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OSW REPORT

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CHASING GLOBALISATION

GERMANY'S ECONOMIC RELATIONS WITH THE BRIC COUNTRIES

Konrad Popławski

WARSAW
NOVEMBER 2013

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FOREWORD

In 2003 the investment bank Goldman Sachs listed Brazil, Russia, India and China (BRIC) as the countries with the best prospects for development and the best chances to join the group of the world's largest economies. Since then the BRIC acronym (made up of the first letters of the states' names) has become popular and the countries referred to by it have experienced unprecedented rapid growth. The strength of their economies has been confirmed in the context of the global economic crisis, as all except Russia have managed to maintain thriving economic growth. The development of these markets pleases Germany, the world's third largest exporter of goods. To illustrate the scale of the cooperation between Germany and the BRIC countries, it is enough to quote the data on Germany's trade exchange. In 2000–2011 the share of Germany's trade exchange with the BRIC states in overall German trade volume rose from 5.5% to 13.3%. The trade exchange between Germany and the USA in the same period was dominated by a reverse tendency; it fell from 9.6% to 6.2%.

In this report, the author presents the major trends in Germany's economic cooperation with the BRIC countries and analyses the way in which the German state supports the companies involved in trade and investment activities in these states. To investigate these processes, the method of **economic analysis of trade and capital flows** between Germany and the BRIC states isare principally employed. Additionally the talks with German experts were conducted. The figures quoted in this report have mainly been drawn from data bases kept by the German Federal Statistics Office and the Bundesbank. To analyse these figures, one needs to be aware of the methodology the German institutions use to collect information on trade flows. It should be remembered that they treat goods which reach the country through German harbours as German imports, whereas their further resale abroad is registered as exports, and these flows should be classified as trade figures relating to third countries. So, it seems that the trade results calculated using this method are overestimated. On the other hand, it is difficult to assess what portion of these goods is further transferred to German manufacturing plants in Central and Eastern Europe.

Another major method used in compiling this report was the **observation of political developments and analysis of documents prepared by the German government**. The information was complemented by data compiled by organisations grouping German export companies.

The author decided to include Russia into this analysis, even though the history of relations between Germany and Russia is much longer than the history of relations between Germany and the rest of the BRIC states. Moreover, due to Russia's geopolitical location, relations between Germany and Russia should not be analysed solely in the context of economic indicators, as they are strongly influenced by political and security factors quite different than those concerning China, India or Brazil. An analysis of German-Russian economic relations and a comparison of them with the economic trends evident in Germany's relations with Brazil, India and China will help us to better understand the current changes in the perception of Russia by German elites. It can also help in finding a new perspective for analysing the changes in German-Russian relations, and in assessing the possible impact of strategic political relations on the development of economic cooperation.

The first part of the report contains an analysis of the evolving role of the state in supporting the activities of German companies on the emerging markets. Additionally, the analysis discusses the instruments which have been used to foster the development of economic relations and investment activities in the BRIC states, such as export and investment guarantees and development aid. The second part of the report is devoted to a comparative analysis and discussion of the condition of economic relations between Germany and the BRIC states, also with regard to their importance for Germany in the context of exports, imports, trade balance and foreign investments. The report also offers an analysis of the situation of German companies operating in the BRIC countries, with special emphasis on both general trends and the changes observed on individual markets. The Appendix discusses the political context of Germany's relations with all the BRIC states, which cannot be ignored in the analysis of conditions for conducting entrepreneurial activities on the individual markets.

MAIN THESES

1. In the last decade, Germany's exports to BRIC countries grew much faster than the volume of the EU sales to these markets. In terms of the EU exports to BRIC countries, Germany's position has been much stronger than that of other EU states. In 2011 German exports accounted for 27.6% of the entire EU's exports, while the German economy generates 20.5% of the EU's total GDP. Statistics show that Germany is overrepresented in its share in exports to all BRIC countries except India. In 1999–2011 the Germany increased contribution to the EU's external sales volume on the Chinese market from 35.6% to 47.5%, and on the Indian market from 17.9% to 26.9%. Particularly interesting is the fact that various political initiatives carried out in the last decade which focused on Germany's cooperation with Russia, failed to significantly improve the position of German exporters compared with the remaining EU member states, and Germany's share in the exports to Russia, in comparison with the other EU states, rose only slightly from 30.2% to 31.8%. During the economic crisis, Germany's exports to the BRIC states enabled it to compensate for the declining sales volume in those EU countries which were hit more strongly by the crisis than the emerging economies. The EU market continues to be the most important market for Germany. However, the BRIC countries can significantly compensate for the much slower growth observed on the EU market.
2. The Eurozone crisis has strengthened the role of Germany in the European Union and contributed to an improvement of Germany's image worldwide as an EU leader. Germany is aware of this and wants to take advantage of the current positive international situation to solidify its current relations or launch new contacts with the most promising partners. It is no coincidence that inter-governmental consultations with China and India have been started right in the times of crisis. The ever more frequent visits paid by German politicians to China in particular should also be viewed in this context. The image of Germany as the EU leader, and at the same time a mediator of the BRIC countries' interests in the EU, may contribute to the creation of a more promising system of economic cooperation for German companies, so that they can expect to encounter fewer political barriers to these markets.
3. In the last decade, the importance of China for Germany's economy has risen considerably, and the unprecedented dynamics of the development of economic relations has fostered the development of political cooperation. In the BRIC countries group, Russia has had a completely different status,

which results from it being an important supplier of mineral resources to Germany and an important political partner for Berlin. As far as cooperation with India and Brazil is concerned, German companies hope for a significant increase of trade exchange in the future, which would mean repeating the model for the development of relations applied in the case of China. From Germany's point of view, what all these states have in common is the ambition to play the role of superpowers of at least regional importance, aspiring to be important partners in the German foreign policy. The development of Germany's relations with China should not lead to any decline in Germany's relations with Russia, since in their relations with Germany these two states emphasise their different interests. Russia might have though relatively lower economic importance, while the other markets can be considered more attractive in terms of investment opportunities. The volume of trade exchange with other countries is likely to grow much faster, and the Russian resources may become less important to Germany, both from the strategic point of view and in the context of the energy transformation currently underway in this country.

4. German companies have been intensifying their presence on the BRIC markets, and expect help from the German government in solidifying their commercial relations and introducing legal acts which can facilitate their business activity and reduce the political risk. Good political relations can guarantee better conditions for business expansion in the BRIC countries, as in each of them the state plays an important role regulating the entrepreneurial activity. These markets are characterised by stronger protectionist tendencies, and the state offices are empowered to interfere in private business activity. Germany has developed three major instruments to intensify its economic relations with the BRIC countries: (1) the institutionalisation and creation of formal and informal networks of relations, (2) supporting businesses by means of export and investment guarantees, and (3) actions connected with development aid. In bilateral relations and in international cooperation initiatives, Germany has been pushing for the creation of favourable investment conditions for small and medium companies, and for the introduction of legal solutions to protect intellectual property. Export and investment guarantees help German companies to expand on the emerging markets and protect them against the consequences of the economic crisis and possible political interference. Development aid, on the other hand, helps build up a positive image of the German economy and facilitates the pursuit of the sector-specific interests of individual companies, especially in the fields of green technologies, energy and in the healthcare sector. By taking part in projects focused on

the exchange of know-how and expertise, companies active in these sectors have opportunities to make valuable business contacts.

5. The largest portion of the German exports to the BRIC markets are goods manufactured by the usual export industries – the machine, automotive, electrical and chemical industries. The value of exports in each of these industrial branches, apart from the chemical industry, is higher than the export value generated by all the remaining sectors of Germany's industry not classified in the 'big four'. For this type of company, entering the emerging markets was unavoidable, as the investment opportunities in the old EU states had halted due to the much lower need to expand their infrastructure than in previous years. Moreover, the dynamic economic growth observed in the BRIC countries forced these sectors to become international, and in order to keep their status as global leaders many businesses had to expand to new, increasingly significant markets. The expansion of the large concerns onto these markets has encouraged the small and medium companies that wanted to maintain their leader status in their specialist niche markets and uphold their relations with their major clients to follow in their footsteps. The dynamics and stability of economic relations between Germany and the BRIC countries will depend on the German companies' potential to adapt to the changes occurring in the emerging economies. So far, German companies have been able to achieve commercial success due to their high levels of competence in producing machines and vehicles which were valued in the process of these states' ongoing industrialisation. However, the structural change of the emerging economies and their growing domestic consumption, which is expected to generate demand for consumer goods, could possibly cause problems. German companies which do not manufacture such goods are likely to be forced to explore new markets.
6. For Germany the BRIC states have become not only significant partners, but also competitors. Some of them, China in particular, are important rivals in the contest for access to mineral resources and rare earth elements. Research conducted in Germany has shown that by introducing instruments involving export subsidies and import duties on raw materials, the BRIC countries are destabilising the global raw materials market¹, as is

¹ Außenwirtschaftliche Maßnahmen der BRIC-Staaten zur Rohstoffversorgung am Beispiel von Kupfer, Deutsche Rohstoffagentur, Berlin 2012, http://www.deutsche-rohstoffagentur.de/DE/Gemeinsames/Produkte/Downloads/DERA_Rohstoffinformationen/rohstoffinformationen-12.pdf?__blob=publicationFile&v=3

evident in the case of the copper market, for instance. Germany has made the deepening of its cooperation with the BRIC countries conditional upon their progress in trade liberalisation. This is why Germany can be openly critical of these states when they violate the rules of free trade or directly interfere in German economic interests. Germany's support for complaints filed with the World Trade Organisation against China, which had introduced limits on the exports of rare earth elements necessary for the German economy, is one example of this.

INTRODUCTION

Strengthening Germany's global economic position in the times of crisis

The global economic crisis, which broke out first in the USA and then in the Eurozone, has boosted the political and economic power of Germany in Europe and worldwide. In 2009 it seemed that the German economy would be hard hit by the global slowdown. At that time Germany's GDP fell by 5.1% – much more, for instance, than the GDP of France (-3.1%), the United Kingdom (-4%) or the USA (-3.5%). The issue of Germany's excessive dependence on its exports began to be emphasised in political debates. Soon after this, however, when the countries of the European Union still could not overcome the slowdown, this structural German weakness suddenly turned into its biggest asset. The economy recovered quickly, and in subsequent years positive GDP figures were achieved and maintained, leaving the country's major European competitors behind it. It turned out that other regions of the world performed better in working their way out of the crisis than the European countries, and Germany – being one of the world's largest exporters – has benefited from this.

The source of Germany's success and the German economy's increased focus on global expansion were not only the changes in the global situation, even though the ongoing industrialisation of the developing economies has fostered the increase in the demand for investment goods manufactured by German companies. The most important change which led to the accelerated development of the economy were the internal reforms carried out in Germany between 2003–2005 by the government headed by Chancellor Gerhard Schröder, known as *Agenda 2010*. The modernisation was based on the liberalisation of the labour market and the reduction of unemployment benefits and of the period for which they could be paid out. As a result, industry in western Germany was relieved from the obligation to support a large mass of unemployed people in the former GDR, which had considerably limited its competitive potential. The side effect of the modernisation processes was a stagnation of the labour costs, which persisted for many years and further helped to speed up the expansion of German companies on foreign markets. These changes were very important because they contributed to a rapid fall in Germany's unemployment rate. The proportion of unemployed fell in the years 2005–2011 from 11.7% to 7.1% in the entire country, and from 21.1% to 13.3% on the territory of the former GDR. It then appeared that the number of people out of work had fallen, despite the EU's enlargement to include new member states from Central Europe.

The positive economic figures enabled the politicians to launch a fight against fears of globalisation, quite widespread in Germany, and the perspective of a possible loss of jobs caused by globalisation. As late as 2006, some 47% of Germans considered globalisation to be mainly a risk, whereas only 20% considered it an opportunity². Most Germans associated this process with possible job losses resulting from employment moving abroad and from growing social inequalities. Only in recent years did Germans begin to believe that German companies could benefit from the process of integration of the global economy. According to polls carried out in 2011, up to 64% of Germans considered globalisation positive. A certain paradox was present in the German perception of globalisation, since at the same time 55% of Germans believed that their country's GDP could grow faster without the impact of globalisation. Apart from the usual fear of the growing social disparities, an opinion was often quoted that the globalisation processes could have negative impacts on climate and the environment³. On the other hand, this was the reason why Germany, a country which aspires to play an important role in climate protection initiatives, became involved in devising global understandings concerning these matters.

The global economic crisis has drawn the attention of German elites, who so far had mainly been interested in European integration, to the emerging economies. It appeared that in the times of global economic slowdown they have been able to generate demand which could – at least in part – compensate German exporters for a declining sales volume in Europe. For the German economy there is no turning back from the path of globalisation. In 2003–2008 Germany was the world's largest exporter, but it lost this status to China in subsequent years. In 2008 exports accounted for nearly 40% of Germany's GDP, which is twice as much as 20 years earlier and much more than in other economies of similar size. Between 1999–2011, up to 20% of Germany's economic growth was generated by its trade surplus.

During the government of Helmut Kohl (in the early 1990s) tendencies to support China were present in German politics, especially after the events on Tiananmen Square. Few people in Germany, however, had expected China to grow as dynamically as it did in the following ten or fifteen years. **During Gerhard Schröder's second term in office (1998–2005) Germany saw a clearer perspective of cooperation with the BRIC countries. The social-democratic**

² Globalisierung: Die meisten sehen mehr Risiken als Chancen, Institut für Demoskopie Allensbach, 2006, http://www.ifd-allensbach.de/uploads/tx_reportsdocs/prd_0611.pdf, p. 2.

³ http://www.bertelsmann-stiftung.de/cps/rde/xchg/bst/hs.xsl/nachrichten_109784.htm

government decided to assume a more pragmatic approach to the issue of economic cooperation especially with China and Russia, putting questions of democratic values aside. The then German chancellor was committed to strengthening the competitive status of German companies by tightening political relations with foreign partners, and so he began to visit Asia more often. Representatives of the German economy were particularly interested in developing stronger relations with Beijing, appreciating the Chinese economic growth rate. To increase German companies' chances of success, Schröder hardly ever criticised China, and even supported the plan to lift the EU's embargo on the exports of weapons to China and adopted a plan to hold regular meetings with Chinese leaders once a year.

After the initial resistance observed in her first term in office, in her second term Chancellor Angela Merkel consistently followed the strategy of deepening political and economic cooperation with China, India and Brazil, as well as with smaller states in South-East Asia. Originally, she had adopted a more cautious approach to cooperation than her predecessor, especially with non-democratic states; this resulted in a deterioration of Germany's relations with China when Merkel refused to take part in the opening ceremony of the Olympic Games in Beijing in 2008. Some time later, however, even she became convinced that closer cooperation with the BRIC countries might enable Berlin to pursue its global goals in the long-term perspective, including preventing climate change, limiting uncontrolled migration and proliferation of nuclear weapons, and jointly fighting terrorism and ensuring energy security⁴. Additionally, a plan to prepare an agenda of global problems was supposed to help Germany to tighten its relations with the BRIC countries. **One argument used to convince Chancellor Merkel to become involved in cooperation with the developing economies was the prospect of the increased importance of international forums, and the formation of the G20 group to shape the agenda of global economic problems.** It was expected that the possible increase in the number of benefits of globalisation would be strongly supported by government programmes. Since 2009, when the CDU/CSU and FDP coalition was in power, four ministries (those of foreign affairs, the economy, development aid and education) have published strategies for cooperation with the emerging economies. This was a response to appeals by business circles to open up Germany for cooperation with these states to a greater extent. The number of ministries involved in intensifying relations

⁴ G. Schröder, Warum wir Peking brauchen, <http://www.zeit.de/2008/30/China>

with the emerging economies was proof that Germany treated these issues as priorities and was working to prepare a comprehensive and long-term strategy concerning these matters. The new concepts called for the far-reaching economisation of instruments such as foreign, development, educational and cultural policy, in order to facilitate German companies' business activities on the emerging markets. The creation of an image of Germany as a country committed to defending the liberalisation of the global economy was intended to serve this purpose as well. Germany managed to identify the risk associated with the growing crisis-related protectionism in international trade exchange early enough, and on the G20 forum it strongly defended the idea of free movement of goods in the global exchange, as well as the widest possible liberalisation of trade exchange. Germany also tried to block the protectionist actions that the European Union had launched towards China (among others), and protested against the plan prepared by the EU commissioner for industry to introduce limits on non-EU investments in Europe's strategic sectors.

The crisis has boosted Germany's global political importance because this country has become the key initiator of the resolution of the Eurozone's problems and the main payer which helped to stabilise the situation of highly indebted countries. This was particularly important to China, which retained significant euro currency reserves in its investment portfolio, along with government bonds issued by many indebted EU countries. China considered the period of the currency union's problems a favourable moment to start its expansion in Europe. Beijing noted the growing disparity between the economy of Germany, which maintained its growth dynamics, and the economy of France, which was characterised by stagnation and troubled by structural problems. So, China began to consider Germany as the most important partner in its relations with the European Union and the main sales market for Chinese exports. Examples confirming the change in German-Chinese relations are the successive meetings between Chancellor Angela Merkel and Chinese leaders, during which ways of combating the Eurozone crisis and a possible purchase of bonds issued by the most heavily indebted countries were discussed. On the other hand, Beijing treated the German chancellor as a mediator in the relations between China and the EU when the European Commission threatened to introduce penal duties on Chinese solar installations in 2013. Leaders of the remaining emerging economies, such as India or Brazil, have also begun to see Berlin as the main player in the EU. These changes in the perception of Germany fuelled Berlin's ambitions to shape the agenda of global economic management, for instance on the G20 forum. Upon reconsideration of its assets – such as the country's good global reputation, the power of its economy, its

high level of technological advancement, the potential of German companies and its good relations with the world's most promising economies – Germany concluded that it might be able to influence matters of global importance, such as methods for combating the financial crisis or preventing climate change. To this end, Germany decided to include the economies they considered the most attractive, i.e. China and India, into the group of their partners in bilateral consultations. This has also proved that Berlin wants to deepen its political relations with these countries, and hopes that good relations with them will make it possible for Germany to defend its interests on international cooperation forums such as G20 or the United Nations.

I. THE ROLE OF THE STATE IN SUPPORTING THE ACTIVITY OF GERMAN COMPANIES IN THE BRIC COUNTRIES

When German companies decided to enter the BRIC markets, no special support from the federal government was necessary, and their business activity mainly involved the sale of goods on these markets. Currently more and more jobs in Germany have become dependent on the rate of economic growth in the BRIC states, and many German companies have begun to carry out major investments in those countries. Entrepreneurs expect the government to offer help in deepening inter-state relations and in introducing legal and technical standards to facilitate business activity and reduce political risk. The latter issue is of great importance in all BRIC countries, as the state plays an important role in regulating the economy in each of them. The German elites have also noticed that the development of economic relations goes hand in hand with Germany's increasing potential to influence the policy of these states, which expands opportunities to cooperate with them within various multilateral cooperation initiatives. Another of Germany's ambitions is to improve conditions for doing business in these countries, as it expects them to become an important source of German industrial production growth in the context of the Eurozone crisis. With its stronger position in Europe, Germany hopes to further influence the process of reducing trade barriers, and to foster the liberalisation of the BRIC economies.

