the world. Now more than ever, the German mechanical engineering sector is very well positioned as a supplier of energy efficient and environmentally compatible technologies.

The German mechanical engineering industry is well established in the global markets. Around 75% of its products are exported, of which 55% are exported to non-EU countries. Despite the 23% decline in exports in 2009, the German mechanical engineering industry was able to defend its title as the world's leading exporter of engineering products. Since 2009, the most important destination country for German machinery exports has been China. Despite the postponement of global economic growth, the industry is not facing an increased number of relocations of German machinery production facilities. The largest share of the mechanical engineering business will continue to be generated with foreign countries via exports. A key ingredient for the success of the German mechanical engineering sector is the close collaboration with academia and suppliers – a network the world envies us for. Another factor is the availability of highly qualified German skilled workers (Facharbeiter) who together with the companies' development departments ensure that German machines and plants enjoy the global reputation they have.

In order to remain competitive, the export-intensive mechanical engineering sector is particularly dependent on open markets and a level playing field concerning the conditions for exports. Therefore, the industry currently supports in particular the ratification of the free trade agreement with South Korea. This would help develop a market potential for the industry of up to US \$ 7 billion. Also, the sector calls for improvements in the financing of exports and comprehensive corrections concerning export licensing procedures.

Infobox: German Engineering Federation (VDMA)

The main voice for such industry interests is the German Engineering Federation (VDMA) representing more than 3,000 member companies. The industry association supports and promotes the interests of entire industry nationally as well as internationally. Its foreign trade department advises member companies on issues such as marketing abroad, investments, financing of exports, payment conditions, cu-



stoms and certification issues as well as questions concerning export controls. The VDMA liaison offices in China, India, Japan and Russia provide direct, local support to its members. The association represents the industry's export interests in relation to authorities and policymakers in Berlin and Brussels.

Handbook »Länderrisiken 2010: Auslandsmärkte auf einen Blick«

The 5th edition of the "Handbuch Länderrisiken" (manual on country-specific risks) has now been published, and it can already be considered an established source of information on risks in international markets. Especially the financial crisis has highlighted the importance of information on payment security in certain markets. Having vast experience in the field of ratings, this book provides many details and key economic data for 156 countries, with a particular focus on payment security. Together with different perspectives in the context of ratings of countries and industries, the terms of payment and the commercial environment, this book is a great help for companies wishing to obtain an overview of existing or future foreign target markets. Current geopolitical considerations and foreign trade-related events complete this handbook.

Handbuch Länderrisiken 2010:
Auslandsmärkte auf einen Blick

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BDI key foreign trade policy dates

22.06.2010	Discussion on economics - Egypt	Munich
24.06.2010	BDI Working Group on Foreign Trade	Berlin
01.07.2010	Discussion regarding investment protection with the Konrad Adenauer Foundation	Brussels
01.07.2010	German-Angolan Economic Forum (2 days)	Luanda
15.09.2010	BDI delegation to the WTO Public Forum (2 days)	Geneva
11.10.2010	German-Russian discussions	Baden-Baden

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