

REGIONAL TRADE REPORT –
BRIEF ON
THE FEDERAL REUBLIC OF GERMANY



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Germany is located in central Europe, borders the Baltic and North Seas, and is situated between several countries, including the Netherlands, Poland, Czech Republic, Austria, Liechtenstein, Switzerland, France and Belgium and is south of Denmark. Germany has a strategic location on the North European Plain and along the entrance to the Baltic Sea.





•Country Profile

As at July 2005, the population of Germany was estimated at 82,431,390 people with an age structure as follows:

- 0-14 years 14.4% (male 6.1 million/5.8 million female)**
- 15-64 years 66.7% (male 28 million/27 million female)**
- 65 years and over 18.9% (male 6.4 million/9.2 million female)**
- Germany is experiencing a negative growth rate with 8.33 births/1000 population versus 10.55 deaths/1000 population**
- The life expectancy is Male: 75.66 years / Female: 81.81 years**
- In 1995 the number of deaths exceeded the number of births by approx 140,000**
- Germany's population is composed primarily of Germans at 91.5% with only a small percentage of Turkish 2.4% and various other mixed ethnic groups**
- Migration surplus was insufficient to offset the deficit of births**



Germany is considered the fifth largest economy in the world with an affluent and technologically powerful economy but has become one of the slowest growing economies in the Euro zone.

The integration and modernization of Eastern Germany is anticipated to be a long-term process.

Annual transfers from west to east amount to roughly \$70 billion.

Since the reunification of Germany, employment trends by industries have been accompanied by a permanent structural change.

- 71.9% of all persons are employed in the service industry (59.5% - 1991)**
- 2.2% work in agriculture and forestry (3.9% in 1991)**
- 20.3% in industry including energy – (29.3% - 1991)**
- 5.5% in construction (7.3% in 1991)**

Germany is faced with :