1. Concepts for cooperation with emerging economies

Germany's growing international ambitions and its willingness to intensify its relations with the emerging economies have been reflected in the growing number of German initiatives focused on cooperation with these partners. **Based on the experience gathered so far, and the changes provoked by the crisis, Germany is committed to preparing a comprehensive programme of intensifying political relations with the BRIC countries and improving cooperation with them on forums such as the UN, G20 and IMF.**

The first concepts focused on deepening cooperation with the emerging economies were sector-specific strategies prepared by individual German ministries without any general coordination on the part of other institutions. **As early as 2010, the German Ministry of the Economy published a detailed plan for increasing political support for German small and medium companies operating abroad ("The foreign economic offensive: How to use global**

opportunities”⁵). The ministry emphasised both the projects aimed to boost Germany’s attractiveness as a place to locate investments in, and the political support offered to German companies which could otherwise have had problems in expanding their activities to the emerging markets. As part of this plan, the ministry intended to carry out activities such as the following: simplifying and shortening the procedure to obtain a work permit for the most talented foreign workers; conducting ‘sports diplomacy’ to win contracts for German companies related to the organisation of sports events (such as the 2014 World Football Championships, or the 2016 Summer Olympics organised in Brazil). Greater emphasis was to be placed on supporting branches other than the usual ones, i.e. companies from the sectors of transport, healthcare, security technologies, defence, aviation and energy. The new instruments to achieve these goals included global promotional campaigns emphasising the advantages of Germany as a place to locate investments in; events aimed at facilitating German companies’ new contacts with foreign partners; plans to simplify and shorten the procedures of granting support to these companies and increase funding for export guarantees; creating an institution focused on supporting German investments abroad (in the form of advice, financial and political support); expanding the network of chambers of commerce; and the active representation of Germany during international trade fairs. Additionally, the ministry planned to create a clear cooperation framework for German companies operating abroad by continuing the work on liberalising global trade, as well as signing bilateral free trade agreements. The project mentioned the energy dialogue as an area for cooperation with Brazil, China, India and Russia.

The changes in German foreign policy towards the emerging economies also concerned development policy. When the FDP politician Dirk Niebel took office as the Minister for Development Aid and Cooperation, he attempted to combine the support for the most underprivileged countries with the aims of German foreign and defence policy. Example of such activities include his visits with foreign minister Guido Westerwelle to countries such as South Africa, Tanzania, Djibouti⁶ and Egypt⁷, and an agreement signed by his ministry

⁵ Die Außenwirtschaftsoffensive. Chance nutzen weltweit, Bundesministerium für Wirtschaft und Technologie, Berlin 2010, <http://www.bmwi.de/Dateien/BMWi/PDF/aussenwirtschaftsoffensive-2010,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf>

⁶ <http://www.osw.waw.pl/pl/publikacje/best/2010-04-14/niemieckie-interesy-w-afryce>

⁷ A. Ciechanowicz, J. Gotkowska, Niemcy wobec rewolucji w Afryce, *BEST OSW*, No. 9(169), Ośrodek Studiów Wschodnich, Warszawa 2011, <http://www.osw.waw.pl/pl/publikacje/best/2011-03-09/niemcy-wobec-rewolucji-w-afryce-polnocnej>

with the Ministry of Defence on carrying out development projects in those countries in which the Bundeswehr was conducting its operations⁸. This was a confirmation of a new concept of development policy, which since that time has become closely tied with Germany's economic interests and foreign policy. The ideas on how to reach this goal were included in the new strategy adopted by the Ministry for Economic Cooperation and Development (responsible for development aid). **2011 saw the publication of the concept for cooperation with strategic partners, including Brazil and India, referred to as global partners in development aid**⁹. It covered those states which play a key role in solving global problems at the G20 forum, due to their industrial and geopolitical importance. Attention was paid to the growing importance of new emerging economies with a large industrial share, with which Germany has more and more in common in terms of security, economy or climate issues (e.g. at the G20 forums). Due to the persistently high level of poverty in these states, it was suggested that German development aid could be used to stimulate cooperation in order to better protect the climate and support institutional and economic transformation in these states, which is likely to facilitate German companies' business activities in the future. These goals are consistent with Germany's economic interests. **The concept recognises the necessity to involve German companies in development aid to a larger degree, as this can make it easier for them to initiate new contacts in these countries later on. It was recommended that civil society organisations took responsibility for dealing with traditional aims of development policy, such as combating poverty, and carried out their actions in a way that would complement the tasks performed by the ministry.** The most important partners mentioned in the document in the context of this process were Brazil, India, Indonesia, Mexico and South Africa, a list that can be further expanded to include other countries characterised by dynamic development. The selection of these states is consistent with German plans to intensify its economic cooperation with a smaller group of emerging economies, but on a larger scale. This strategy suggests that the development aid outlays earmarked for Brazil and India are likely to grow dynamically in the next couple of years. Germany wants to draw from its experience in China, and use sector-specific and increased funds to support German companies in their expansion onto these markets. This will

⁸ <https://www.osw.waw.pl/pl/publikacje/best/2011-06-15/niemiecka-polityka-rozwojowa-we-wspolpracy-z-bundeswehrea>

⁹ Konzept der entwicklungspolitischen Zusammenarbeit mit Globalen Entwicklungspartnern, http://www.bmz.de/de/publikationen/reihen/strategiepapiere/Strategiepapier-305_06_2011.pdf

be further facilitated by the federal government's commitment to achieving the United Nations' Millennium Development Goals, and increasing the share of development aid from the current 0.39% of GDP to 0.7% of GDP in 2015. In recent years attempts to fulfil these commitments have gained momentum (in 1997–2004 Germany allocated only 0.27% of its GDP to development aid).

Greater emphasis on cooperation with emerging economies is also evident in the German concept of foreign cultural and educational policy (“Foreign cultural and educational policy in the times of globalisation: winning partners, transferring values, representing interests”¹⁰) published in 2011 by the Federal Ministry of Foreign Affairs. The concept highlights the fact that in the context of growing globalisation pressures, apart from maintaining its old alliances in Europe Germany should build new partnerships which could support it in solving global problems, for example at the UN forum. The document mentions India as an example of a country which is receiving relevant support from German education and cultural policy institutions in the form of co-funding for German language lessons in 1000 schools and the organisation of a Germany Year. Germany's cooperation with China (partnerships between universities and campus building) and Brazil (building the German House of Knowledge and Innovation in São Paulo and organising a Germany Year in Brazil) are similar in nature. Further, the concept suggests using certain instruments more frequently in cooperation with foreign partners. These include educational cooperation (promoting German language courses, cultural policy); developing foreign educational policy (preparing academic syllabuses for foreigners and introducing a new scholarship system); coordinating the activities of German foreign organisations with projects carried out by educational and cultural institutions; and intensifying the use of modern forms of communication to maintain the positive image of Germany in foreign media. The scale of the change of perspective in German foreign cultural and educational policy can be proved by the fact that, in a parliamentary question filed with the Bundestag, SPD deputies accused the Federal Ministry of Foreign Affairs of transforming this policy into another instrument used to pursue Germany's interests and intending to fully control this policy¹¹.

¹⁰ Auswärtige Kultur- und Bildungspolitik in Zeiten der Globalisierung: Partner gewinnen, Werte vermitteln, Interessen vertreten, Ausärtiges Amt, Berlin 2011, <http://www.auslandsschulnetz.de/wws/bin/300902-303206-2-akbp-konzeption-2011.pdf>

¹¹ <http://dip21.bundestag.de/dip21/btd/17/098/1709839.pdf>

One of the major documents illustrating the change in the federal government's approach towards cooperation with the emerging economies was the concept paper entitled "Shaping globalisation - Expanding partnerships - Sharing responsibility"¹². This was the German government's first attempt at creating a comprehensive strategy for cooperation with the emerging economies. The document's authors quite frankly declared that it was an offer of cooperation sent to the new regional powers (the emerging economies) which are not members of the EU, G8, NATO or OSCE, but which have a special status in their regions associated with their power or economic potential and their ability to play an important role in their neighbourhood and worldwide¹³. The document discusses Germany's attempt to tighten its relations with these countries to create a stable, multilateral system based on clear rules and supported by efficient institutions. The new vision of cooperation with the emerging economies had been present in previously published sector-specific strategies, but it was this document that combined them in one initiative and outlined the new concepts for cooperation. Germany wants to build new cooperation formats and networks with these countries focused on specific issues in order to achieve greater stabilisation of bilateral relations and have an influence on their policies. Germany aspires to represent the EU in relations with the emerging economies. The following possible fields of such cooperation are often mentioned:

- security and peace;
- human rights and the rule of law;
- economy and finance;
- resources, food and energy;
- labour, social issues and healthcare;
- sustainable development.

The document highlights the fact that the economic crisis has fostered stronger connections and a greater institutionalisation of Germany's relations with the emerging economies, i.e. through cooperation on the forum of the UN, G20 or OECD; this tendency is worth strengthening. Germany also plans to use the instruments offered by the European Union (the EU's strategic partnerships, the European External Action Service). According to

¹² Globalisierung gestalten - Partnerschaften ausbauen - Verantwortung teilen: Konzept der Bundesregierung, Bundesregierung, Berlin 2012, <http://www.auswaertiges-amt.de/cae/servlet/contentblob/608384/publicationFile/169957/Gestaltungsmachtekonzzept.pdf>

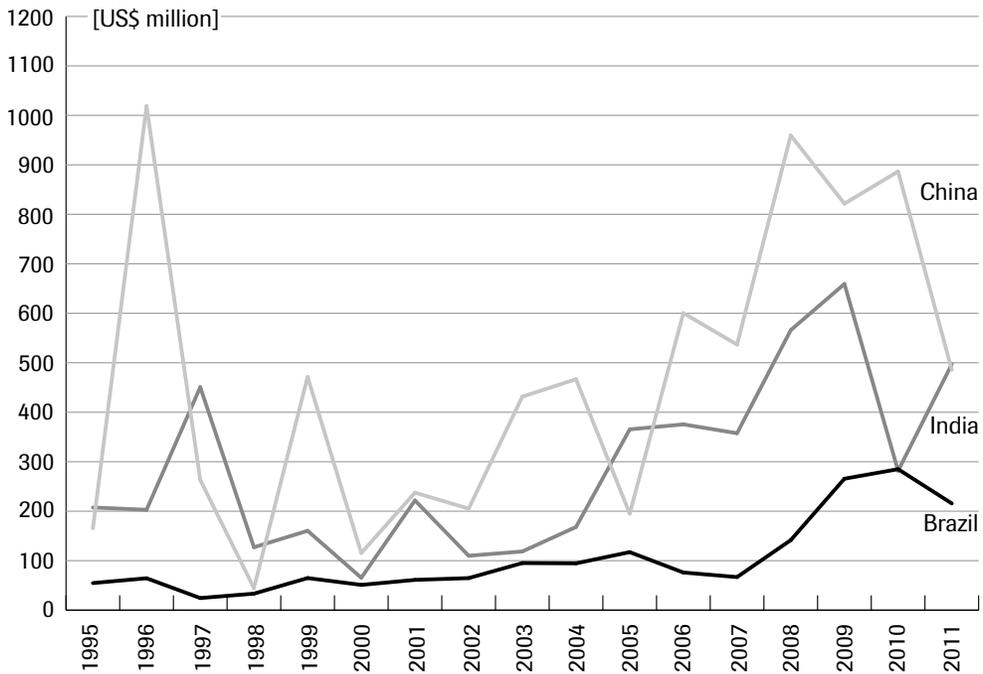
¹³ A. Ciechanowicz, K. Popławski, Niemiecka koncepcja zwiększenia korzyści gospodarczych z globalizacji, *BEST OSW*, No. 9(210), Warszawa 2012, <http://www.osw.waw.pl/pl/publikacje/best/2012-02-29/niemiecka-koncepcja-zwiekszenia-korzysci-gospodarczych-z-globalizacji>

the document's authors, the improving relations with the emerging economies should translate into signing contracts and facilitating the German companies' access to this market. This can be achieved by using the instruments aimed to support German companies operating abroad, and by pursuing an appropriate trade policy. **These contacts could also be used to promote political, social and economic goals, such as further trade liberalisation, and to set clear rules of supporting exports in order to avoid dumping, ensure stable supplies of raw materials, promote the development of renewable sources of energy and prevent global epidemics.** The document also emphasises that **the possibilities of citizens' organisations and entities not directly linked with the state have as yet not been explored to a sufficient degree.** This sphere of contacts generates great potential for increasing the variety of forms of cooperation and the efficiency of foreign policy. To this end, measures of cultural and educational policy could be used in the form of support for the exchange of representatives of cultural and civil society organisations. One example of this kind of cooperation is the Asia-Europe Meetings project, as part of which meetings with experts from emerging economies are organised. Initiatives focused on promoting German culture in countries which Germany is mostly interested in and the promotion of their culture in Germany could also be elements of such actions. Examples include the organisation in Germany of the Vietnam Year in 2010, the India Year in 2011 and the Chinese Culture Year in 2012.

2. Development aid

Development aid plays an important role in supporting German economic relations. Even though the funds allocated to individual states are just a small portion of their GDP, they create a positive image of Germany and channel the aid to those specific sectors which are particularly attractive to German companies. One example of such cooperation is found in Germany's relations with China. Germany launched closer cooperation with China as early as 1982, and offered it development aid which helped the Chinese to combat poverty and provided them with renewable energy development technologies. Germany has continued to provide this aid in recent years, offering help in eliminating the effects of natural disasters and promoting the positive image of Germany. The 20th anniversary of German development aid to China, organised by Beijing, was an opportunity to break the deadlock in diplomatic relations which occurred after Angela Merkel had refused to take part in the opening ceremony of the 2008 Olympic Games in Beijing. German aid is highly valued in China, and frequently results in an inflow of new technologies to the country (Germany was the second largest donor after Japan).

Figure 1. Inflow of German development aid to BIC countries



Source: OECD

The figures relating to German development aid provided to Brazil, China and India (no aid was granted to Russia) suggest that in the last decade, and in particular under the CDU/CSU-FDP coalition, the amount of funds allocated to support these countries has increased. It should be noted, however, that on average 35% of these funds are transferred to the beneficiaries via multilateral organisations. For example, in 2010 the Federal Ministry of Economic Cooperation and Development directly financed projects worth €190 million in China, €396 million in India, and €150 million in Brazil.

An analysis of the thematic scope of the projects currently carried out by Germany in China, India and Brazil clearly shows that the aid is highly sector-specific and strongly focused on the development of renewable energy sources, environmental protection technologies, energy projects (in all of these countries) as well as economic development and promotion of the rule of law (particularly in China). Recent years have seen an increase in Germany's development aid outlays directed to India and Brazil (which is consistent with the German strategy of raw materials partnerships).

Before 2010 China could count on the largest portion of support, which amounted to over US\$430 million per year. 2010 was the last year in which China re-

ceived development aid. This decision was taken in response to criticism of giving support to a state which in the eyes of public opinion is no longer considered a developing country, and could soon become Germany's competitor in global trade. This decision was preceded by a period of generous support to China, which had been the second largest recipient of aid from Germany after Iraq¹⁴. However, this change does not mean that Germany plans to withdraw from its current projects, which are to continue until 2014. Large sums of aid were allocated to India, on average amounting to US\$260 million per year. Furthermore, in the case of Brazil the value of development aid rose in 2008–2010, and on average amounted to US\$90 million per year.

India is a good example of using the development aid it received from Germany to pursue strategic interests. Between 1958 and 1997 Germany allocated India the amount of 173 billion deutschmarks as development aid. In recent years, however, this aid was re-channelled from supporting the healthcare system to the development of green technologies and modernisation of installations generating energy from renewable sources¹⁵. What India has to offer is a large and very promising energy market; today only 700 million out of 1.2 billion of India's citizens have access to electricity grids¹⁶. This is why KfW Entwicklungsbank has been supporting India in developing renewable energy solutions since 1999. In India Germany is currently carrying out a project entitled 'Solar Roofs and German Schools and Institutions Abroad', initiated by the German Energy Agency (DENA). As part of this programme, the German company IBC Solar plans, in cooperation with a local partner, to install 35 solar modules with a total capacity of 7.8 kW at the Goethe-Institut in Bangalore. Germany has been cooperating with India on the Indo-German Energy Programme (IGEN) carried out by the German Society for Technical Cooperation and India's Ministry for Energy. As part of this undertaking, Germany provides India with help in the form of consultations, engineering services and technical support for the Indian energy sector¹⁷.

¹⁴ Ch. Geinitz, Ende der Entwicklungshilfe: Noch immer fließt Geld nach China, 2010, <http://www.faz.net/aktuell/wirtschaft/wirtschaftspolitik/ende-der-entwicklungshilfe-noch-immer-fliesst-geld-nach-china-11043481.html>

¹⁵ Ch. Wagner, Die deutsch-indischen Beziehungen, *Note du Cerfa*, Nr. 84, 2011, p. 5.
H. Lienhard, Rede an der Jahrestagung der Deutsch-Indischen Handelskammer am 27. Mai 2009, Asien-Pazifik Ausschuss der deutschen Wirtschaft, 2009, http://www.asien-pazifik-ausschuss.de/downloads/positionen/Rede_Lienhard_IGCC_2009.pdf, p. 11.

¹⁶ http://www.dresden.ihk.de/servlet/veranstaltung?veranst_id=5166&duva_id=11380&ref_knoten_id=3050&ref_detail=ver, p. 5.

¹⁷ H. Lienhard, Rede an der Jahrestagung der Deutsch-Indischen Handelskammer am 27. Mai 2009, Asien-Pazifik Ausschuss der deutschen Wirtschaft, 2009, http://www.asien-pazifik-ausschuss.de/downloads/positionen/Rede_Lienhard_IGCC_2009.pdf, pp. 5–6.

Germany's relations with Brazil have been characterised by close cooperation in the field of climate policy. In Brazil a large portion of energy is generated by renewable energy sources; 85% of electricity comes from hydroelectric power stations. Recently Brazil organised a climate conference in Rio de Janeiro. Germany cooperates with Brazil in the field of climate protection, and is committed to developing its exports of wind power technologies to this country. **Germany has been trying to use development aid organisations to promote the development of wind and solar energy along with the relevant legal solutions enabling the implementation of these technologies in Brazil.** An interesting example was the conference organised in Brazil by the German Ministry of the Economy in cooperation with the Development Aid Company (*Gesellschaft für Internationale Zusammenarbeit*) dedicated to the development of the solar energy market in Germany in 2009¹⁸. According to the German press, the concept – calling for the construction of a stadium in Brazil which would be powered by solar energy – has been inspired by German experiences. In spite of controversies over whether Brazil should still be considered a country needing development aid, Germany continues to support it. Data compiled by the Ministry of Economic Cooperation and Development show that in 2011 Germany allocated €108 million for this purpose, which accounted for 3.2% of the funding spent by Germany on bilateral cooperation, and made Germany the second largest donor after Japan. One of the key ideas behind German development aid is to pave the way for private capital¹⁹. This is why the major projects involved support for the development of solar installations and wind power stations. The aid was also supposed to finance initiatives connected with the organisation of sports events – Germany's co-funding of street football championships is one example of this²⁰.

