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GERMANY

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999
Income, Production and Employment:			
Nominal GDP 2/	2,095	2,109	2,128
GDP Growth (pct) 3/	1.8	2.3	1.4
GDP by Sector (pct):			
Agriculture	1.3	1.2	N/A
Manufacturing	25.0	25.4	N/A
Services	73.7	73.4	N/A
Per Capita GDP (US$)	25,549	25,675	25,920
Labor Force (000's)	40,116	40,278	40,220
Unemployment Rate (pct)	11.4	11.2	10.7
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) 5/	1.1	9.3	7.0
Consumer Price Inflation	1.9	1.0	0.6
Exchange Rate (DM/US$ annual average)	1.73	1.76	1.82
Balance of Payments and Trade:			
Total Exports FOB 4/	513.7	544.7	615.9
Exports to U.S. 4,5/	44.3	50.4	25.7
Total Imports CIF 4/	446.3	463.4	591.3
Imports from U.S. 4,5/	33.8	38.2	19.4
Trade Balance 4/	67.4	81,3	24.6
Balance with U.S. 4,5/	10.5	12.2	6.3
Current Account Balance/GDP (pct)	-0.2	-0.2	-0.1
Public Debt	1,267	1,284	1,284
Fiscal Deficit/GDP (pct)	-1.7	-1.5	-1.4
Debt Service Payments/GDP (pct)	3.7	3.7	N/A
Gold and Foreign Exchange Reserves	73.4	76.1	N/A
Aid from U.S.	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

1/ 1998 Figures are all estimates based on available monthly data in October and consensus forecasts.

2/ GDP at factor cost

3/ Percentage changes calculated in national currency

4/ Merchandise trade

5/ 1999 figures for trade with U.S. show first half only.

6/ For 1999, growth in Euro-11 money supply in August 1999 over August 1998

1. General Policy Framework

Germany’s economy is the world's third largest, with total output equivalent to just over $2 trillion in 1999 (in nominal terms). Real GDP growth, which reached 2.2 percent in 1998, dropped to 1.4 percent in the first three quarters of 1999. Most German public and private forecasters estimate growth of around 2.5 percent for 2000, with the acceleration primarily export-led. Germany is highly integrated into the global economy: just as the slowdown in German growth in late 1998 and early 1999 resulted mainly from adverse international economic conditions, so the expectation of higher growth is based on the recent recovery in global conditions. Inflation is extremely low, partly as a result of deregulation in the electricity and telecommunications sectors.

The German "social market" economy is organized on market principles and affords its citizenry a secure social safety net characterized by generous unemployment, health, educational and basic welfare benefits. At the same time, economic growth in recent years has been below potential, and unemployment rates have been very high, with about 4 million people unemployed nationwide. Growth is now faster in western Germany than in the east, slowing -- at least temporarily-- progress toward economic convergence between the two regions, a key national objective. Unemployment is also about twice as high in eastern Germany as in the west.

Increased government outlays associated with German unification have put pressure on fiscal policy during the 1990s. The country's generous social welfare system was extended as a whole to eastern Germany, and the government further committed itself to raise eastern German production potential via public investment and generous subsidies to attract private investment. However, overall unit labor costs in eastern Germany are still quite high, as productivity growth has lagged behind wage increases. This process led to the higher unemployment in the east and resulted in a sharp increase in federal unemployment compensation costs. As a result, western Germany continues to transfer substantial sums to eastern Germany (more than DM 140 billion annually, or roughly four percent of German GDP). These transfers accounted for the dramatic ballooning of public sector deficits and borrowing since 1990, and contributed to the need for the current government’s belt-tightening measures.

Top policy priorities of the coalition government elected in September 1998 are to lower unemployment and reduce the fiscal deficit. The government has organized an Alliance for Jobs also involving labor union and employer representatives, with the aim of fostering wage restraint, job security and training programs. Deficit reduction efforts have focused on federal spending restraint. The government also intends to introduce tax reforms over a period of four years, aimed at reducing corporate income tax rates and closing loopholes, extending relief to families, and raising energy taxes for environmental reasons. So far the government has been more successful at reducing the budget deficit than at tackling unemployment. The labor minister recently admitted that significant job creation might not occur until late 2000.

2. Exchange Rate Policies

On January 1, 1999, the euro was introduced in Germany and the Deutsche Mark was fixed at 1.95 to the euro. The euro has become a transactional currency until the introduction of notes and coins on January 1, 2002. The DM will be phased out beginning January 1, 2002, with the euro remaining sole currency as of March 1, 2002. Over the next two years, the DM will be phased out and the euro will become the exclusive currency in Germany. All monetary and exchange policies are now handled by the European Central Bank.

3. Structural Policies

Since the end of the Second World War, German economic policy has been based on a "social-market" model which is characterized by a substantially higher level of direct government participation in the production and services sector than in the United States. In addition, an extensive regulatory framework, which covers most facets of retail trade, service licensing and employment conditions, has worked to limit market entry by not only foreign firms, but also German entrepreneurs.