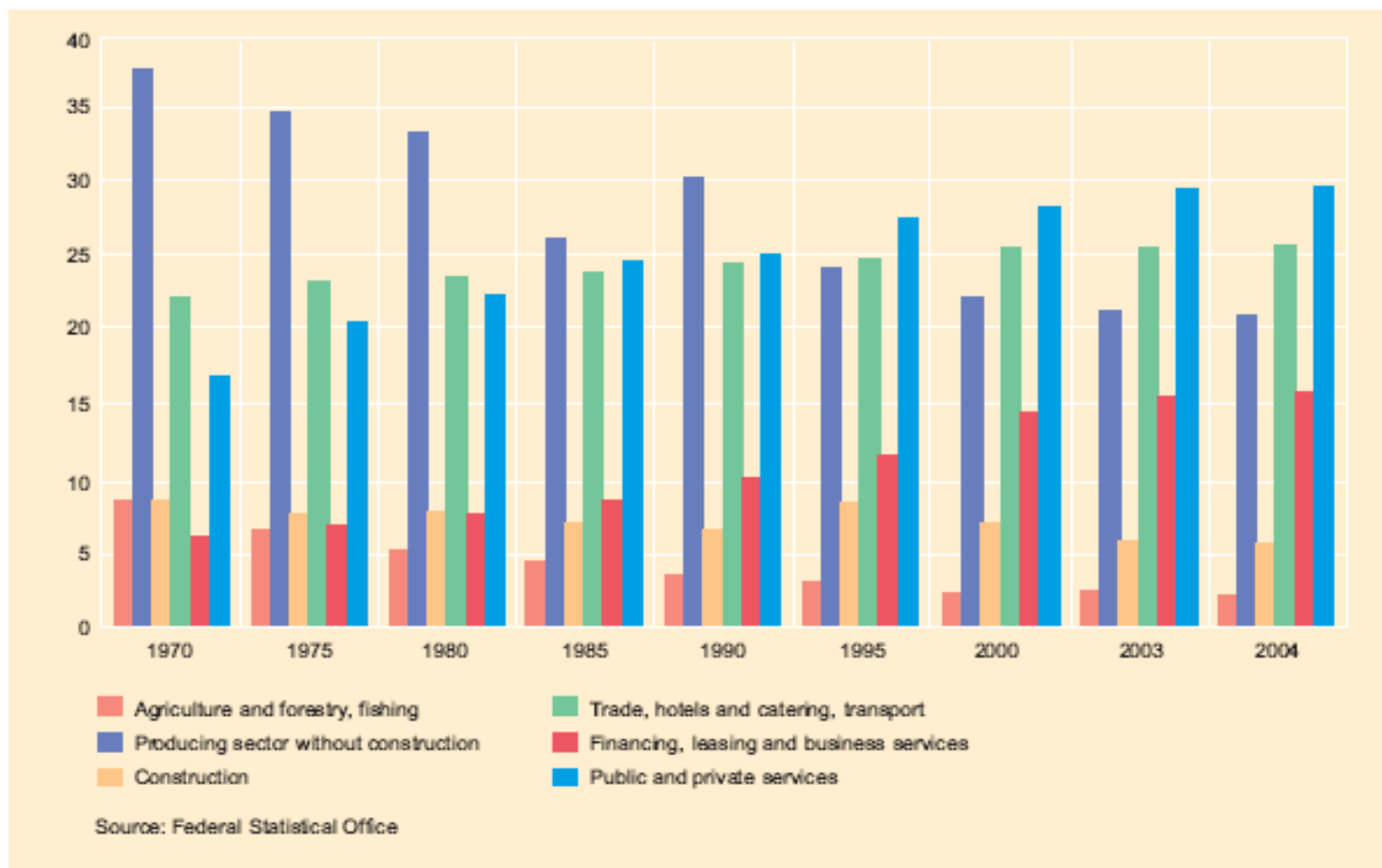
Aging Population

High Unemployment, currently at 11.6%,



Diagram 8

Persons Employed in Germany by Sectors In %



The unemployment trend for the past 6 years is listed below:

2005	2004	2003	2002	2001	2000
11.6%	10.6%	9.6%	8.7%	7.8%	7.7%

GDP figures for 2005 (latest figures) were as follows:

GDP (official exchange rate) was estimated at US \$2.83 trillion 2005

GDP (purchasing power parity) was estimated at US \$2.446 trillion in 2005

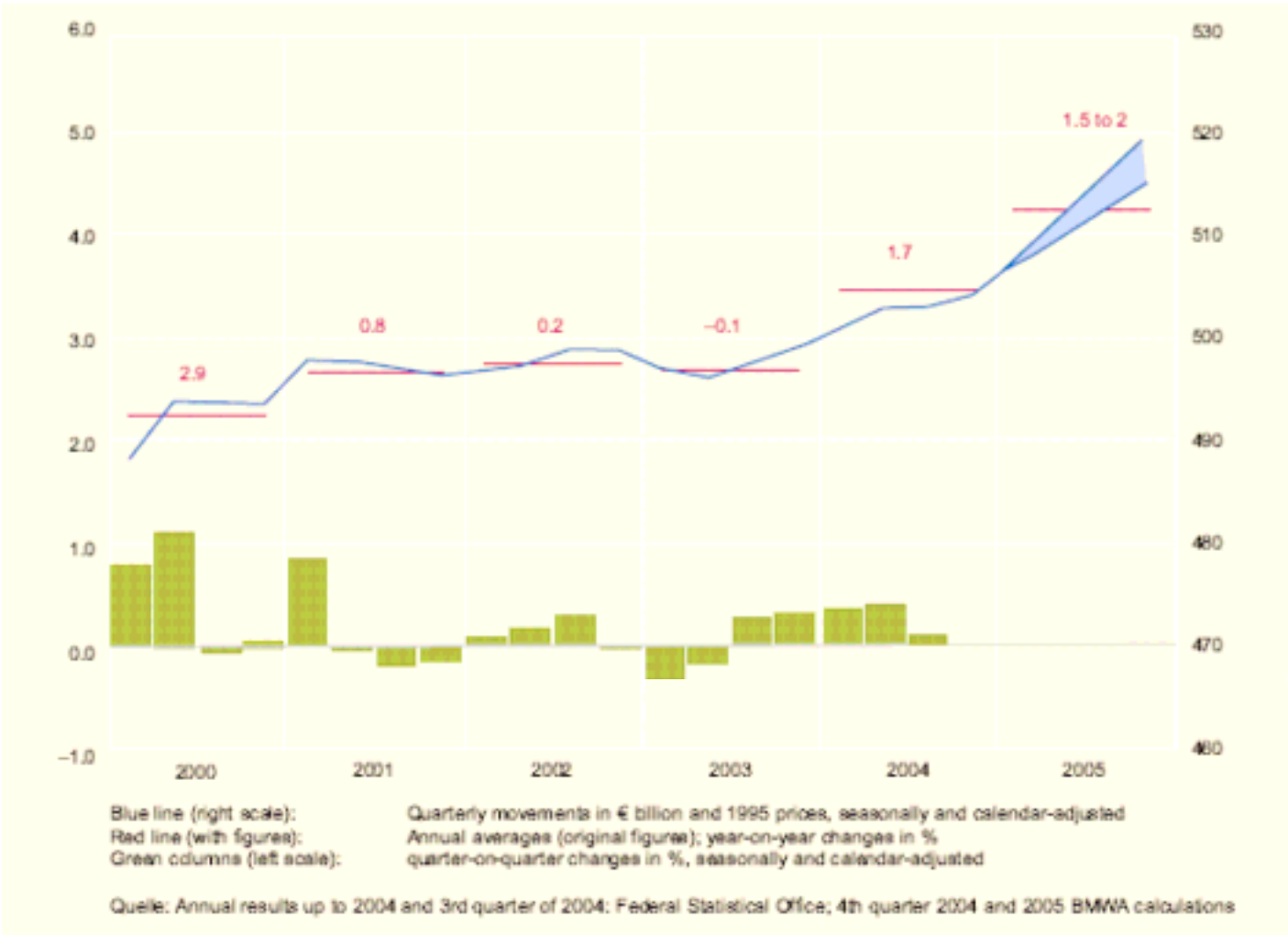
GDP real growth rate was .8% in 2005

GDP per capita was estimated based on purchasing power parity at \$29,700

GDP per capita in current terms was estimated at \$34,330

Annual Projection for 2005

The Development in Gross Domestic Product in Germany





Germany has been facing problems in three interrelated areas:

- Low and declining trend growth
- High and long lasting unemployment
- Persistent fiscal pressures

SOLUTIONS ENVISAGED INCLUDE:

- Fiscal consolidation
- Labour market reforms
- Product and Service market reforms
- Financial sector Reforms



Politics

- **Germany is a Federal Republic with 16 states (Landers)**
- **The German system of government is outlined in the constitution: The Basic Law.**
- **3 branches of the government:**
 - **The Executive**
 - **The President: Horst Kohler elected in 2004**
 - **The Chancellor: Angela Merkel elected in November 2005**
 - **The Cabinet: Federal ministers appointed by the president upon recommendation of the chancellor.**
 - **The Legislative**
 - **The Bundestag: Federal Assembly with 603 members elected by popular vote**
 - **The Bundesrat: Federal Council with 69 votes representing the state governments.**
 - **The Judicial**
 - **Federal constitutional court**



International Organizations

- **European Union (EU)**
 - **Founding member of ECSC in 1951 and EEC in 1957**
- **The United Nations (UN)**
 - **Since 1973- today, 3rd largest contributor to the budget.**
- **North Atlantic Treaty Organization (NATO)**
 - **Creation in 1949, Germany joined in 1955.**
- **World Trade Organization (WTO)**
 - **Since January 1st, 1995.. Like all EU members.**
- **Organization for Economic Co-operation and Development (OECD)**
 - **Founding member.**
- **... And many other economic and political groups and organizations.**

From a community of six to a Europe of 25 nations





Global Rankings

- **Growth Competitiveness Index (GCI)**

- Perception of future development
- Germany: 14, US: 2, Canada: 15, Mexico: 55

- **Human Development Index (HDI)**

- Where a country is development wise?
- Germany: 0.930; Canada:0.949; US:0.944, Mexico:0.814