3. The system of guarantees limiting political risk

The state plays an important role in all BRIC countries and is strongly involved in steering the economy, and it is therefore necessary to protect German companies from political risk. **Export and investment guarantees are impor-**

¹⁸ F. Specht, Brasilien: Mit deutscher Hilfe zur 'Green Economy', 2012, <http://www.handelsblatt.com/unternehmen/industrie/brasilien-bei-sonnenschein-laeuft-der-stromzaehler-rueckwaerts/6700982-2.html>

¹⁹ http://www.bmz.de/de/presse/aktuelleMeldungen/2012/oktober/20121016_brasilien/index.html

²⁰ http://www.bmz.de/de/presse/aktuelleMeldungen/2011/september/20110911_pm_153_brasilien/index.html

tant instruments of assistance, which are especially welcomed by small and medium companies which cannot afford to generate losses on foreign activities in the situation when political risk arises.

The German state offers entrepreneurs five types of financial support:

7. State export guarantees (the so-called Hermes covers). This instrument is the major form of export support provided by Germany, the main aim of which is to protect the companies and their foreign business activities against political and economic risk. Germany considers that the private sector does not offer sufficient instruments for supporting companies in case of political risk, in particular in the states which are not OECD members, and that this gap should be filled in by the state. The broad application of this instrument also resulted from the necessity to keep up with foreign competitors which receive support from their states and could gain competitive advantage over the German companies. Germany is committed to shaping an appropriate and uniform legal framework for providing this type of help to the private sector, and is active in a number of initiatives, within the OECD in particular, in which environmental protection and the avoidance of corruption and excessive debt in the poorest countries are questions of key importance.
8. Investment guarantees are expected to help companies protect themselves against political risk associated with investing abroad. This is a particularly important instrument which can be used when companies are entering new, developing markets.
9. Non-binding state financial credits (the so-called *UFK*), instruments used to support German strategic interests, including:
 - a. projects aimed to secure the supplies of raw materials to Germany; the state can use this instrument to support the extraction and transport of raw materials to Germany. In such cases it can insure the political risk, and since 2008 it has been allowed to insure the project's economic risk as well. There is one condition, however: the parties applying for an *UFK* are obliged to sign a long-term supply agreement;
 - b. support granted to banks which offer loans to small and medium enterprises in the former Eastern Bloc countries; this instrument was meant to support the financing of these companies and protect them against political and economic risk in Central and Eastern Europe;

- c. loans provided for projects serving Germany's special economic interests in bilateral relations, launched only at the request of the German chancellor. So far, these loans have been used for providing financial support for the withdrawal of Soviet troops from East Germany, and for supporting the Eurozone countries via the International Monetary Fund during the recent crisis.
10. Guarantees provided to eliminate fluctuations in interest rates, offered to contractors cooperating with German shipyards, and available since 2008. This was supposed to be a special form of assistance for debt-ridden shipyards, helping them to win new contracts and eliminating the burden associated with the costs of debt.
 11. Guarantees provided for the purposes of development cooperation, as a form of guarantees supporting major development aid projects. German companies can receive help in the form of payments to cover a part of the credit interests, or in the form of state-guaranteed loans.

In 2012 the German state provided entrepreneurs with export guarantees to the amount of €29 billion, making up 2.6% of German exports²¹. The guarantees are provided mainly to entrepreneurs entering new markets, in particular small and medium companies. Over 87.5% of the guarantees have been provided to companies which export goods to the emerging markets²². Of this sum, €715 million were provided to support the exports of goods in the sector of renewable sources of energy. According to analyses published by German research institutions, in 2000–2009 these guarantees made it possible to maintain some 141,000 jobs in the German economy, and in 2010 this number rose to 240,000 jobs²³. Around a quarter of these jobs were actually in the BRIC countries. The largest beneficiaries of this type of assistance have been the machine, chemical and electro-technical sectors, which have received 85% of the total support. Half of the support was granted to small and medium enterprises. In a survey, two-thirds of the companies interviewed de-

²¹ Exportkreditgarantien der Bundesrepublik Deutschland: Jahresbericht 2012, http://www.agaportal.de/pdf/berichte/jb_2012.pdf

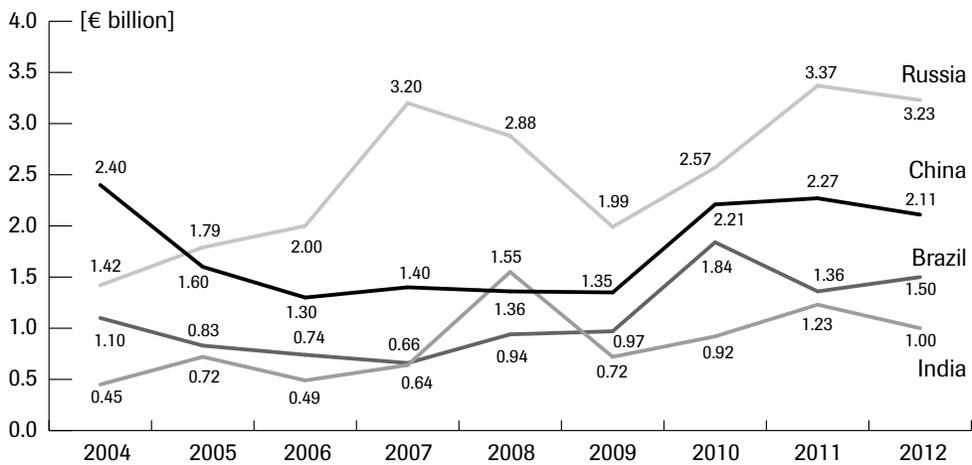
²² Investitionsgarantien der Bundesrepublik Deutschland – Direktinvestitionen Ausland: Jahresbericht 2011, http://www.agaportal.de/pdf/dia_ufk/berichte/dia_jb2011.pdf

²³ Beschäftigungseffekte der Exportgarantien der Bundesrepublik Deutschland, Ifo Institut, Monachium 2011, <http://www.bmwi.de/BMWi/Redaktion/PDF/Publikationen/hermesde-ckung-zusammenfassung,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf>

clared that they probably would have lost their contracts to other companies had they not received the guarantees.

The decision to provide the guarantees is taken by an inter-ministry committee composed of representatives of the Ministry of the Economy, the Ministry of Finance, the Ministry of Foreign Affairs and the Ministry of Economic Cooperation and Development (responsible for development aid). The committee can consult experts in specific fields, and the major role in the decision making process is played by the Ministry of the Economy.

Figure 2. Total value of export guarantees – the so-called Hermes covers – provided to German companies operating in the BRIC countries



Source: <http://www.agaportal.de>

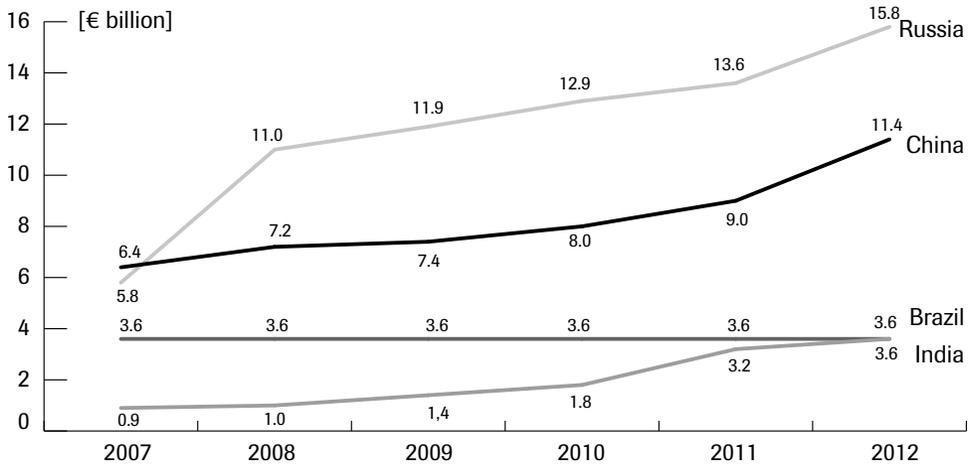
Recent years have seen the steady growth of the value of export guarantees in China, India and Brazil. In the case of Russia, a rapid decline of the value of guarantees in 2008–2009 was evident; however, this trend has been reversed in subsequent years. German companies operating in the BRIC countries are the largest beneficiaries of the German export guarantees. In the period 1991–2009, German companies operating on the Russian market received the largest portion of the support (export guarantees amounting to €26.5 billion), with companies on the Chinese market ranked second (€26.1 billion euros), companies on the Brazilian market ranked fourth (€16.4 billion euros), and those active on the Indian market eighth (€10.5 billion)²⁴.

²⁴ <http://www.60jahrehermesdeckungen.de/flash/top10laender.html>

In the case of export guarantees, these funds are usually used to secure large transactions, and in this way limit their risk and reduce the banks' costs of financing them. This is also a means of protecting small and medium companies against a potential loss of revenues which could make them go bankrupt. In Brazil, a large portion of the guarantee funds has been used to secure short-term receivables. In China, on the other hand, in 2011 most of them were used to warrant smaller transactions, some of which were made in the steel and paper industries. In 2011 in India, €219 million were spent to secure a transaction associated with a manufacturing plant expansion, and €209 million to equip steelworks. In 2011 in Russia, €586 million provided as guarantees were allocated to the sale of 54 German regional route trains, and €496 million to the supply of assembly lines for manufacturing plants.

Another important instrument supporting the expansion of German enterprises is investment guarantees aimed at helping companies to finance and secure those of its investment projects associated with political risk which is difficult to estimate. The procedure for providing investment guarantees resembles that of granting export guarantees, with one exception – a separate committee is responsible for it. **In 2012 Germany provided the German enterprises with new investment guarantees for 100 projects carried out in 44 states to a total amount of €6.1 billion, which has increased the overall value of German guarantees to €66.4 billion.** In this way, the overall sum of possible guarantee-related financial obligations of the state rose to €31 billion. To be able to put greater financial resources at the disposal of the companies, in 2012 the government increased the total value of guarantees from €40 billion to €50 billion.

Figure 3. Total value of guarantees provided for German direct investments in individual countries in specific years



Source: Investitionsgarantien der Bundesrepublik Deutschland, KfW Bank

The sum of the guarantees provided for investments carried out in Russia is the highest, which might suggest that the Russian market is perceived as the most risky, and that the state needs to encourage companies to invest on this market. The scale of the guarantees provided increased significantly in 2008, i.e. after the introduction of limits on German investments on this market in 2007. According to some experts, German banks are reluctant to finance any involvement of German companies on this market, due to the political risk which is difficult to estimate.

Germany is aware of the necessity to provide enterprises with assistance in times of crisis on the BRIC markets. In 2012 the largest number of the approved applications for support was filed by companies investing in China, Russia and India, and the largest sum of guarantees was granted to them. The guarantees are flexible, and have the potential to stabilise the companies' business activities, which is proved by the fact that at the beginning of the crisis in Europe 2008, around 85% of the guarantees were provided to the BRIC countries, accounting for an increase in the number of new guarantees of 124%. In 2010, in the period of the 'Arab Spring', however, 50% of the new guarantees were provided to African states, which meant an increase of 286% compared with the previous year.

II. GERMANY'S ECONOMIC RELATIONS WITH THE BRIC COUNTRIES

In recent years the German exports to the BRIC countries, China and India in particular, have been growing at an above-average rate compared with the European Union's foreign sales on these markets. **The years 2005-2012 in particular brought an accelerated growth of sales to the BRIC markets. In terms of imports, on the other hand, the growing importance of China and Russia has been observed.** This was reflected in the German trade balance. In the case of China it has deteriorated considerably. A negative trade balance has also been observed in the case of Russia. Germany has achieved a trade surplus in its economic relations with India, while trade with Brazil appeared to be balanced.

The development of the BRIC states has resulted in an increased interest by German companies in investing in these countries. Notably, there has been an evident surplus in the flow of capital from Germany compared with the reverse direction. Considerable dynamics in the flow of German capital has been observed, especially on the Chinese, Russian and Brazilian markets. The reverse capital flows have been much lower. Only Russia can be considered an important investor on the German market.

1. The growing importance of the emerging economies for the German economy

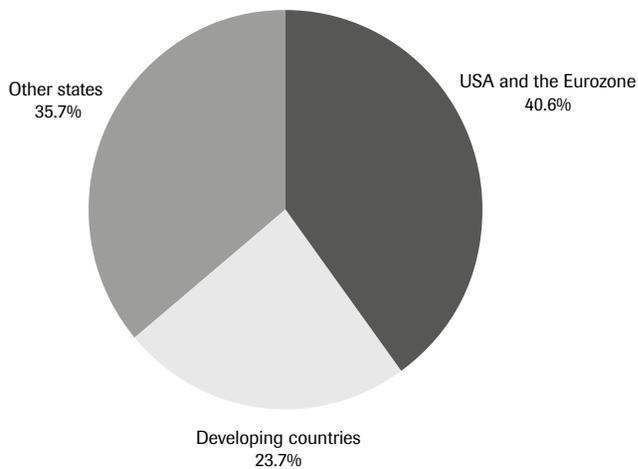
In the period preceding the crisis, the expansion of German companies on the emerging markets had already brought significant economic benefits, as the result of rapid economic growth in these countries, high oil prices and an investment boom, especially in Asia which had imported many investment goods (e.g. machines) from Germany. This was the reason why in 2010, 83% of the growth in the machine, automotive, electrical and chemical sectors was generated in the BRIC countries. In the period of crisis, exports to the developing countries diminished to a lesser degree than exports to developed countries. This was possible thanks to a healthy banking system in these countries, a more responsible economic policy, higher currency reserves and high raw material prices.

Almost a third of the growth in German exports in 2000-2007 were generated by increased sales on the emerging markets. In this period German exports to the emerging markets developed at an above-average rate. Exceptions to this rule included exports to countries such as Mexico, Brazil, Argentina, Singa-

pore, Hong Kong, Thailand, Indonesia and the Philippines²⁵. In 2005–2010 Germany’s total exports grew by 21%. In the same period, though, sales to the BRIC states rose five times faster – by as much as 107%²⁶.

Investment goods account for a large portion of German exports to the developing countries. Half of the growth in German exports of investment goods is generated by these countries²⁷. Germany has benefited from the rapid development in these states and their commitment to modernising their infrastructure and industrial base. This has been particularly favourable to the German electro-mechanical and chemical sectors. In addition, German automotive companies have experienced very dynamic growth in the BRIC countries.

Figure 4. The share of countries²⁸ characterised by different income levels in the global economy in 2011



Source: Next Eleven: die Zweite Reihe der Schwellenländer, *Handelsblatt*, 13 March 2012, p. 7

The crisis has confirmed the growing importance of the emerging economies for the global economy. In 2011 eight dynamically developing countries, Brazil,

²⁵ Deutsche Exporte: Wachstumstreiber Schwellenländer, IWD Nr 35, Informationsdienst des Instituts der deutschen Wirtschaft, 2010, p. 4.

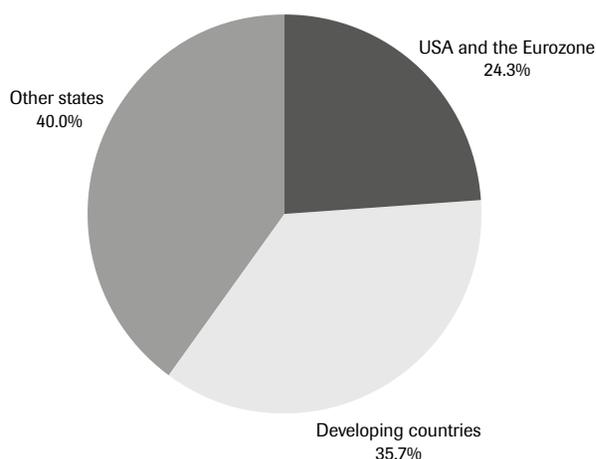
²⁶ BRIC-Staaten: Deutsche Firmen gut im Geschäft, IW Köln, Pressemitteilung No. 28/15, 2011, p. 1

²⁷ Deutsche Exporte: Wachstumstreiber Schwellenländer, *op. cit.*

²⁸ Developing countries include Brazil, Russia, India, Mexico, Vietnam, South Africa, Turkey and Indonesia.

Russia, India, Mexico, Vietnam, South Africa, Turkey and Indonesia, had a 24% share in the global industrial output. This proportion suggests that if Germany wants to maintain its large share in the global exports, it must continuously strengthen its presence on these markets.

Figure 5. The share of countries characterised by different income levels in the generation of global growth in 2011



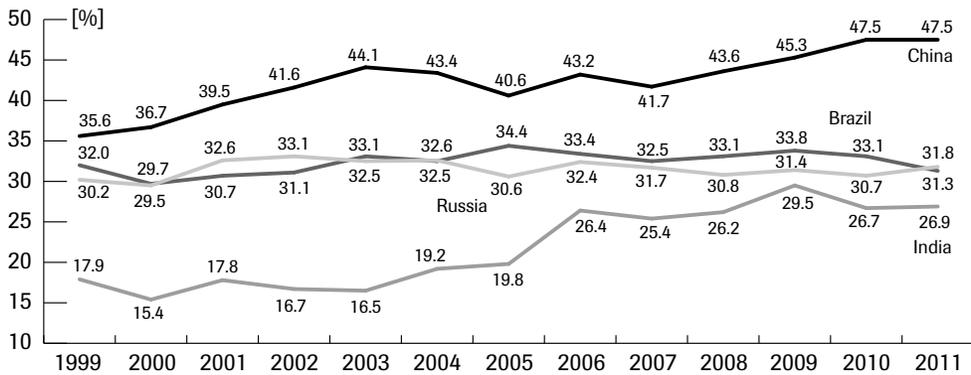
Source: Next Eleven: die Zweite Reihe der Schwellenländer, *Handelsblatt*, 13 March 2012

An even more important role is played by these countries in generating economic growth. In 2011 these countries' share in global production growth was 36%, and the proportion is expected to rise further. From Germany's point of view, this means that the country's involvement on these markets will guarantee a strong position for German producers in the future.