Although the continuation of the "social market" model remains the goal of all mainstream political parties, changes resulting from the integration of the German economy with those of its European Union partners, the shock of German unification, pressure from globalization on traditional manufacturing industries, and record-high unemployment have forced a rethinking of the German post-war economic consensus. A number of structural impediments to the growth and diversification of the German economy have been identified. These can be broadly grouped as follows:

(1) a rigid labor market;
(2) a regulatory system that discourages new entrants; and
(3) high marginal tax rates and high social charges.

While many Germans value these structural features for their presumed benefits in terms of social security and relative equality, the public debate has focused on their suitability to desired economic growth and employment levels and Germany's competitiveness as a location for business and investment. The government, as noted, intends to pursue modest tax reform but has not undertaken structural reform of the labor market.

In recent years, the government has carried out a reorganization of the German Federal Railroad and completed transforming most operating entities of the German Federal Post into stock companies. An initial public offering for the DeutschePost (DP) is expected in mid-2000 in conjunction with the liberalization of the telecommunications sector, the government-owned Deutsche Telekom has been substantially privatized (34 percent of shares have been made public) in several tranches. The German Government has largely fulfilled its commitment to open the telecommunications network monopoly to competition as of January 1, 1998, the date when its new Regulatory Authority for Telecommunications and Post began operation. However, the USTR continues to monitor Germany's compliance with the Basic Telecommunications Agreement, after a U.S. firm filed a complaint in February 1999 under section 1377 of the Omnibus Trade and Competitions Act of 1988. The federal government also has sold its remaining stake in the national airline, Lufthansa.

Despite the progress in recent years, lack of competition remains a problem in many regulated sectors and drives up business costs in Germany. Services which continue to be subject to excessive regulation and market access restrictions include communications, utilities, banking and insurance. The government intends to review existing legislation that limits price competition between firms, as well as laws that reduce competition in the insurance and transport sectors. The Regulatory Authority for Telecommunications and Post has issued new regulations to encourage competition in the telecom sector. Paralleling German Government efforts to deregulate the economy, the European Commission is expected to continue to pressure member states to reduce barriers to trade in services within the Community. U.S. firms, especially those with operations located in several European Union member states, should benefit from such market integration efforts over the long term.

4. Debt Management Policies

As a condition of its participation in the European Monetary Union, the government was required to reduce its accumulated public debt and lower its debt/GDP ratio. Germany is also subject to a constitutional limitation to hold its new net borrowing, at or below the amount invested in public sector infrastructure. Current policies seek to achieve a balanced budget by 2003.

Germany has recorded persistent current account deficits since 1991 due to a drop in the country's traditionally strong trade surplus, related in part, to strong consumer demand in eastern German demand. These deficits have been small, however, in relation to GDP. The strong deterioration of the services balance in recent years, caused principally by German tourism expenditures abroad, has contributed to the current account deficits. Nonetheless, Germany continues to maintain a surplus in the merchandise trade balance.

5. Significant Barriers to U.S. Exports

Germany is the United States' fifth-largest export market and its fifth-largest source of imports. During the first seven months of 1999, U.S. exports to Germany totaled $17.68 billion (FOB basis), while U.S. imports from Germany reached $25.6 billion (FOB basis). Other than EU-imposed restrictions, there are few formal barriers to U.S. trade and investment in Germany. Ingrained consumer behavior and strong domestic players prevailing in German product and services markets often make gaining market share a difficult challenge, especially for new-to-market companies.

Import Licenses: Germany has abolished almost all national import quotas. The country enforces, however, import license requirements placed on some products by the European Union, such as the tariff quota on Latin American bananas imposed by the EU's banana import regime. As a result of this discriminatory marketing arrangement, U.S. fruit trading companies have lost market share in Germany. The World Trade Organization's dispute resolution panel and the WTO Appeals body, have found the EU banana regime to violate both the General Agreement on Trade in Services and the General Agreement on Trade in Goods, requiring EU members (including Germany) to reform this trading regime, which it has yet to do.

Services Barriers: Foreign access to Germany's insurance market is still limited to some degree. All telecommunications services have been fully open to competition since January 1998, when the EU's telecommunications market liberalization came into effect; great dynamism and intense competition characterize the long-distance, but not local, market. Liberalization has opened up opportunities for U.S. telecommunications service providers. Germany has no foreign ownership restrictions on telecommunications services. An EU data privacy directive came into force on October 25, 1998. The directive prohibits businesses from exporting "personal information" unless the receiving country has in place privacy protections that the EU deems adequate. The U.S. and the EU are engaged in ongoing discussions to establish “safe harbor” principles as a way to allow the continued free flow of data.

Standards, Testing, Labeling, and Certification: Germany’s regulations and bureaucratic procedures are complex and can prove to be a hurdle for U.S. exporters unfamiliar with the local environment. Overly complex government regulations offer -- intentionally or not -- local producers a degree of protection. EU health and safety standards, for example, when overzealously applied, can restrict market access for many U.S. products (e.g., genetically modified organisms and hormone-treated beef). The European Union's attempts to harmonize the various product safety requirements of its member states have further complicated the issue. Existing high German standards will likely form the basis in a number of cases for eventual EU standards.