- **Corruption Perception Index (CPI)**

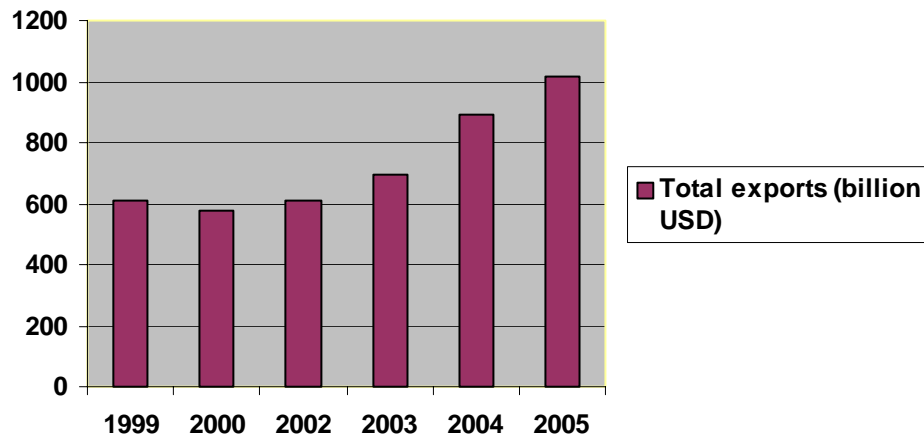
- Degree to which corruption is perceived to exist
- Germany:16; Canada:14, US:17, Mexico:65



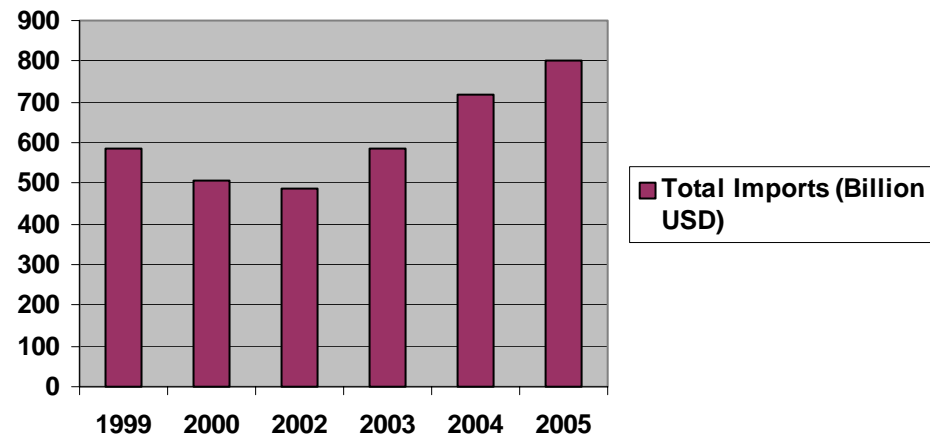
International Trade

- **Germany is the first exporting nation in the world**
 - **Main export destinations: France, US, UK, Italy, Netherlands**
 - **1.016 trillion USD in 2005 and 893 billion USD in 2004- approx. 30 to 35% of GDP.**
- **It is also an important importer but it has always maintained a balance of payments surplus**
 - **Main import sources: France, Netherlands, US, Italy, UK**

Total exports (billion USD)



Total Imports (Billion USD)