2. Germany's trade with the BRIC countries

Compared with the other EU states, Germany has had a strong position in the exports of goods to the BRIC countries. In 2011 German exports accounted for 27.6% of the total EU exports, whereas Germany's GDP makes up 20.5% of the EU economy. This makes Germany overrepresented in exports to the BRIC countries excluding India. The adoption of the euro has turned out to be positive for German exporters as it eliminated the competition among the Eurozone countries, which otherwise could have manipulated their currency exchange rates. In the past, Germany's European competitors were able to compensate for salary increases by weakening their currencies, which has become impossible in the common currency system.

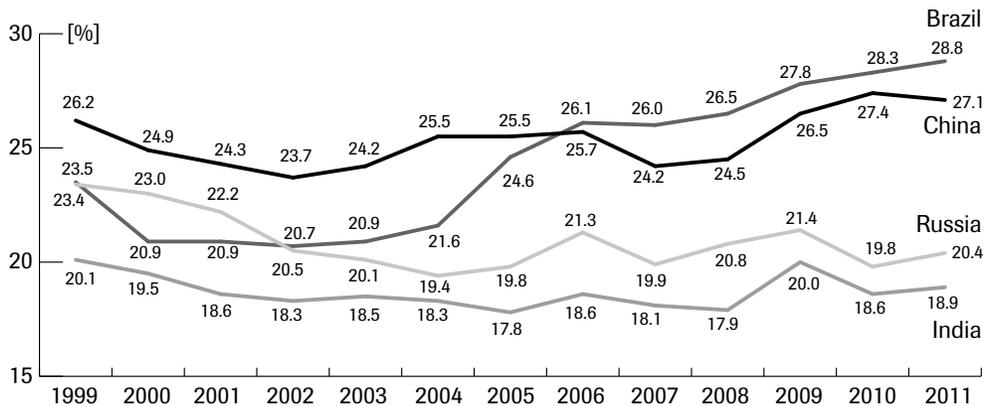
Figure 6. Germany's share in total EU exports to individual BRIC countries



Source: Federal Office for Statistics, Eurostat

A look at Germany's share in the total exports to the BRIC countries in 1999–2011 reveal that since the adoption of the common currency, German exports have risen considerably compared with the other EU states, especially on the Chinese and Brazilian markets. **Germany has managed to increase its share in the EU foreign sales on the Chinese market from 35.6% to 47.5%, and on the Indian market from 17.9% to 26.9%. Interestingly, various political initiatives focused on cooperation with Russia carried out in the last decade, such as the partnership for modernisation, have not led to any significant improvement in the situation of the German exporters compared with those from other EU states, and Germany's share in the EU's exports to Russia increased only slightly, from 30.2% to 31.8%. The worst dynamics of Germany's exports share were observed on the Brazilian market, where it fell slightly from 32% to 31.3%.**

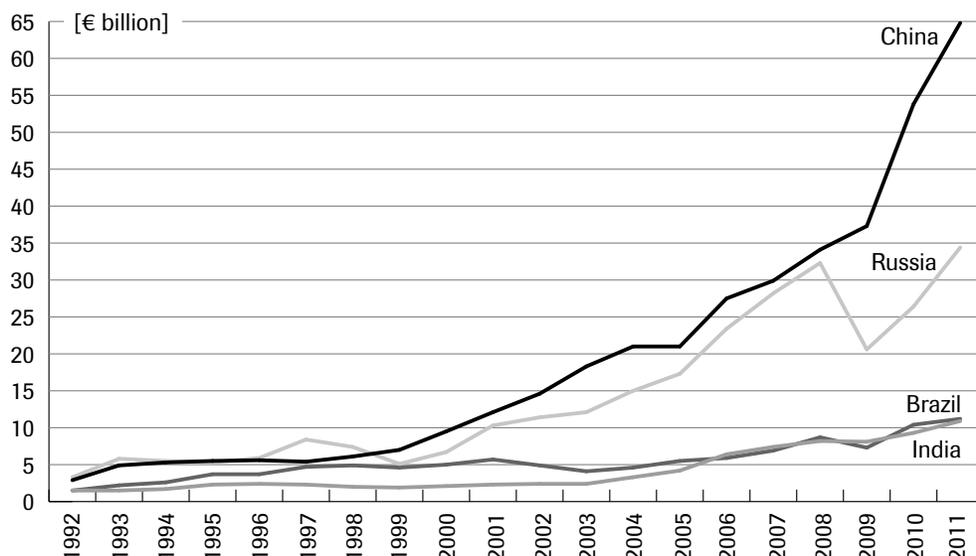
Figure 7. Germany's share in the EU imports from individual BRIC countries



Source: Federal Office for Statistics, Eurostat

Germany's stronger position in EU exports to the BRIC countries has not been reflected in similar changes in the import figures. Compared with the EU average, a more dynamic growth of imports is noticeable only in the case of Brazil. In spite of the significant growth in Germany's exports to China, there has been no increase in Germany's share of EU imports from China.

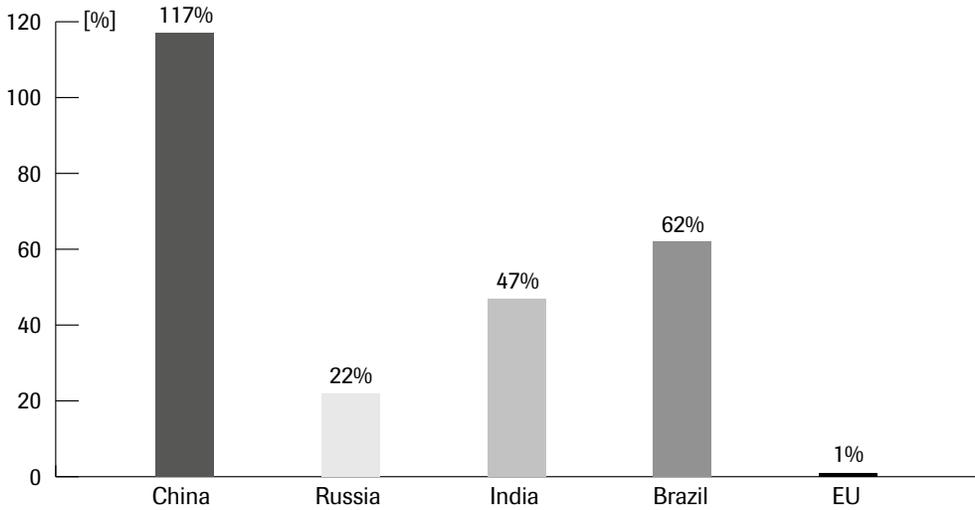
Figure 8. Germany's exports to the BRIC countries



Source: Federal Office for Statistics

Germany's exports to the BRIC countries have been rising dynamically, but the speed of this process has not been identical on all these markets. Russia and China are particularly interesting, as in recent years they have become increasingly important markets for the sales of German goods. However, it should be remembered that Germany's exports to China has been exceptionally good, compared with the entire EU exports, but the exports of German goods to the Russian market has been characterised by average performance. The period of the economic crisis has brought entirely different trends: in 2009 an acceleration of Germany's exports to the Chinese market was observed, while the Russian market experienced a rapid decline, although German exporters managed to overcome it by as late as 2011. This was caused by the stronger dependence of Russia, compared with the other BRIC countries, on the exports of raw materials and the economic situation in the EU. Germany's exports to India and Brazil have been developing at a similar, stable pace, especially since 2005. Exports to Brazil accelerated in 2003 after years of stagnation, while the figures reflecting exports to India rose gradually in the last decade, with a certain acceleration of growth in the last few years.

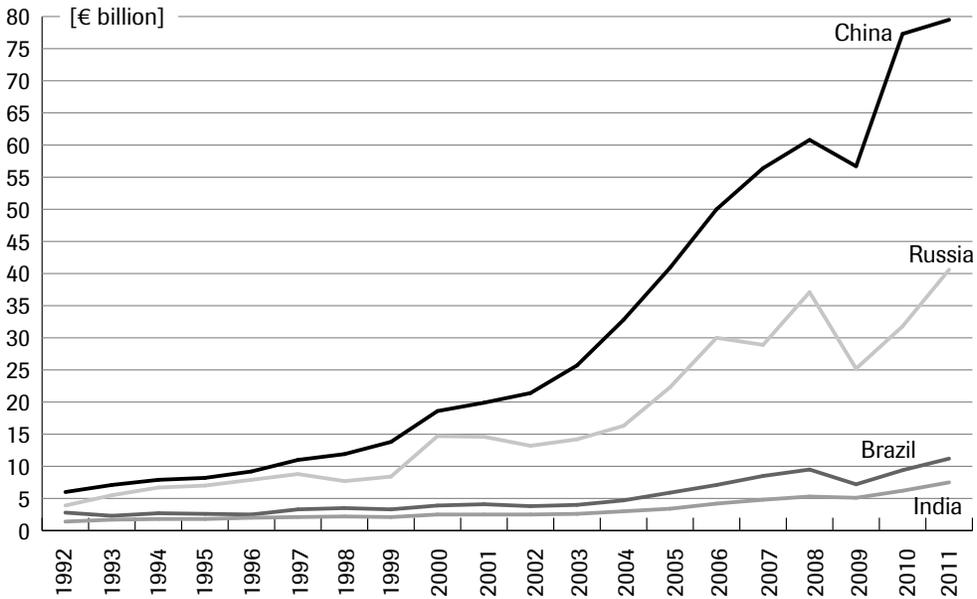
Figure 9. Germany's export dynamics on selected markets in 2007–2011



Source: Federal Office for Statistics

An analysis of the growth rate observed in the largest countries in the group of emerging economies shows that in 2007–2011 there was a massive growth of sales on these markets. German exporters have noted a two-fold increase in their sales to China, and an around 50% increase in the sales achieved in Brazil and India. Exports to Russia rose at a slower pace due to the greater impact of the global slowdown in that country. Compared with the figures for the BRIC countries, the EU market has experienced stagnation.

Figure 10. Germany's imports from the BRIC countries

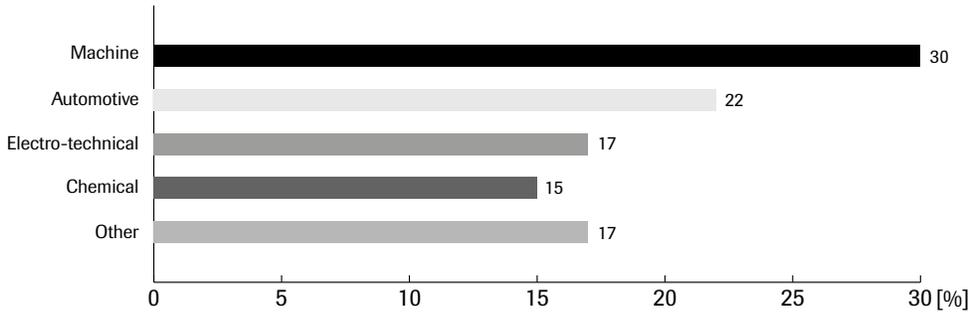


Source: Federal Office for Statistics

German imports are characterised by similar tendencies to its exports. A dynamic growth in imports from China has been observed. The growth was only negative in 2009, during the most serious economic slowdown in Germany since the end of World War II. Also in the case of Russia, the import figures grew dynamically in the last decade, although since 2006 the pace of growth has been subject to greater fluctuations. Imports from India and Brazil have been growing slowly, but still their volume is much lower than in the case of Russia and China.

From the German point of view, what all BRIC countries have in common is their large investment potential resulting from their need to modernise their economies. This in turn generates demand for investment goods, which are the flagship products of the German economy.

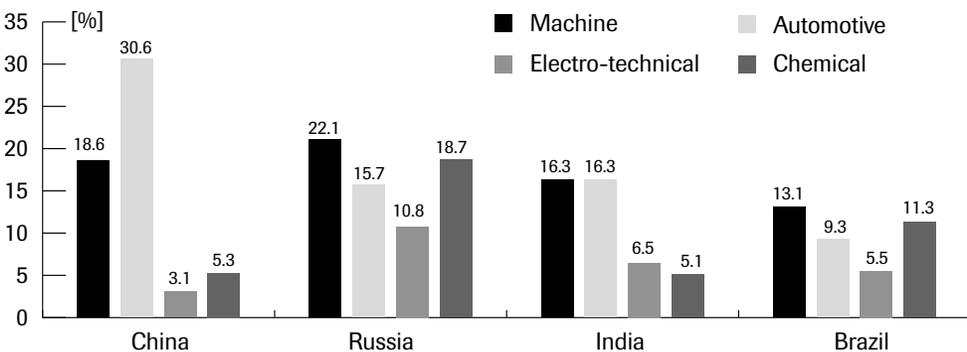
Figure 11. Structure of Germany's exports to the BRIC countries



Source: Ch. Römer, Marktposition der deutschen Wirtschaft in den BRIC-Staaten, IW-Köln Trends, No. 3/2011, p. 9

The structure of German exports to the BRIC countries seems to confirm this thesis. The major role is played by the traditional branches of the German export, i.e. the machine, automotive, electro-technical and chemical industries. Each of these industries (apart from the chemical) accounts for a higher value of the exported goods than the exports of goods produced by industrial sectors other than the ‘big four’. For this type of company, entering the emerging markets became unavoidable, as investment demand had stagnated in the old EU countries due to the much weaker needs for infrastructure modernisation. Moreover, the dynamic economic growth in the BRIC countries has in a way forced these companies to expand onto foreign markets, and many of them, in order to remain global leaders, have had to move to new markets which are increasingly promising in the global perspective. Pressure on the part of large corporations was the third element. In Germany there exists a network of very strong relations between companies promoting long-term partnerships. This is why the expansion of large German corporations onto the emerging markets forced smaller suppliers to follow their customers, otherwise they would have lost some of their major sources of income.

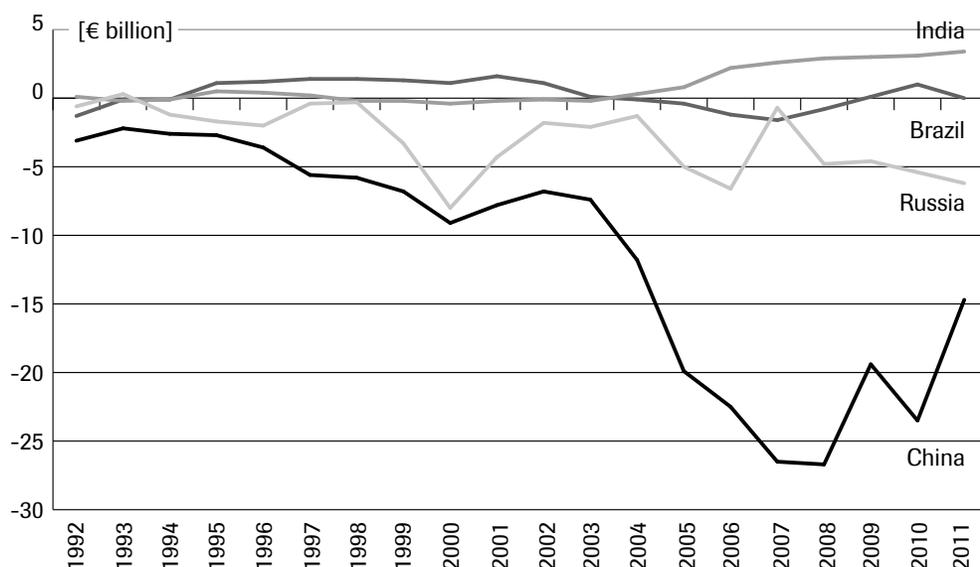
Figure 12. The share of German products in the BRIC countries' imports



Source: Ch. Römer, Marktposition der deutschen Wirtschaft in den BRIC-Staaten, IW-Köln Trends, No. 3/2011, p. 9

A comparison of the share of the four major branches of the German industry in the BRIC countries' imports shows that the main source of Germany's success is the strong position of its automotive and machine industries. In the case of China, the German automotive industry provides 30% of vehicles imported to this country, whereas in the remaining BRIC countries Germany delivers 10–20% of the total imports. A similar role is played by the machine industry, which accounts for 15–20% of the machines these countries import. Notably, the machine industry is important for Brazil, which imports fewer German goods in the other import categories. The electro-technical industry has a large share of Russian imports, and accounts for a significant portion of this type of goods imported by India and Brazil. The chemical industry is of major importance for the volume of goods imported by Russia and Brazil.

Figure 13. Germany's trade balance in relation to the BRIC countries



Source: Federal Office for Statistics

An analysis of Germany's trade balance with the BRIC countries brings interesting conclusions. In the case of China and Russia, Germany's trade balance is negative. **China is an important producer and supplier of sub-assemblies to Germany. Goods manufactured in China are frequently transported to Germany, where they become components of high-technology products.** Another reason is China's strategy of subsidising exports and maintaining low production costs. During the crisis, however, China came in for criticism, especially by the United States, for artificially supporting its exports. Therefore in the future Beijing may be forced to change its economic development model, which is currently based on low wages. This will probably contribute to a lev-

elling of Germany's trade balance with China, as suggested by the significant increase in German exports to China and a certain stabilisation of Chinese imports onto the German market.

Russia is also playing an important role in Germany's economic model; it is a guarantor of supplies of raw materials to Germany. German politicians and enterprises consider Russia a country which is more closely related to Germany in cultural and political terms, and can offer safer supplies of raw materials than the countries located in the Middle East or North Africa, which are characterised by high political risk. This is why there is a significant surplus in Russia's trade with Germany.

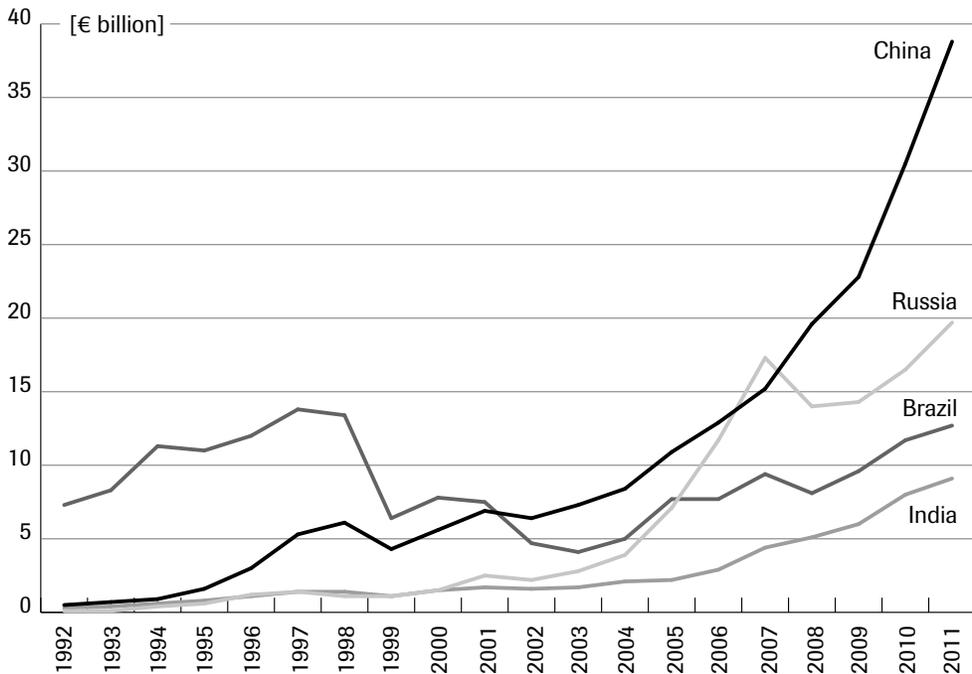
Germany's negative trade balance with Russia has inspired German politicians to propagate the idea of partnership for modernisation. Its official aim was to supply technologies to Russia to modernise its economy in exchange for greater stabilisation of the business environment and an opening-up of the market to investors by introducing simplified procedures for investments carried out by small and medium enterprises; the protection of intellectual property; greater scope for unification of technical standards; and the development of a low-emission economy. In fact, all these aims could bring benefits to German companies and contribute to a reduction of the deficit in Germany's trade with Russia.