Government Procurement: In May 1998, the government passed the Public Procurement Reform Act. It establishes examining bodies that have the responsibility to review the awarding of public contracts and to investigate complaints pertaining to the procurement process. Since the law went into force January 1, 1999 it has been successfully applied to one case in September 1999.

Investment Barriers: Under the terms of the 1956 Treaty, U.S. investors are afforded national treatment.   The government and industry actively encourage foreign investment in Germany. Foreign companies with investment complaints in Germany generally list the same investment problems as domestic firms: high tax rates, expensive labor costs, and burdensome regulatory requirements.

Customs Procedures: Administrative procedures at German ports of entry do not constitute a problem for U.S. suppliers.

6. Export Subsidies Policies

Germany does not directly subsidize exports outside the European Union's framework for export subsidies for agricultural goods. Governmental or quasi-governmental entities do provide export financing, but Germany subscribes to the OECD guidelines that restrict the terms and conditions of export finance.

U.S. companies allege that several German parastatal entities or former monopolies have cross-subsidized portions of their business to unfairly invest and expand their operations overseas. Several German enterprises including Deutsche Post and Deutsche Telekom have been accused of cross subsidization in order to gain market entry and increase market share, thereby disturbing a competitive market interest to U.S. companies. The European Commission agreed to accept a complaint by one U.S. parcel delivery company for charging DP with abuse of a dominant market position.

7. Protection of U.S. Intellectual Property

Intellectual property is generally well protected in Germany. Germany is a member of the World Intellectual Property Organization; a party to the Berne Convention for the Protection of Artistic and Literary Works, the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, the Geneva Phonograms Convention, the Patent Cooperation Treaty, the Brussels Satellite Convention, and the Treaty of Rome on Neighboring Rights. U.S. citizens and firms are entitled to national treatment in Germany, with certain exceptions. Despite Germany's implementation of its commitment under the intellectual property rights portions (TRIPS) of the Uruguay Round, some U.S. firms have raised concerns about the level of software piracy in Germany. Germany's 1993 implementation of the EU's Software Copyright Directive, as well as an educational campaign by the software industry have helped improve Germany's performance in this area.

8. Worker Rights

a. The Right of Association: Article IX of the German Constitution guarantees full freedom of association. Workers' rights to strike and employers' rights to lockout are also legally protected.

b. The Right to Organize and Bargain Collectively: The constitution provides for the right to organize and bargain collectively, and this right is widely exercised. Due to a well-developed system of autonomous contract negotiations, mediation is uncommon. Basic wages and working conditions are negotiated at the industry level and then are adapted, through local collective bargaining, to particular enterprises. Nonetheless, some firms in Eastern Germany have refused to join employer associations, or have withdrawn from them, and then bargained independently with workers. In other cases, associations are turning a "blind eye" to firm-level negotiations. Likewise, some large firms in the west withdrew at least part of their workforce from the jurisdiction of the employers association, complaining of rigidities in the centralized negotiating system. They have not, however, refused to bargain as individual enterprises. The law mandates a system of work councils and worker membership on supervisory boards, and thus workers participate in the management of the enterprises in which they work. The law thoroughly protects workers against antiunion discrimination.

c. Prohibition of Forced or Compulsory Labor: The German Constitution guarantees every German the right to choose his own occupation and prohibits forced labor, although some prisoners are required to work.

d. Minimum Age for Employment of Children: German legislation in general bars child labor under age 15. There are exemptions for children employed in family farms, delivering newspapers or magazines, or involved in theater or sporting events.

e. Acceptable Conditions of Work: There is no legislated or administratively determined minimum wage. Wages and salaries are set either by collective bargaining agreements between unions and employer federations, or by individual contracts. Covering about 90 percent of all wage and salary earners, these agreements set minimum pay rates and are legally enforceable. These minimums provide an adequate standard of living for workers and their families.

f. Rights in Sectors with U.S. Investment: The enforcement of German labor and social legislation is strict, and applies to all firms and activities, including those in which U.S. capital is invested. Employers are required to contribute to the various mandatory social insurance programs and belong to and support chambers of industry and commerce which organize the dual (school/work) system of vocational education.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		2,860
Total Manufacturing		22,259
Food & Kindred Products	922	
Chemicals & Allied Products	3,894	
Primary & Fabricated Metals	1,848	
Industrial Machinery and Equipment	3,887	
Electric & Electronic Equipment	565	
Transportation Equipment	7,106	
Other Manufacturing	4,038	
Wholesale Trade		2,759
Banking		1,510
Finance/Insurance/Real Estate		11,022
Services		1,905
Other Industries		537
TOTAL ALL INDUSTRIES		42,853

Source: U.S. Department of Commerce, Bureau of Economic Analysis.