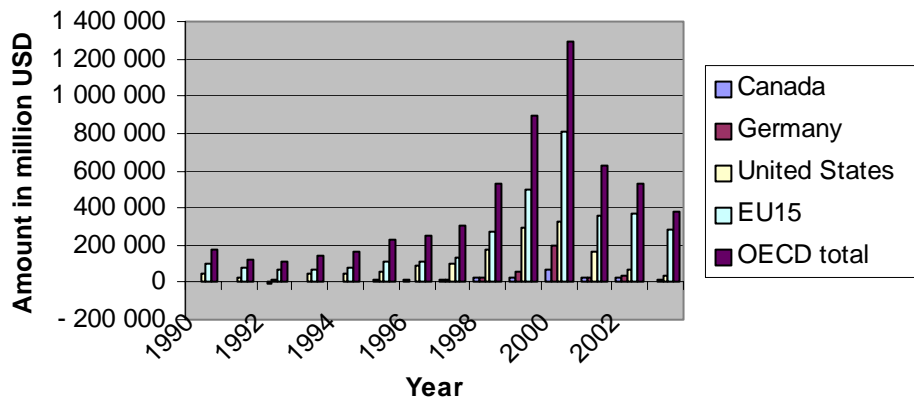




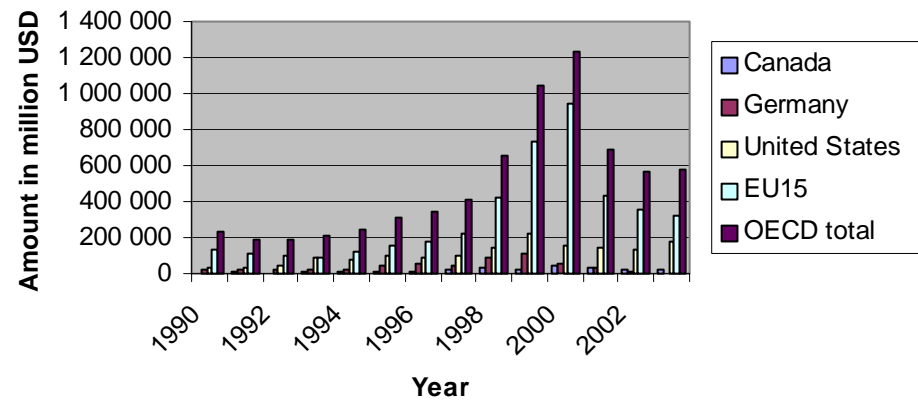
Foreign Direct Investment

- FDI inflows totaled 12.878 Billion USD in 2003
- FDI outflows totaled 2.562 Billion USD in 2003

FDI Inflows



FDI outflows



Trade with Canada

- **Germany is :**
 - **The sixth export destination for Canada**
 - **2.67 billion CAD in 2004**
 - **... but only 2.7% of total exports.**
 - **The sixth source of imports for Canada**
 - **9.41 billion CAD in 2004**
 - **... less than 1% of total imports.**
 - **Canada is not a main partner for Germany but there is a lot of potential.**

FDI

- **Germany is the 7th foreign direct investor in Canada**
 - 7.62 billion CAD in 2004
 - More than 600 subsidiaries in 1500 locations
 - Bayer, Siemens, Daimler-Chrysler, Thyssen-Krup...
- **Canada is the 12th foreign direct investor in Germany**
 - 8.23 billion CAD in 2004
 - Alcan, CAE, Pratt & Whitney, Bombardier...

Trade Policy

•Foreign Trade

- Driving force behind Germany's economic relations abroad

•Germany – Leading Export Country in the World

- 33% of GDP consists of exports
- Number one in merchandise exports
- Number two in importers of merchandise

•20% of all jobs depend on Exports

•Supportive of Doha Trade Talks

Trade Policy

•Supportive of Doha Trade Talks

- Undertaken to put together a **Development Package in Doha**
- **Germany has worked with the EU to submit a substantive offer in the agricultural sector**
- **Germany recognizes the need for a “parallel opening of the markets for industrial goods and services failing which, progress will not be possible on the farm sector**



Trade Policy

- **Current rules-based multilateral trading system is at stake. World commerce requires a strong multilateral framework. Only the WTO can establish the conditions to guarantee all countries an equal voice, independent of size, political influence, or economic power**
- **Germany is faced with an aging population and high unemployment, currently at approximately 11.6%, resulting in social payments exceeding contributions from workers**
- **Big companies have restructured, with the help of the trade unions, who were ready to accept more decentralized pay bargaining, longer hours and even wage cuts.**



The World Bank “counts Germany within the top 12 reform countries.” Germany has a significant number of positive elements to attract foreign investment including:


- Infrastructure – Amongst the world’s best
- Training of Workers
- Highly educated working population
- Low Inflation Rate – one of lowest in the Euro area at 2%
- Legal Certainty
- Personal and corporate taxes have decreased significantly since 1998 to one of the lowest in the OECD
- Peaceful Industrial Relations
- Highest number of registered patents
- Significant spending on research and development compared to other European countries

Assessment and Outlook for Trade

- German export of goods and services are expected to grow by 6.5% for 2005.
- Rising energy prices, job insecurity, and an increase in the need for private retirement savings, have all contributed to an increase in the household savings rate from 9.2% in 2000 to 10.5% in 2004
- Despite energy increases, the decrease in unit labour costs contributed to price stability, with a 1.4% increase in consumer prices.

Structural Reforms required include:

- Goal to lower fiscal deficit to below 3% of GDP in 2007 - Maastricht limit
- Lower structural deficit by $\frac{1}{4}\%$ of GDP in 2006
- Durable adjustment equivalent to $\frac{3}{4}\%$ of GDP in 2007 – Fiscal consolidation estimated based on the proposed reforms



- **Increase in the VAT rate by 3% by January 2007 – Risk that if the economy is weak – it may stave off growth – if economy is strong – may the full 3% may not be required.**

- **Gradually increasing the pensionable age – currently increased by 2 years**

- **Restart Federalism Reforms – Current difficulty managing the various levels of government**

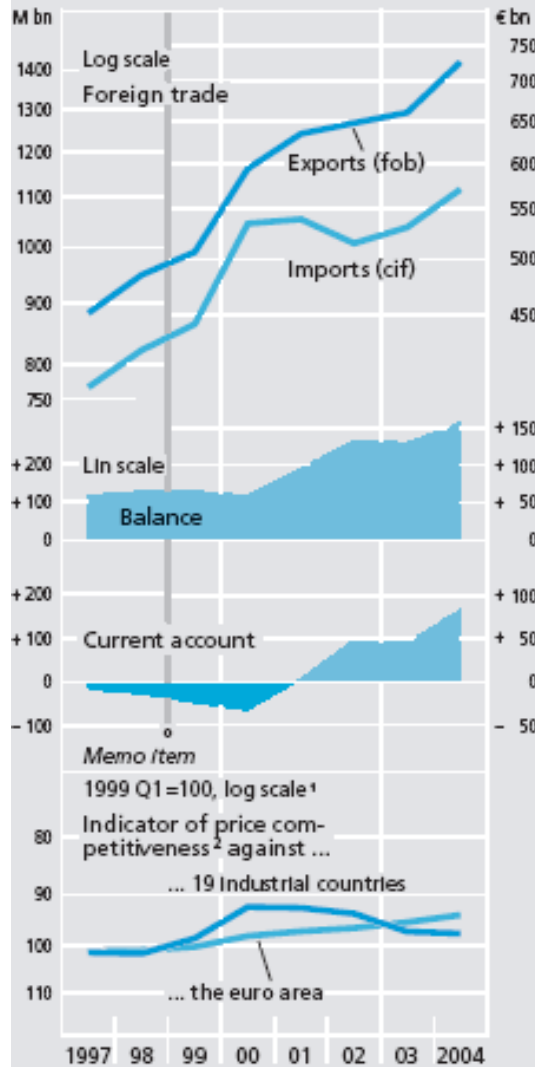
- **Slightly lower the non-wage labour costs**

- **Corporate income tax reform – planned for 2008**

- **Strengthening of health care financing in 2006 – potentially moving away from payroll taxes.**

Germany's economy is export oriented and therefore the world environment is critical to the successful attainment of its proposed reforms.

Foreign trade and current account



o From 1999, data in euro. — 1 Inverted scale: rise in curve (fall in values) denotes increase in competitiveness. — 2 Based on the price index of total sales.



•RECOMMENDATIONS

- Canada should diversify its international trade to diminish the risk related to its high dependency on the American economy.
- For FDI, Germany is the largest market in Europe and entering it is a good entrance point to the whole European market.
- Strategic location between west and east Europe... cultural and geographical bridge.
- Tighten the scientific and technological links to create a synergy. Germany is known for its superior quality and advanced technology