Brazil and India purchase more goods from Germany than they sell in Germany, which means there is a surplus in Germany's trade with these countries. What is notable is the reversal of this trend; until 2004 Germany maintained a balance of exports and imports in its trade relations with India, which in recent years has begun to shift towards a proportion that is more positive for Germany. In the case of Germany's trade exchange with Brazil, there are no clear conclusions, as the trends reversed after years of trade surplus, and today seem to be regaining balance.

3. The balance of Germany's direct foreign investments with the BRIC countries

Germany is an important supplier of capital to the BRIC states. This cooperation is asymmetrical because none of these countries is able to balance the German investments by a similar scale of capital flows in the opposite direction. German companies are significant investors which create jobs and supply high-quality, technologically advanced products.

Figure 14. Accumulated German direct investments in the BRIC countries

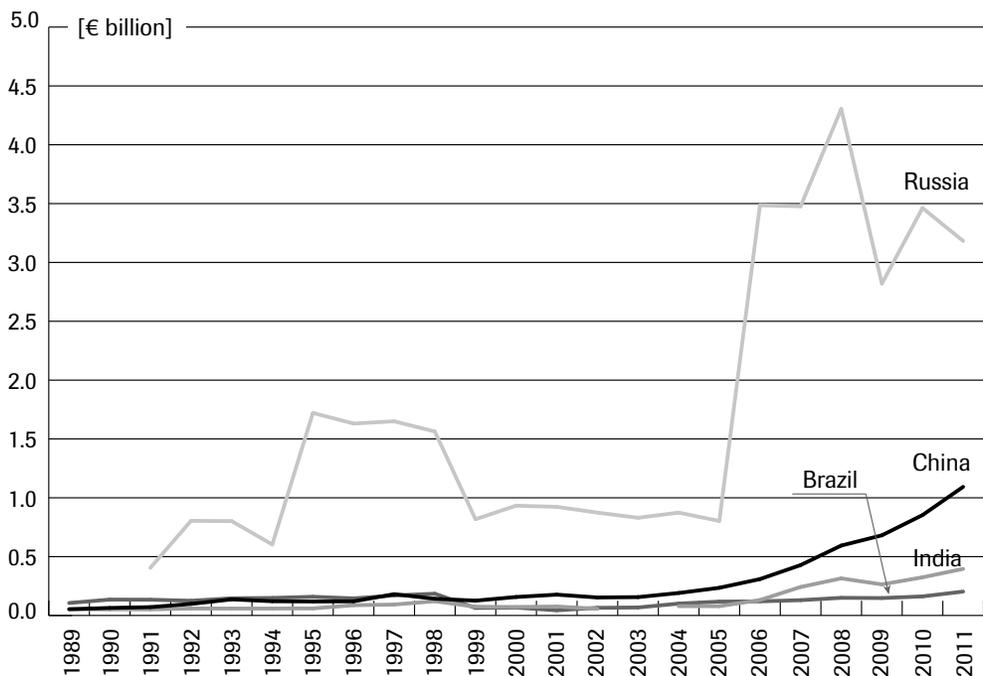


Source: Bundesbank

The flow of German investments to the BRIC countries is subject to different trends than foreign trade. **From the German point of view, the BRIC countries are an attractive area to locate investments in due to their large populations, absorbent markets, rapid economic growth and growing purchasing power.** China used to systematically receive larger amounts of German capital. This tendency rose sharply in 2002 and continued to rise in the following years, with the exception of 2011. For some time, the dynamics of the inflow of German investments to the Russian market was similar to that observed on the Chinese market. In the case of Russia the critical year was 2007, when the global financial crisis broke out. It is evident that German investors could have feared a decline on the Russian market, similar to that

which happened during the Asian crisis in the late 1990s. Russia's war with Georgia and the subsequent poor performance of the Russian economy made it impossible to regain the trust of German investors, despite the partnership for modernisation project promoted by Germany. In the 1990s Germany invested much more in Brazil than in the other BRIC countries. In 1997–2003 the scale of the investments began to be limited due to the reduction of privatisation programmes as well as the crisis in Asia and South America in the late 1990s²⁹. In later years the investments began to rise again, and it is estimated that they may now exceed the scale of Germany's involvement in Russia, especially in the context of the expected contracts for the construction of sports facilities planned to be built in Brazil in connection with the 2014 World Football Championships and the 2016 Olympics. Germany's investments in India have been growing very slightly for many years. Their growth accelerated in 2006, which can be attributed to the expectations of rapid economic development of India in the years to come.

Figure 15. Accumulated investments of individual BRIC countries in Germany³⁰



Source: Bundesbank

²⁹ Deutsche Direktinvestitionen in Entwicklungs- und Reformländern am Beispiel der BRIC-Länder, http://www.agaportal.de/pdf/dia_ufk/presse/dia_exkurs_bric.pdf, p. 1.

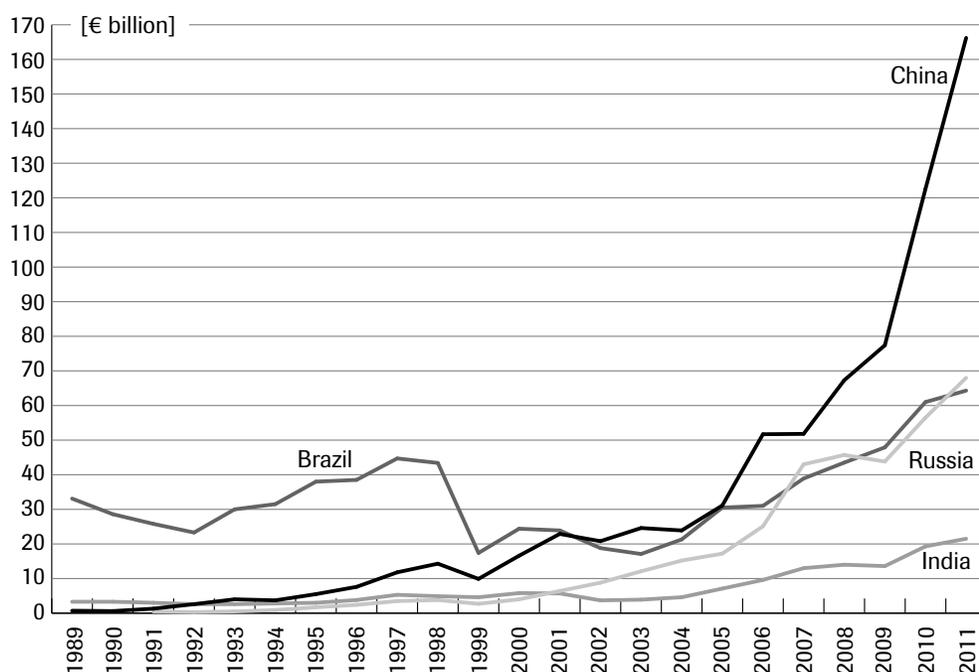
³⁰ No data is available for India's direct investments in Germany before 2006.

An analysis of capital flows from the BRIC countries to Germany shows that these countries are unable to balance the capital which they receive from Germany with similar investments on the German market. These countries' distant geographical location reduces their interest in investing in Germany. In this context Russia can be seen as an exception, as it has considerably increased the scale of its investments in Germany (especially since 2005), and in this category holds the status of a leader in the BRIC group.

4. Recent expansion of German companies on the BRIC markets

A brief consideration of German companies' sales figures, employment indicators and the number of German companies operating in the BRIC countries reveals that the role of these states has increased very rapidly, which is particularly evident in the cases of China, Russia and Brazil.

Figure 16. Turnover of German companies in the BRIC countries

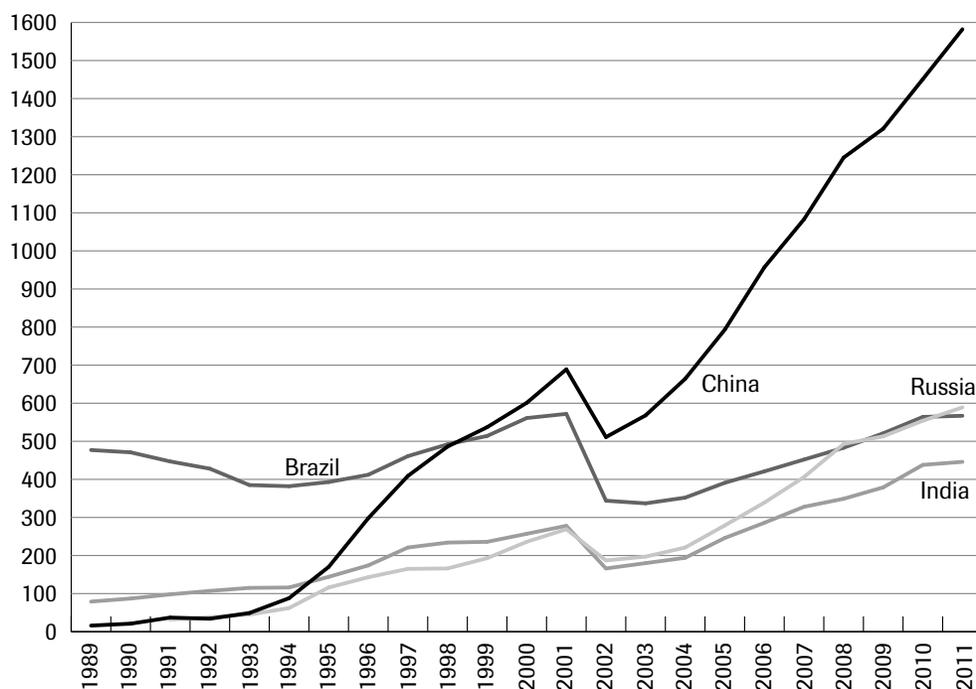


Source: Bundesbank

Data compiled by the Bundesbank shows that in recent years the turnover of German companies has risen sharply in almost all BRIC countries. The success of the German businesses on the Chinese market is particularly worth noting. In 2004–2010, German companies' turnover increased three-fold to reach €120.4 billion. German companies operating in Russia and Brazil have also ex-

perienced dynamic growth, albeit not as spectacular as that observed in China. In 2010 their turnover in Russia rose to €54.7 billion, and in Brazil to €58.3 billion. The situation on the Indian market was more stable; in 2010 German companies operating in India sold goods worth €18.6 billion.

Figure 17. Number of German companies operating in the BRIC countries³¹

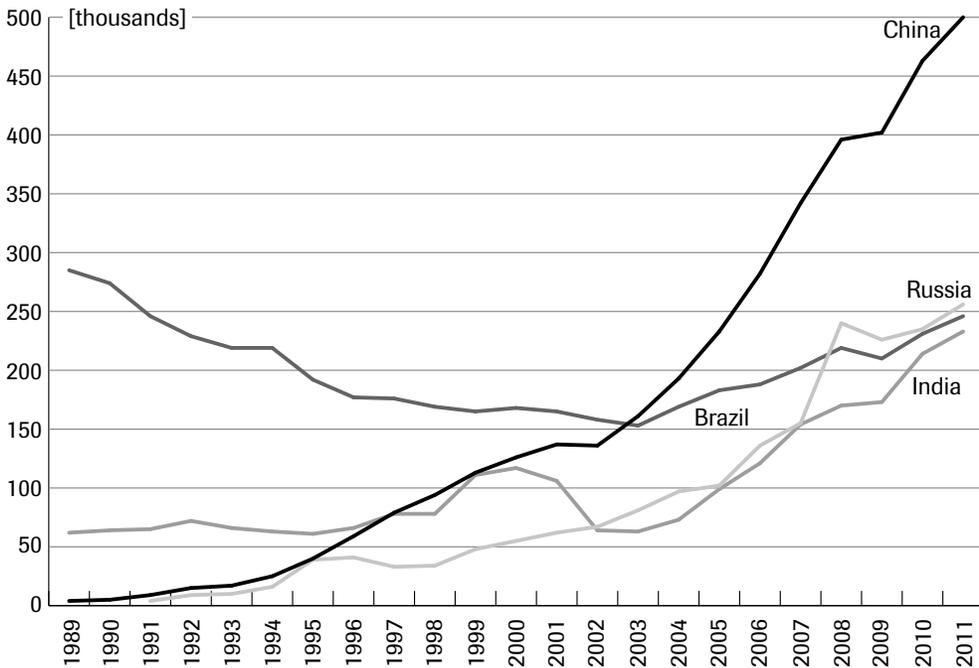


Source: Bundesbank

An analysis of figures concerning the number of German companies operating in the BRIC markets seems to suggest similar changes. The most dynamic increase was observed in the number of companies conducting business in China – up to 1582 in 2011, and amounted to around 500 in the remaining countries. The most dynamic expansion has been observed on the Russian and Indian markets.

³¹ The data relates to companies with a minimum turnover of €2 million and owned by German investors in at least 10%. The data excludes a portion of companies carrying out investments in China.

Figure 18. Number of workers employed in the BRIC countries³²



Source: Bundesbank

Almost identical trends may be observed in relation to employment figures, which rose at the fastest pace in China, to reach 500,000 employees. In Russia the number of individuals employed with businesses owned by German investors in at least 10% rose to 246,000, in India to 214,000 and in Brazil to 233,000.

In the future we can expect various trends to emerge in relation to employment. On the one hand, protectionist tendencies might gain importance in the dynamically developing countries as a result of the financial crisis, which would be likely to limit Germany's expansion onto these markets. German manufacturing activities carried out there could also be threatened by the dynamically rising labour costs. On the other hand, however, Germany may expand its activities and change the structure of its investments in these countries. If this is the case, German companies could limit the growth of production on these markets, and increase the scale of their investments focused on research and development. Investment plans announced by Germany's largest chemical concern BASF can be seen as a harbinger of the latter scenario. In

³² Data relates to companies with annual turnover of at least €2 million euros, owned at least in 10% by German investors. The data does not include employment figures relating to German manufacturing plants on the territories of these countries, which are much higher.

March 2012 BASF announced that it would increase the share of its outlays for research and development in the developing states from 24% to 50% by 2020³³. It also plans to build an innovation campus in Shanghai.

4.1. China

During just one decade, between 2001 and 2011, the trade exchange between the two countries increased by 430%, whereas the volume of trade between China and the EU increased by 380%³⁴. China sees Germany as its most important economic partner in Europe, and similarly Germany considers China its most significant partner in Asia (the fifth most important export market in 2012), and the trade exchange between these two states has been developing very dynamically. According to the Unicredit bank, in 2011 Germany's exports to China accounted for 0.5% of its economic growth³⁵. Germany is the country of origin of half of EU exports to China, and one quarter of Chinese exports to the EU goes to Germany³⁶.

Just as in the case of other BRIC states, in China German companies sell mainly machines, devices, chemical products and automotive parts. For Germany, the Chinese market still looks promising because of the plans China has announced to change the structure of the country's economy. For many years the Middle Kingdom has been accused of excessive dependence on exports; in the context of stagnation in the developed economies, it will have to place greater emphasis on the domestic market. This is why Germany can expect increased demand from Chinese consumers for vehicles, energy generation installations, environmental protection solutions and devices used in healthcare. Germany values its imports from China highly, as it enables them to purchase goods at a low price and thus curb inflation. In Germany's trade relations with China, the expansion of small and medium companies on the Chinese market is par-

³³ S. Hoffman, BASF globalisiert die Forschung, *Handelsblatt*, 30.03.2012, p. 20.

³⁴ Deutsch-Chinesische Wirtschaftsbeziehungen: Eine strategische Partnerschaft zum beiderseitigen Nutzen: Monatsbericht 9/2012, Bundesministerium für Wirtschaft und Technologie, <http://www.bmwi.de/Dateien/BMWi/PDF/Monatsbericht/Auszuege/09-2012-I-4,-property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf>, p. 1

³⁵ Deutsch-Chinesische Wirtschaftsbeziehungen: Eine strategische Partnerschaft zum beiderseitigen Nutzen: Monatsbericht 9/2012, Bundesministerium für Wirtschaft und Technologie, <http://www.bmwi.de/Dateien/BMWi/PDF/Monatsbericht/Auszuege/09-2012-I-4,-property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf>, p. 2.

³⁶ H. Kundnani, J. Parello-Plesner, China and Germany: Why the emerging special relationship matters for Europe, *ECFR Policy Briefs*, 2012, p. 1.

ticularly positive; it contributes to a balanced increase in the two states' trade exchange, and reduces the risk of major fluctuations associated with the procedures of signing contracts with state institutions.

The total number of German companies operating in China is around 5000³⁷. According to surveys which covered German entrepreneurs conducting business in China³⁸, the current number of German business initiatives is estimated at 4500, a major part of which (60%) were launched in the last decade. This was possible because a large number of small and medium companies have entered the Chinese market, following their major customers, and paved the way for others. Many German companies not only sell their goods on the Chinese market, but also expand and modernise their manufacturing plants located there, which has increased Chinese input in the end products manufactured by German companies to 50%. There are relatively few German companies which invest in China in order to export their products later on. The average share of exports in the total sales is around 28%. So, China's contribution to manufacturing activities carried out in Germany is insignificant, even including the supplies of sub-assemblies. China's WTO membership has proved favourable to German companies operating in China, leading to a considerable reduction of non-tariff barriers to trade. Actions launched by the Chinese government to combat corruption have also been assessed as positive, even though the problem of corruption remains a major barrier to business activity in China.

German companies prefer to establish their own branches instead of starting joint venture initiatives. In this way they intend to maintain full control over the business technology and know-how, possible decisions to leave the market, and the division of profits. Germany fears conflicts with their Chinese partners, limitations in decision-making, and the risk of technology leakage. The decision to start a joint venture partnership on the Chinese market is often motivated by political factors and hopes for a stronger support for this type of companies by the authorities and local administration, as well as by the need to limit the possible losses in case of a business failure.

³⁷ http://www.auswaertiges-amt.de/sid_2C6BB9502BB68DFB9F24F270313C3684/DE/Aussenpolitik/Laender/Laenderinfos/China/Bilateral_node.html

³⁸ German Business Expansion in China 2008–2010, Results of a Survey Conducted among German Operations in China Focussing on Market Potential Barriers to Doing Business and Future Business Outlook, http://www2.china.ahk.de/download/pub/sample_German-BusinessStudy.pdf

Germany's largest automotive, chemical and transportation concerns, such as Volkswagen, Siemens, BASF, Daimler and Bayer, are operating in China. As part of this mutually positive cooperation, German corporations have received orders for the construction of major infrastructural projects in China, such as subway lines and sub-assemblies for nuclear power plants. For instance, China purchased a license to construct a nuclear reactor from Germany in 2009. In the period preceding the announcement of the German energy transformation plans in 2011, Siemens had been active in China; it had already established a joint venture company designing nuclear reactors. Since 2011 Germany has been implementing an ambitious plan to phase out nuclear energy and expand renewable energy installations at the same time³⁹. Fearing a loss of face on the German market, Siemens promised to abandon its activities in the nuclear sector worldwide, although it cannot be ruled out that it will continue delivering components to Chinese nuclear power plants. The supply contracts are also attractive to smaller German producers, which for instance sell nuclear fuel production devices or construct nuclear reactor cooling towers⁴⁰.

In China Germany has benefited from the high recognisability of German brands and their good reputation. According to a survey commissioned in 2012 by the Globeone agency, 77% of middle-class respondents appreciate German brands and consider their quality superior to products manufactured in China, Japan and even the USA. It has been found that consumers do recognise individual brands, but are not always aware that they are German brands. The best known German brands are BMW, Audi, Mercedes, Siemens, Adidas and Bayer⁴¹.

Recently China has tried to level the asymmetrical balance of its trade relations with Germany. According to data compiled by the German agency Germany Trade & Invest, in the last couple of years China has become one of the most significant new investors in Germany, even though the accumulated scale of the investments is still small. In 2011, 160 Chinese entrepreneurs decided to expand their business to Germany. The second largest investor was the USA,

³⁹ K. Popławski, Kontekst Gospodarczo-Energetyczny w Niemieccką transformacją energetyczną: Trudne początki, A. Kwiatkowska-Drożdż (red.), Ośrodek Studiów Wschodnich, Warszawa 2012, p. 33.

⁴⁰ <http://www.world-nuclear.org/info/Country-Profiles/Countries-A-F/China--Nuclear-Power/#.UbBvY5yyxuM>

⁴¹ Chinesen mögen deutsche Marken, Finn Mayer-Kuckuk, *Handelsblatt*, 15 March 2012, p. 24.

with 110 companies opening their branches in Germany⁴². China's investments in Germany are still much smaller, amounting to €1.3 billion in April 2011. Also the number of Chinese companies operating on the German market (900) is much lower than the number of German companies in China. **China is interested mainly in German technologies, and so far it has been waiting for a good moment to purchase companies from the automotive, computer, financial and renewable energy sectors.** In the period preceding the 2009 crisis surge, the Chinese concern Sany invested €100 million in Germany with the aim of establishing a research and development centre there. Chinese companies have treated the crisis as an opportunity to purchase German companies active in the sectors they were interested in, and the estimated value of German companies fell considerably. In 2011 Lenovo, China's largest manufacturer of digital devices, announced its acquisition of the German electronics producer Medion. In the same year Chinese concerns acquired two sub-contractors of the automotive companies Saargummi and Preh. In January 2012 Sany announced its decision to acquire the German pump producer Putzmeister in a transaction worth €360 million⁴³. This came as a shock to German public opinion because Putzmeister had been considered an example of a traditional German business, a small family-owned company known as a leader in its specialist market niche. Soon after that Sany announced further acquisition plans in Germany. In 2012 a group of Chinese companies announced their acquisitions of German businesses from the solar energy sector in which (as a result of German government subsidy cuts) many companies have gone bankrupt. German companies were among the main critics of the expansion of Chinese solar energy businesses, claiming that by using price dumping, the Chinese have pushed German producers out of the European market. In consequence, the European Commission has imposed duties on Chinese solar installations whose annual sales on the EU market has exceeded €20 billion. The German government has officially criticised this step, fearing China's retaliation. In the end, the European Commission and China reached a consensus and agreed to set a minimum price for solar modules: 56 cents per watt of energy. Chinese companies could either join the agreement or accept a 37.2–67.9% duty on their products.

⁴² <http://www.spiegel.de/wirtschaft/unternehmen/0,1518,821535,00.html>

⁴³ C. Bryant, Chinese Sany to acquire Putzmeister, *Financial Times*, 30 January 2012, <http://www.ft.com/intl/cms/s/0/7aecadoa-4a5e-11e1-a11e-00144feabdco.html#axzz22NnV2Rp7>

4.2. Russia

After a decline of 38% in trade exchange between Germany and Russia in 2009, in 2010–2011 a rapid development of trade relations was observed. In that period German companies exported goods worth €34.5 billion to this country (an increase of 31%), and purchased Russian goods worth €40.9 billion (an increase of 28%). As in previous years, there was a deficit in Germany's trade relations with Russia, this time amounting to €6.1 billion. Germany is no longer Russia's biggest trade partner; it is currently ranked second, after China. Reports compiled by German exporter organisations claim that China is becoming an increasingly serious competitor to Germany on the Russian market⁴⁴. Russia is the 7th largest exporter to Germany and the 12th biggest purchaser of German goods. The main portion of Germany's exports to Russia are investment products such as machines (22.7%), vehicles (22.1%), electro-technical devices (6.9%) and foodstuffs (4.9%). This kind of export structure means that German companies have become important suppliers of technologies to Russia, which is particularly significant to this country in the context of the persistently low technical quality of Russian industrial output in the sectors in which German products are valued worldwide.

Above all, Russia is a very important supplier of raw materials to the German market. In 2011 oil accounted for 53.6% of goods delivered to Germany, natural gas 27.9%, metals 9.4%, and iron & steel 2.1%⁴⁵. Currently Germany expects the importance of the Russian gas to grow in connection with the energy transformation initiative currently underway in Germany. Gas power stations are considered a good way of stabilising the German energy system, which is characterised by the growing share of renewable sources of energy. So far, the rather non-competitive price of the Russian gas compared with other fuels has hindered such tendencies. It cannot be ruled out that the federal government will have to reconsider its strategy of energy transformation, which currently calls for an increase in the capacity of gas power stations by up to 20% by 2023⁴⁶.

Around 6500 German companies operate in Russia. According to estimates by the Eastern Committee of the German Industry Association, close to 300,000

⁴⁴ http://russland.ahk.de/fileadmin/ahk_russland/Dokumente/Publikationen/Jahresberichte/2011/AHK-JB11-web.pdf, p. 9.

⁴⁵ http://www.gcme.de/files/RCEG_GER.pdf, p. 32

⁴⁶ K. Popławski, *Kontekst Gospodarczo-Energetyczny...*, *op. cit.* http://www.osw.waw.pl/sites/default/files/Niemiecka_transformacja_energetyczna_trudne_poczatki.pdf

jobs in Germany are related to the country's trade exchange with Russia⁴⁷. In 2011 accumulated German investments in Russia amounted to €22.2 billion, of which €8.8 billion were direct investments. With these figures Germany ranks fourth on the list of foreign investors on the Russian market, after the Netherlands, Cyprus and Luxembourg. German investments have mainly been channelled into the food-processing industry (US\$5.1 billion, 12.4% of all investments in this sector), the metallurgical sector (US\$2.4 billion, 25.9% of all investments in this sector), and the mining industry (US\$2 billion, 10.9% of all investments in this sector)⁴⁸.

4.3. India

The European Union is India's important trade partner, with a volume of trade exchange similar to that between India and the USA. Germany is India's most important partner in the EU. In 2010 Germany's share in the overall EU exports was 27%, and the German imports accounted for 18% of total EU imports⁴⁹. In 2010 German exports to India amounted to €8.2 billion, and sales of machines and devices accounted for 31% of the total export volume. Chemical products were ranked second, their share in the exports to India being 13%, and electronic goods were ranked third with a share of 10%⁵⁰. India exported goods worth €6.2 billion to Germany, with textiles accounting for 24% of the total export volume, chemical and electronic products 9.5% each, and machines 6.7%⁵¹.

Around 1800 German companies operate in India and 240 Indian companies are active in Germany⁵². German companies employ almost 300,000 individuals in India, and 57% of the German investments are located in Maharashtra state. In late 2008 Germany was considered one of the largest investors active in India, carrying out investments worth €4.3 billion. Around the same period, India's investments in Germany were worth €300 million. Large German pro-

⁴⁷ <http://www.ost-ausschuss.de/russland>

⁴⁸ Russland 2011: Zwischen Aufbruch und Wirklichkeit: Jahresbericht der Deutsch-Russischen Auslandshandelskammer, 2011, http://russland.ahk.de/fileadmin/ahk_russland/Dokumente/Publikationen/Jahresberichte/2011/AHK-JB11-web.pdf

⁴⁹ http://www.india.diplo.de/contentblob/3420030/Daten/2221219/Wirtschaftsdaten_2011_download.pdf

⁵⁰ http://www.india.diplo.de/Vertretung/indien/en/10__Economy/bilateral/Germany__Export__to__India.html

⁵¹ http://www.india.diplo.de/Vertretung/indien/en/10__Economy/bilateral/India__Exports__to__Germany.html

⁵² Ch. Wagner, Die deutsch-indischen Beziehungen, *Note du Cerfa*, Nr. 84, 2011, p. 5.

duction companies have launched cooperation with Indian businesses. Corporations such as Bosch, BASF, Continental and Freudenburg collaborated with Tata Motors on the construction of the Nano car; other major German companies such as SAP and Siemens have also carried out investments on the Indian market. German automotive concerns expect a dynamic growth of the car market in India, which has encouraged companies such as Volkswagen, BMW and Mercedes-Benz to open manufacturing plants there.

It is worth noting that **the largest German investments in recent years have been made in the service sector (including the insurance business), and the traditional German industrial sectors such as automotive and construction sectors have been less popular**⁵³. Germany considers the Indian market particularly interesting for pharmaceutical companies because of the exceptionally large size of its well-educated workforce, and for energy companies due to the still underdeveloped energy infrastructure.

4.4. Brazil

Relations between Germany and Brazil have a long history. Germany launched its cooperation with this country after World War II, and in the 1950s the first agreements facilitating trade exchange and investment activities were signed⁵⁴. Germany is one of a group of countries which laid the foundations for the automotive industry in South America's largest country, which is why many Brazilians still consider some German car makes as domestic⁵⁵. German companies are able to compete on this market thanks to the high recognisability and quality of its products. Germany appreciates the growing importance of Brazil not only as a location of manufacturing activities but also as an increasingly significant sales market.

In 2011 Germany was the fourth largest exporter onto the Brazilian market (6.7% of Brazil's imports) and the sixth largest importer of goods from Brazil (3.5% of total Brazil's exports)⁵⁶. This has enabled Germany to maintain its

⁵³ <http://www.india.diplo.de/Vertretung/indien/de/05/Direktinvestitionen.html>

⁵⁴ http://www.brasil.diplo.de/Vertretung/brasilien/de/07__Aussenpolitik/Bilaterale__Vertraege/Bilaterale__Vertraege.html

⁵⁵ J. von Dungen, *Vom Freund zum Partner: Die deutsch-brasilianischen Kulturbeziehungen im Wandel*, Stuttgart 2013, http://www.ifa.de/fileadmin/pdf/edition/brasilien_von-dungen.pdf

⁵⁶ http://www.gtai.de/GTAI/Content/DE/Trade/Fachdaten/MKT/2008/07/mkt20080755-5590_159460.pdf

trade surplus and continue to export its products to Brazil, mainly vehicles (13.5%), chemicals (6.7%) and electro-technical products (6.7%). Germany has a strong position in the exports of environmental technologies to Brazil; in 2007 Germany's exports accounted for 18% of technologies of this type purchased by Brazil, which made Germany the third largest exporter after France and the USA⁵⁷. Brazil supplies the German market mainly with raw materials (39.2%), foodstuffs (26.1%) and machines (6.8%). It is thus evident that Germany is trying to sell highly processed goods to this country and import raw materials such as steel, copper, tin and lithium, and unprocessed products⁵⁸.

Around 1200 German companies are currently operating in Brazil, and 10% of the country's industrial output is produced in subsidiaries of German corporations⁵⁹, employing around 250,000 individuals. Germany has mainly located its activities in two regions: São Paulo, with the number of German companies operating there approaching 1000, and in Rio de Janeiro. Following their success on other developing markets, German concerns like BMW, Henkel, BASF and Continental have entered the Brazilian market with new projects, attracting German subcontractors and thus paving the way for small and medium companies. According to reports compiled by the German Chamber of Commerce, in Brazil in 2010–2011 more and more businesspeople have become interested in the presence of German companies on the Brazilian market⁶⁰.

In 2011 over 100 political and economic delegations, made up of 1200 German entrepreneurs, visited Brazil. The result was an increase in the number of companies operating on the Brazilian market by 150, including large corporations such as Bertelsmann and E.ON. The largest German investments have been made by companies from the automotive (a Volkswagen production plant worth €3.4 billion), chemical (a BASF production line worth €500 million euros; an investment by the Bayer corporation worth €143 million) and energy sectors (E.ON's production of energy from coal, gas and renewable sources)⁶¹. From the German point of view, Brazil's main asset is the good prospects for energy production from renewable sources. Today this country generates

⁵⁷ http://www.ahkbrasil.com/pdf_public/Key-Facts_MAmbiental_web.pdf

⁵⁸ <http://www.bmw.de/DE/Themen/Aussenwirtschaft/Bilaterale-Wirtschaftsbeziehungen/laenderinformationen,did=490374.html>

⁵⁹ <http://www.wiwo.de/politik/ausland/suedamerika-deutsche-unternehmer-entdecken-brasilien/5301968.html>

⁶⁰ http://www.ahkbrasil.com/pdf_public/Jahresbericht_2011_Brasilien.pdf

⁶¹ <http://www.gtai.de/GTAI/Navigation/DE/Trade/maerkte,did=581520.html>

nearly 80% of its energy in hydroelectric installations. However, due to Brazilian society's resistance to plans for constructing further hydroelectric dams, the government has considered increasing the use of solar power, as the country's demand for energy is expected to double within the next 12 years. This is why Germany is trying to support its companies by winning contracts for the supply of solar technologies⁶². Brazil expects Germany to help it finance some of these investments, and so it agreed to the participation of experts from the German Development Aid Company (*Gesellschaft für internationale Zusammenarbeit*) as advisors in the transformation process. So far, Germany has invested €900 million in loans to support these processes, hoping that this will make it easier for German companies to win contracts by. In spite of the difficulties associated with investing in Brazil, many German companies are conducting their business on this increasingly important market. One example is Siemens, in whose turnover figures Brazil ranks 7th. The company hopes to double its financial result to over US\$5 billion within 5 years. For this to be possible, Siemens will double its investments to US\$1 billion⁶³. German companies, just like other foreign corporations, are aware of certain limitations on the Brazilian market, among the most serious of which are high taxes, the wide fluctuations of the Brazilian currency exchange rate, and the rapidly growing salaries. On the other hand, Germany sees numerous assets in Brazil, which include its great infrastructural needs and the prospects for a rapid growth of the middle class.

There is growing interest on the part of Brazilian investors in expanding their business on the German market, as demonstrated for instance by the acquisition of steelworks in Thuringia by the Brazilian company CSN. This has been possible thanks to the strengthening of the Brazilian currency which has facilitated the purchase of foreign assets. Despite this trend, there has been a noticeable disproportion between the scale of investments in Germany's favour. Around 50 Brazilian companies operate in Germany, employing around 2000 individuals. These companies have mainly invested in the machine building, steel and agricultural sectors⁶⁴.

⁶² Frank Specht, Solarenergie: Ein neuer Boom in Südamerika?, *Handelsblatt*, 30 May 2012, p. 22.

⁶³ Axel Höpner, Schwieriges Brasilien, *Handelsblatt*, 30 May 2012, p. 22.

⁶⁴ <http://www.nachhaltiger-reisen.de/news/news-detail/immer-mehr-brasilianische-firmen-investieren-in-deutschland/>

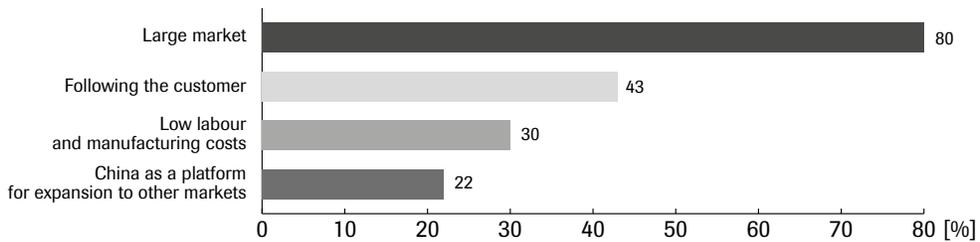
5. Problems faced by German companies operating in the BRIC countries

An analysis of surveys conducted among German entrepreneurs suggests that their main motive for entering the BRIC markets is the large potential of these markets. Less attention is paid to opportunities to invest in manufacturing plants in order to export the goods produced there, although China can be seen as an example here. In all BRIC countries German companies encounter similar problems in their everyday business. The most important ones include corruption, bureaucracy and insufficient infrastructure. It seems that a considerable number of these companies have managed to adapt themselves to the difficult business conditions in the hope of making extraordinary profits.

5.1. China

Surveys conducted by the German Chamber of Industry and Commerce show how German companies operating in China assess their business.

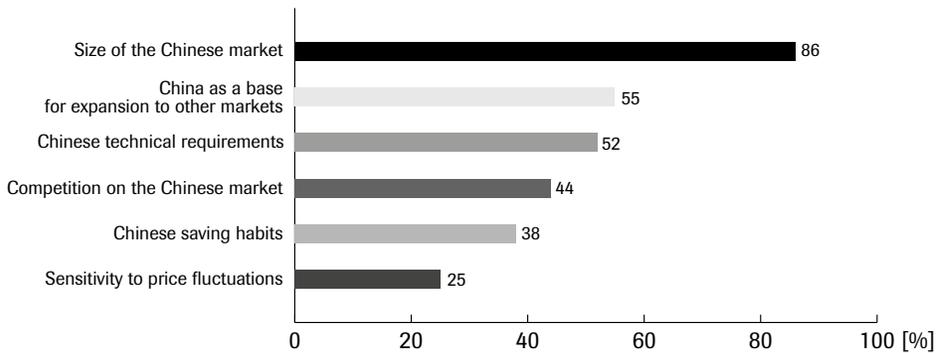
Figure 19. German companies' motives for entering the Chinese market



Source: German Business Expansion in China 2008-2010. Results of a Survey Conducted among German Operations in China Focussing on Market Potential, Barriers to Doing Business and Future Business Outlook, <http://www.dihk-verlag.de/media/md2664D.pdf>, p. 16

The survey suggests that for 80% of the respondents, the main motive for entering the Chinese market was its large potential. This means that in order to maintain their good position in global trade, many companies have to be present on the Chinese market. For 43% of the respondents, the main motive was to follow their customers, which means that these companies have been forced to start business in China if they want to maintain the cooperation with their current customers. In most cases these are situations when subcontractors follow global German corporations. Low production costs and treating China as a base for expansion to other markets are other major motives, given by a smaller number of respondents.

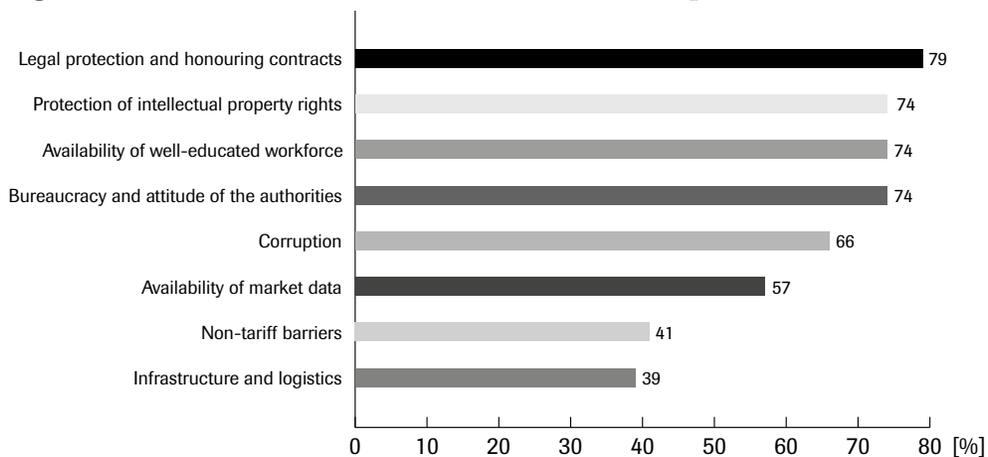
Figure 20. Features of the Chinese market considered positive by German companies (in %)



Source: Author’s analysis based on ‘German Business Expansion in China 2008-2010. Results of a Survey Conducted among German Operations in China Focussing on Market Potential, Barriers to Doing Business and Future Business Outlook’, <http://www.dihk-verlag.de/media/md2664D.pdf>, p. 20

An assessment of the business situation by German companies operating in China shows that the size and potential of the Chinese market are the features which bring the largest benefits. The role of the Chinese market in enabling the companies to expand to other Asian markets is also considered important. Even the lower level of technical standards compared with developed countries is seen as positive. Additionally, the growing level of prices and salaries in China is accompanied by a higher quality of products and the improved efficiency of Chinese subcontractors, which is expected to have a positive impact on the competitive status of German products containing sub-assemblies manufactured in China.

Figure 21. Barriers to the Chinese market considered problematic (in %)



Source: Author’s analysis based on ‘German Business Expansion in China 2008-2010 Results of a Survey Conducted among German Operations in China Focussing on Market Potential, Barriers to Doing Business and Future Business Outlook’, <http://www.dihk-verlag.de/media/md2664D.pdf>, p. 25

German companies face numerous challenges in their business activity in China. The most frequent ones are associated with the spheres of legal protection, protection of intellectual property rights, the availability of a well-educated workforce, and bureaucracy and the attitude of the authorities – these issues are reported by 75% of companies. Another difficulty is corruption. Over half of the companies surveyed consider it a significant problem. 57% of the companies have problems with obtaining access to reliable market data. German companies consider that the limitation of tax reliefs, the appreciation of the Chinese yuan and an increase in production costs might have a negative impact on the business climate.

In some areas China is beginning to compete with Germany, and Germany is becoming ever more aware of these tendencies. One example is the statements by representatives of German business organisations, who have lobbied in favour of increasing credit guarantees in those regions of the world in which Chinese companies have been particularly active, such as Africa. Credit guarantees are an important instrument enabling German companies to compete on the market. German businesses are unable to create a system similar to the one created by Chinese companies in which the Chinese build infrastructure in African states in exchange for raw materials⁶⁵. Germany fears that the constantly rising level of technological advancement of Chinese products might challenge Germany's position on major export markets. There is an opinion that it is not in Germany's interest to unilaterally strengthen China's technological potential and support a potential competitor. Therefore it is expected that in the future Germany will consent to the transferring of advanced technologies to China only on condition of greater concessions in opening the Chinese market⁶⁶. German companies fear that Chinese producers could challenge their position on global markets; for this reason they have been developing innovative technologies mainly in German technology centres, and do not establish advanced research centres in China. The reason might be numerous cases of industrial espionage and illegal copying or imitating of technologies. Any intensification of these trends could challenge the German technological advantage over China, and push German companies out of their most important export markets. The threat seems to be all the more likely as China, just

⁶⁵ <http://www.dihk.de/presse/meldungen/2012-03-23-afrika>

⁶⁶ Deutsch-Chinesische Wirtschaftsbeziehungen: Eine strategische Partnerschaft zum beiderseitigen Nutzen: Monatsbericht 9/2012, Bundesministerium für Wirtschaft und Technologie, <http://www.bmwi.de/Dateien/BMWi/PDF/Monatsbericht/Auszuege/09-2012-I-4,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf>, p. 5

like Germany, is interested in developing its industrial production – including in sectors in which Germany has a competitive advantage, such as machine production and the new technologies sectors. If Chinese producers obtained access to German technologies, they could quickly push Germany out of their markets by making use of generous state support and subsidies. Another example of similar developments is the solar installation production sector which has recently declined in Germany; many leading companies have gone bankrupt or been acquired by Chinese investors. It appeared that the German government set a system of excessively high subsidies available to this sector. As a result, when the scale of subsidies was later limited, German companies lost the competitive battle to Chinese companies which have benefited from the considerably lower labour costs. This leads Germany to expect greater security of intellectual property and a wider opening of the Chinese market in exchange for the transfer of technologies to China. Members of the German government have consistently criticised China for limiting the imports of rare raw materials in 2009, and put pressure on the EU to file a complaint with the World Trade Organisation against China in relation to these practices⁶⁷. On the other hand, during bilateral consultations in 2012, Chancellor Angela Merkel promised the Chinese government dialogue to resolve the problem of Chinese solar panel producers whom the European Commission had accused of resorting to dumping practices⁶⁸.

5.2. Russia

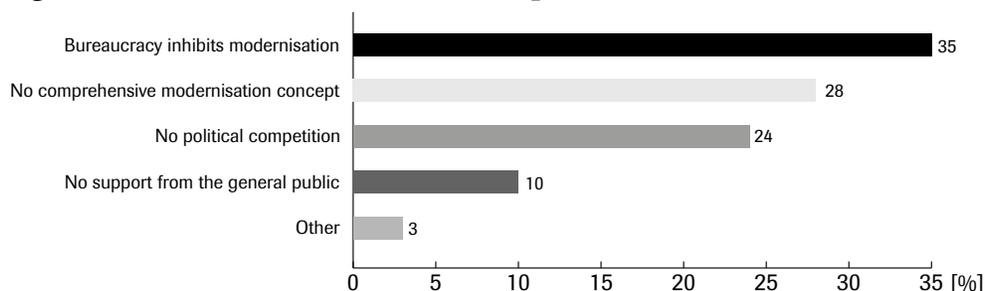
Germany hoped that the changes in its economic relations with Russia could contribute to gradual reforms in Russia. Initial attempts were made in the 1990s, when Germany provided help in training Russian state officials, albeit without any measurable success. Another attempt was the partnership for modernisation project, but this concept was also troubled by divergent expectations. Germany expected a systemic change to take place in Russia which could have improved the level of investment safety and facilitated business activity, leading to the greater expansion of German companies on this market. Moscow, on the other hand, hoped that the cooperation would facilitate the transfer of technologies from the EU countries in exchange for Russian raw materials. This is why the project did not bring about any breakthroughs. Instead, it was a disappointment to both parties, and failed to encourage other

⁶⁷ <http://www.bmwi.de/DE/Presse/pressemitteilungen,did=422450.html>

⁶⁸ <http://www.bmwi.de/DE/Themen/aussenwirtschaft,did=510960.html>

German companies to invest in Russia. The partnership project's implementation was further disturbed by the 2008 conflict between Russia and Georgia and the outbreak of the global financial crisis. It seems that today German politicians no longer hope for any liberalisation of access to the Russian market, even after Russia joined the WTO in 2012.

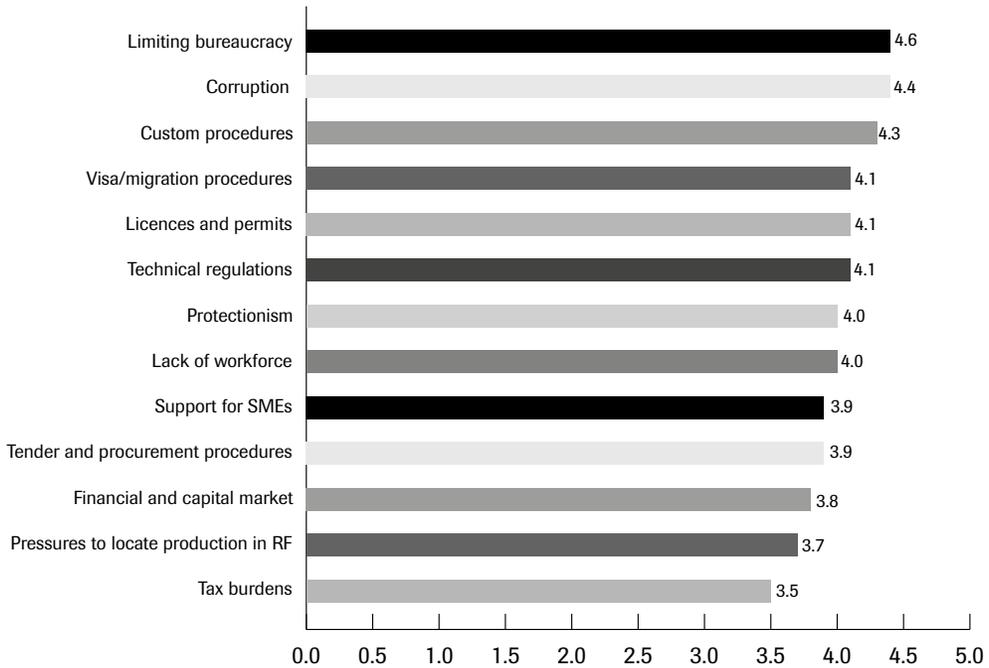
Figure 22. Barriers to the modernisation process in Russia (in %)



Source: AHK-Umfrage 2011

According to surveys conducted by the German Chamber of Commerce and Trade, German companies cannot see any major effects of the partnership for modernisation programme in Russia. Representatives of German businesses say that the entire concept is inhibited mainly by bureaucratic resistance (35% of the respondents), the lack of a comprehensive plan of deep reforms in Russia (28% of the respondents) and the lack of a strong opposition which could challenge the Russian ruling elites (24%).

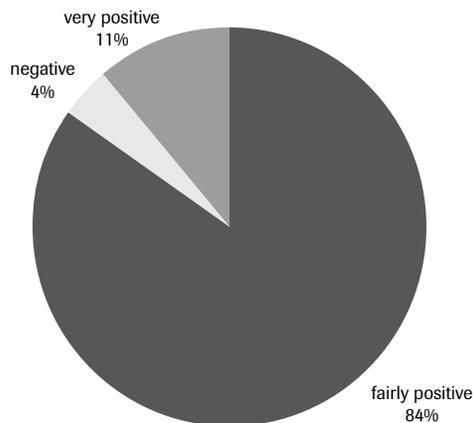
Figure 23. Areas which require reform in Russia (response scale from 1 to 5)



Source: AHK-Umfrage 2011

In the companies' opinion, the most urgent need for reform is evident in areas such as limiting state bureaucracy, combating corruption, and simplifying administrative procedures. Other issues include the necessity to reform the education and training services, support small and medium enterprises and improve access to public procurement offers.

Figure 24. What would be the impact of Russia's WTO membership on your company's business? (in %)



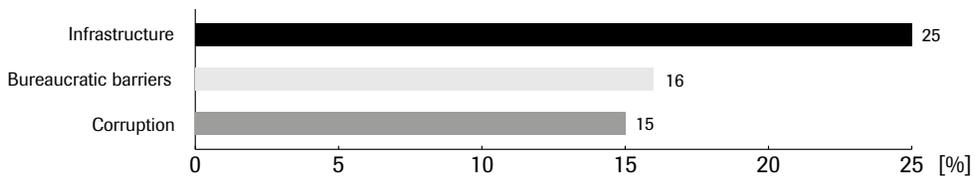
Source: AHK-Umfrage 2011

Germany is still hoping that in the long term Russia's WTO membership might improve the conditions for doing business in this country. 84% of the surveyed companies believe that Russia's membership of the organisation will slightly improve the conditions for doing business in the long-term perspective, and 11% feel that Russia's WTO accession will contribute to a significant improvement of the business climate.

5.3. India

The investment climate in India is still not particularly favourable to German companies. According to German businesspeople, the Indian state has an excessively large influence on the investment process, which leads to a situation in which administrative decisions can threaten foreign investors' plans⁶⁹.

Figure 25. The greatest barriers encountered by German investors in India (in %)



Source: A survey among German investors conducted by AHK Indien Business Monitor 2012, http://indien.ahk.de/fileadmin/ahk_indien/Bilder/2012_misc/Modified_IGCC_Survey_German_final.pdf

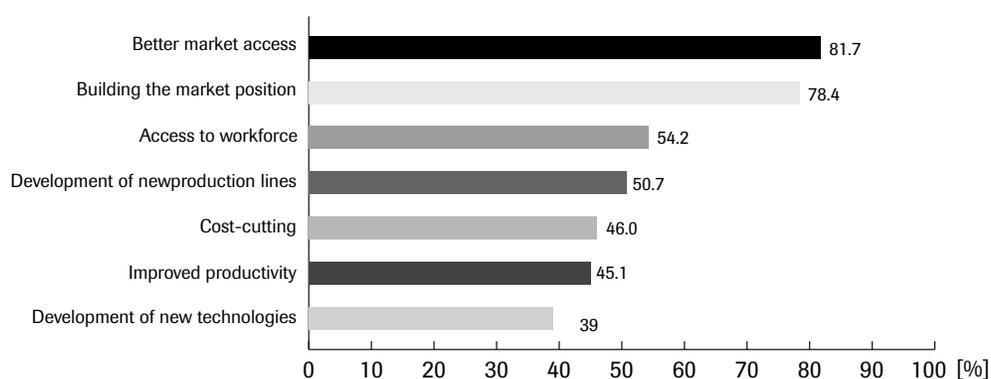
According to German investors, India's permanent problems (also evident in the other BRIC countries) are corruption, bureaucratic barriers and underdeveloped infrastructure. **Representatives of the companies surveyed believe that a major improvement in the conditions for conducting their business could be achieved with greater legal security and more efficient functioning of the judiciary system.** Although in recent years India has largely opened up its market to foreign investors and eliminated some of the bureaucratic barriers, only 17% of the companies surveyed have noticed a reduction in the scale of corruption in India. 63% of the investors believe that the scale of corruption has increased slightly or considerably. 48% of the companies assess the investment climate in India as positive, whereas 30% think otherwise. Almost 27% of the respondents see some improvement.

⁶⁹ <http://library.fes.de/fulltext/stabsabteilung/00497002.htm#LOCE9E2>

The situation of the German companies operating on the Indian market is further complicated by the interventions in their business activities carried out by the Indian authorities. The case of the Enercon company has received much media coverage in Germany⁷⁰. In 2011, in a decision issued after a trial over a conflict between an Indian and a German company, the Indian court invalidated the technological patents in the wind energy sector owned by the German company, which forced it to withdraw from the Indian market. Another example of similar problems is the decision by the Indian Patent Office, which called on the Bayer company to disclose the composition of its anti-cancer drug and make it available to an Indian company producing generic drugs. The decision was taken in connection with a protest voiced by the Indian public opinion over the high price of that drug set by the German corporation⁷¹. By taking this decision, the Indian authorities hoped that the drug price could be reduced by 97%⁷².

5.4. Brazil

Figure 26. Main motives of German companies for entering the Brazilian market (in %)



Source: Going Global: Der deutsche Mittelstand in Brasilien 2012: Perspektiven verbessern, http://www.roedl.com/fileadmin/user_upload/Roedl_Deutschland/Aktuelles/RP_Studie_Brasilien_web.pdf

⁷⁰ H. Hauschild, Patente, vom Winde verweht, *Handelsblatt*, 25 January 2011, <http://www.handelsblatt.com/unternehmen/industrie/technologie-klau-in-indien-patente-vom-winde-verweht/3764644.html>

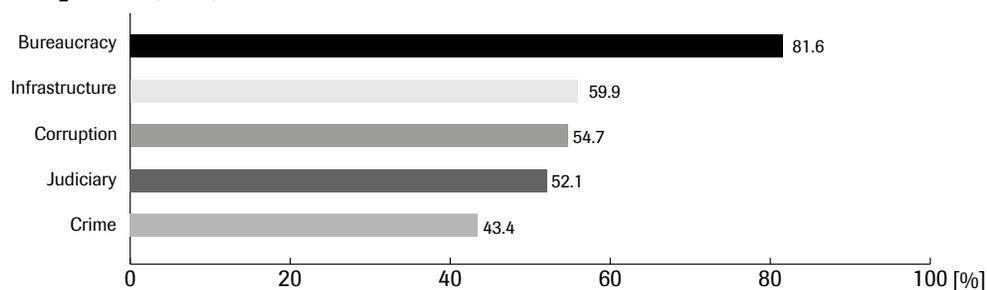
⁷¹ Stefan Mauer, Siegfried Hofmann, *Handelsblatt*, 14 March 2012, p. 21.

⁷² Patent in Indien: Generika-Lizenz für Bayer-Krebsmittel, *Handelsblatt*, 4 March 2013, <http://www.handelsblatt.com/unternehmen/industrie/patent-in-indien-generika-lizenz-fuer-bayer-krebsmittel-/7877394.html>

The main motives for conducting business in Brazil listed by the German companies operating there include the expectation of better market access, strengthening of market position, and gaining improved access to the workforce. The other factors are associated with the question of carrying out investments by expanding new production lines, cutting business costs and improving productivity. 39% of the companies surveyed pointed to the development of new technologies as their motive for entering the Brazilian market.

German companies operating in Brazil can benefit from the necessity to modernise the country's infrastructure, as this creates opportunities to sell German investment products on the Brazilian market. On the other hand, attention is drawn to the lower productivity of the Brazilian economy compared with the other BRIC states, resulting from the country's reluctance to save, as well as the greater fluctuations of the Brazilian currency.

Figure 27. Barriers to the Brazilian market considered important by German companies (in %)



Source: Going Global: Der deutsche Mittelstand in Brasilien 2012: Perspektiven verbessern, http://www.roedl.com/fileadmin/user_upload/Roedl_Deutschland/Aktuelles/RP_Studie_Brasilien_web.pdf

Bureaucracy is the major problem encountered by German companies active on the Brazilian market. This obstacle was mentioned by nearly 82% of respondents. Company representatives also highlight the numerous barriers in the import procedures, duty and trade practices, and tax and currency settlements. Another important problem is the deficiencies in infrastructure, which hinder business activity and the transport of goods. The remaining problems are connected with the continuously low level of the rule of law in Brazil, resulting in a high level of corruption and crime, as well as difficulties with law enforcement due to the inefficient judiciary system.

KONRAD POPŁAWSKI

APPENDIX

Germany's political relations with the individual BRIC states

China

Recent relations between Germany and China have been characterised by both countries' willingness to intensify their cooperation. The two countries' elites are becoming increasingly aware of their growing mutual dependence.

Since the 1990s Germany has pursued a rather cautious policy towards China, recognising China's potential and trying to avoid possible conflicts with Beijing. Although Germany and China opened diplomatic relations in 1972, it was not until the 1990s that a favourable political climate for developing bilateral economic ties emerged. At that time Germany had already reached its major political goal – the reunification of the two German states – and, pressed by globalisation, it had to begin the search for new markets⁷³. Bilateral relations were supported by Germany's 'One China' policy under which Tibet and Taiwan were considered parts of China's territory⁷⁴, and approval of the Chinese 'one child policy' was consistently expressed by Germany in various documents summing up German-Chinese political meetings. Gerhard Schröder's visit to Beijing in 2004 can be seen as a symbolic beginning of more dynamic political cooperation in German-Chinese relations. Since then, Germany's heads of government have tried to visit China at least once a year.

The European Union, just like the United States, is a very important market for China; the latter has therefore tried to maintain close relations with European countries. China is not fully convinced of the unanimity of the European standpoint, and is therefore trying to defend its own interests, by skillfully exploiting the open nature of the European market and the differences among the largest EU member states⁷⁵. This makes the issue of development of bilateral relations with Germany particularly important for China, especially in the context of Germany's growing importance in the EU since the outbreak of the Eurozone crisis. In its bilateral negotiations with China, Germany ex-

⁷³ H. Kundnani, J. Parello-Plesner, *China and Germany: Why the emerging special relationship matters for Europe*, ECFR Policy Briefs, 2012, p. 2.

⁷⁴ <http://www.china-botschaft.de/det/sbwl/t833145.htm>

⁷⁵ J. Fox, F. Godement, *The EU needs a new China Strategy*, European Council on Foreign Relations, http://ecfr.eu/content/entry/commentary_fox_godement_china_power_audit_eu

pects its reputation as an informal EU leader to facilitate its attempts to launch a more effective policy towards China and create a more favourable business climate for German companies on the Chinese market. One example of the two countries' search for common interests in global matters is their joint position against the introduction of limits in relation to states which have excessive trade surpluses, as proposed by the USA at the G20 forum in 2010⁷⁶. Germany and China, the countries with the world's largest trade surpluses, strongly protested against such a move. During talks in Beijing in 2012, Chancellor Angela Merkel, using the opportunity to refer to good political relations, tried to persuade China to buy bonds from those EU countries which were at risk of default. This was interpreted as an initiative in which Germany acted as mediator in the EU's relations with China.

As a consequence of the growing expectations of both parties, a mechanism for German-Chinese inter-governmental consultations was established in 2011. Germany saw China's consent to carrying out consultations as a confirmation of its position as China's most important partner in Europe. According to the German Chamber of Commerce and Trade, launching a cycle of these regular meetings will help Germany promote its strategic interests (such as the improvement of economic cooperation), increase the chances to open up the Chinese market to German enterprises, limit the barriers to such entry, and facilitate talks with China on respecting European standards⁷⁷. This form of cooperation is a novelty to China, and can be seen as an attempt to build bilateral relations with the most important and attractive EU states at the cost of the relations with the EU as a whole. During the first inter-governmental consultations with China, a project for a German-Chinese Partnership for Electromobility was announced, which suggests that Germany has far-reaching plans concerning the sale of green technologies on the Chinese market. The importance of this project is further confirmed by the involvement of several ministries in both Germany and in China in its implementation⁷⁸. During the

⁷⁶ K. Popławski, Niemcy bronią swojego eksportowego modelu gospodarczego, *BEST OSW*, No. 38 (156), Ośrodek Studiów Wschodnich, Warszawa 2010, <http://www.osw.waw.pl/pl/publikacje/best/2010-11-17/niemcy-bronia-swojego-eksportowego-modelu-rozwoju-gospodarczego>

⁷⁷ S. Hepperle, Regierungskonsultationen mit China, *International Aktuell*, Nr 05/2011, Deutsche Industrie- und Handelskammer, p. 2.

⁷⁸ Deutsch-Chinesische gemeinsame Erklärung zur Errichtung einer strategischen Partnerschaft für Elektromobilität, 28.06.2011, <http://www.bmwi.de/BMWi/Redaktion/PDF/C-D/china-deutsch-chinesische-strategische-partnerschaft-elektromobilitaet,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf>

consultations, Germany referred to the ongoing trade liberalisation and the need to provide German companies with equal opportunities to compete on the market, as key elements of bilateral cooperation. The discussions conducted during meetings of working groups focused on the future of the Chinese market and the challenges it faces, such as demographic issues, sustainable development, the growing mobility of the population and urbanisation⁷⁹. Germany has also put forward a proposal to establish a German-Chinese Renewable Energy Centre.

Germany also has other forms of cooperation at its disposal in its relations with China. The primary institution fostering dialogue between the two states is the German-Chinese Mixed Economic Committee, headed by Germany's Minister of Economy. The Committee is composed of several working groups focused on trade, investments, legal issues, coal extraction, services and the introduction of legal standards. The result of the committee's work and many years of discussions were the recommendations concerning the creation of German-Chinese joint venture initiatives. Another body led by Germany's Minister of Economy is the German-Chinese Technological and Economic Cooperation Forum, which comprises working groups dealing with environmental and medical technologies, infrastructure, telecommunications and energy. Additionally, Germany organises initiatives aimed at creating a positive image of the country in China. Giving China the status of a partner state at the Hanover Fair⁸⁰ and declaring 2012 the Chinese Culture Year in Germany are two examples. Both countries will organise a Year of the Chinese and German Languages in the future.

The political partnership between Germany and China seems to be evolving to an understanding under the slogan of 'German technologies for access to the Chinese market'. For China, Germany is an important investor and a supplier of technologies and know-how. The Chinese authorities greatly value the transfer of technologies from Germany, as it facilitates the moderni-

⁷⁹ Deutsch-Chinesische Wirtschaftsbeziehungen: Eine strategische Partnerschaft zum beiderseitigen Nutzen: Monatsbericht 9/2012, Bundesministerium für Wirtschaft und Technologie, <http://www.bmwi.de/Dateien/BMWi/PDF/Monatsbericht/Auszuege/09-2012-I-4,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf>, p. 3.

⁸⁰ Gemeinsame Erklärung des Bundesministeriums für Wirtschaft und Technologie der Bundesrepublik Deutschland und des Ministerium für Industrie und Informationstechnologie der Volksrepublik China über Chinas Auftritt als Partnerland der Hannover Messe 2012, <http://www.bmwi.de/BMWi/Redaktion/PDF/C-D/china-auftritt-partnerland-hannovermesse,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf>

sation of their country's economy. According to Beijing's estimates, by April 2011 China had approved the conclusion of over 15,000 contracts on technology transfer with German enterprises with a total value of US\$52.12 billion⁸¹. The projects involved transport, electro-technology, machine building, metallurgy and chemistry. The selection of the sectors suggests that China, unlike many Western states, is determined to develop its industry, which is why it is interested in the successes achieved by German companies on foreign markets. The goals included in China's 12th Five-Year plan relate to sectors in which Germany is the global leader. Germany sees that some of the goals adopted in the 2011-2015 plan are convergent with German interests, and that it can benefit from China's planned investments in green technologies and the improvement of energy efficiency. In the long-term perspective, the operation of German companies on the Chinese market may be facilitated by currency liberalisation, legal amendments allowing foreign investors to open yuan bank accounts, and the improving economic status of the Chinese middle class.

Russia

From Germany's point of view its political relations with Russia are of strategic importance, due to Russia's near geographical location and the two states' close cooperation in the area of energy. West Germany had been one of the initiators of the plan to improve relations with Russia in the Cold War period, and in 1955, following chancellor Konrad Adenauer's visit to Moscow, a certain normalisation of relations was achieved. 1970 can be considered the beginning of the creation of a framework for cooperation in the supply of raw materials. This was when Germany offered to deliver pipes and provide loans to construct pipelines from Russia to Germany. Russia's consent to German unification had a positive impact on bilateral relations because Germany's achievement of its strategic goal reduced the number of possible areas of conflict.

An analysis of German-Russian relations suggests that energy security has been a matter of key importance for Germany. The German elites believe that the two economies are complementary. Germany possesses rather limited deposits of raw materials, and Russia is an important exporter of these goods. The Russian market, in turn, is characterised by a high demand for the German technologies and industrial products necessary in the process of modernising the economy. The two countries' cooperation in other spheres has been devel-

⁸¹ <http://www.fmprc.gov.cn/ce/cgmu/ger/zt/baipishu/t833240.htm>

oping at a slower pace. This can be concluded from the fact that Russia is less important for German exports, not only than the Western European countries but also than China or some Central European states such as Poland and the Czech Republic. Although the largest traditional branches of German industry and the biggest German enterprises have been able to develop their business activities on the Russian market, the small and medium companies' sector has faced numerous problems in conducting business in Russia. The shape of the relationship between Germany and Russia depends not only on economic factors but also on issues of security and political cooperation. The most important reasons for Germany maintaining its close relations with Russia include Germany's recognition of Russia's geopolitical position and its role in global issues such as energy security and the political stability of the post-Soviet states and of the region located on the boundary between Europe and Asia.

Germany interpreted the election of Dmitry Medvedev as Russia's president as the fulfilment of its expectations concerning the slowly progressing democratisation process in Russia, which it hoped would be accompanied by growing economic liberalisation and the improvement of conditions for German companies conducting their business in Russia. Vladimir Putin's return to power shocked the German elites, who could not come to terms with the fact that no major political reforms broadening the civil freedoms could be expected in Russia. Since that time, certain tensions in the German-Russian relations have been observed, although these have had no particular impact on economic relations. In recent years Russia's structural problems have been emphasised more frequently; these are connected with the risk of destabilisation of the political system and of the Russian economy's excessive dependence on the exports of energy carriers. German politicians have consistently criticised violations of democratic standards in Russia. It seems, however, that due to the long history of political and economic cooperation, and the presence in both Germany and in Russia of numerous groups that are interested in bilateral cooperation, maintaining good economic relations is possible even in a situation of political tension. The only visible symptom of the diminishing trust of German entrepreneurs in the Russian market has been the reduction in the scale of new German investments. The 2009 decline of the Russian market and the sudden reduction in the sales of products manufactured by German companies in Russia have made entrepreneurs aware of the fact that the Russian market is strongly dependent on the economic situation in Europe, and will not offer protection from stagnation in the Eurozone. Investments carried out in Russia will not protect a business against the recession in Europe, as the economic situation in Russia is a reflection of the economic growth observed in the European Union,

which is the most important consumer of Russian raw materials. A decline in the economic cooperation could have been caused by the failure of the partnership for modernisation project, which had been ongoing since 2008, and called for strategic cooperation between Germany and Russia especially in areas such as the rule of law, healthcare, demography, energy efficiency, infrastructure and education. Germany hoped that this cooperation would cause systemic changes in Russia which would favour German businesses and facilitate the sales of German technologies on the Russian market. From today's perspective the project is considered a failure because it did not lead to any major changes in German-Russian relations or contribute to any improvement of the economic climate⁸². Nonetheless, it can be considered a basis for similar projects carried out in China and India, which will hopefully bring about more positive results.

Due to the two states' long history of political relations, the political cooperation between Germany and Russia has been supported by numerous institutions. Germany and Russia are participants in various forums and organisations focused on multilateral cooperation, including G8, the Organisation for Security and Cooperation in Europe, the NATO-Russia Council, the World Trade Organisation and the Organisation for Economic Cooperation and Development. In order to intensify bilateral relations, the German-Russian Strategic Working Group for Economic and Financial Affairs was established in 2000, with the aim of stimulating the improvement of economic and legal conditions with a view to developing bilateral economic cooperation. The Group is composed of several sub-groups which deal with individual topics of particular interest to German companies. In 2001 the **Petersburg Dialogue, a forum for annual meetings between the leaders of Germany and Russia**, was created. As part of the forum's activities meetings of eight working groups, one of which deals with economic matters, are regularly organised. Additionally, since the late 1990s a special instrument in German-Russian inter-governmental consultations has been used which facilitates communication between the governments concerning mutual plans and expectations. The issues of bilateral economic relations are analysed by the German-Russian Strategic Working Group for Economic and Financial Affairs, headed by a secretary of state from the German Federal Ministry for the Economy. In 2003, the post of coordinator of the German-Russian inter-society cooperation was created; since 2006 it has been filled by Andreas Schockenhoff. The analysis of ties between Ger-

⁸² <http://www.swp-berlin.org/de/publikationen/kurz-gesagt/die-deutsch-russische-modernisierungspartnerschaft-skepsis-angebracht.html>

many and Russia should also cover the **influential Eastern Committee of the German Industry Association, which is actively lobbying in favour of German-Russian interests**. This institution is an important advisory body serving the government, and actively lobbying in favour of maintaining close economic relations. Germany has also used cultural policy in its relations with Russia; numerous German foundations and four branches of the Goethe-Institute are operating in Russia. In 2012 a Germany Year was organised in Russia, and 2013 is a Russia Year in Germany.

India

Relations between Germany and India were launched in 1951. The key year for bilateral cooperation was 1991, when India opened up its market to global partners and initiated the process of liberalising the economy. In the 1990s India experienced an economic decline, which resulted in a rapid reduction in the level of reserves and led to the country's appeal for help from the International Monetary Fund. The need to carry out reforms such as privatisation, currency liberalisation, relaxing industrial policy, lifting the limits set on foreign investors and improving the country's financial situation was transformed into the basis for India's economic success in the following years. This was when India also became more open to the world in political terms; as a consequence, it re-oriented its foreign policy from the USSR to the USA⁸³. The unification of Germany came as a new impetus for the development of German-Indian relations; previously this cooperation had been hindered by India's diplomatic relations with the GDR. However, frequent meetings between German and Indian politicians at the beginning of the 1990s failed to result in any tightening of political or economic relations.

After many years of neglect, a new stimulus to intensify bilateral relations emerged in the mid-1990s, when both states filed for permanent membership of the UN Security Council⁸⁴. Attempts to break the deadlock in mutual relations were made under the government of Chancellor Schröder, who visited India in 2001 and 2004. Angela Merkel decided to continue this policy, and visited India in 2007 and 2011.

⁸³ T. C. Schaffer, P. Mitra, Indien - Auf dem Weg zur Weltmacht, Deutsche Bank Research, 2006, p. 3.

⁸⁴ <http://www.asienhaus.de/public/archiv/wagner-deutschland-indien.pdf>, p. 4.

In recent years, Germany has made numerous attempts to intensify its relations with India, including by emphasising that its relations with India are no less important than those with China, India's rival in the contest for domination in Asia. Despite this, it seems that there has been no spectacular progress in relations between Germany and India similar to that achieved in German-Chinese relations. Another important fact is that the history of political relations between India and Germany is not as long as in the case of the United Kingdom or the USA. Some analysts believe that political relations between Germany and the EU and India have been underprivileged due to European countries' excessive focus on China⁸⁵. Germany drew certain conclusions from such opinions, and in 2011 decided to initiate inter-governmental consultations with India, so in the same year as with China. Germany seems to be optimistic about the chances for developing bilateral economic relations. It also believes that the prospects of the dynamic growth of India's population, including in particular the expected development of the Indian middle class, currently numbering 100–150 million people, is an optimistic sign for the future. **Germany considers its cooperation with India to be especially attractive in the area of scientific research, as despite its low GDP figures India possesses high-quality technologies, mainly in the IT services and biotechnology sectors.** India differs from the other countries characterised by similar levels of economic development in that it possesses advanced technologies, and its service and new technology sectors account for a large portion of its GDP. For Germany this has dual consequences: on the one hand, intensive cooperation with India could stimulate German science and research and initiate the creation of new projects based on mutual cooperation and improved economic relations. Germany is trying to launch such partnership projects, as evidenced by the fact that the joint inter-governmental declarations have paid much attention to the new concepts for scientific cooperation. On the other hand, by constantly developing its technological sectors, India might quickly become a major competitor for German exporters. An example of such a threat is India's dynamically growing automotive, car part and machine production sectors, as well as its chemical industry⁸⁶. In 2005 there were 380 universities and 1500 research institutes in India. It is expected that in the next few years the number of students in India will rise, which in turn will contribute to an

⁸⁵ http://www.giga-hamburg.de/dl/download.php?d=/content/publikationen/pdf/gf_asien_0605.pdf, p. 3.

⁸⁶ M. von Hauff, *Indiens ökonomische Entwicklung*, in *Der Bürger in Staat: Indien*, Landeszentral für politische Bildung, 2009, http://www.buergerimstaat.de/34_09/indien.pdf, p. 176.

improvement in the quality of education⁸⁷. The Indian government's plans to increase the share of renewable energy in the country's energy output could be another business opportunity for German companies; the German government intends to support German enterprises by developing relations with India in political, business and scientific areas⁸⁸. Also, India's plans to improve its energy efficiency offer a large business expansion potential to German companies. In a joint declaration signed in 2007 by German and Indian organisations of industrial producers, cooperation in the field of green technologies was listed as the second most important issue in the development of bilateral relations, after the promotion of trade and investments. This suggests that not only is Germany determined to promote this cooperation, India also sees it as a great opportunity for its economy⁸⁹. This also results from the fact that several Indian companies have been placed among the leaders in the sector of green technologies.

In addition to the cyclic meetings in the consultation framework, bilateral German-Indian economic relations are managed by the German-Indian Committee for Industrial and Economic Cooperation headed by the German Minister of Economy. In 2011 a Germany Year was organised in India, continuing in 2013. The task of tightening German-Indian relations has been delegated to the Asia-Pacific Committee of the German Industry Association led until 2013 by Peter Löscher, CEO of Siemens. The Committee is also responsible for developing Germany's relations with China. The German Chamber of Commerce and Trade has opened six offices in India, and the Goethe-Institut also has six branches in India.

Brazil

German-Brazilian relations have a long history. In the 1950s German companies became involved in the expansion of Brazilian industry, focusing on the automotive industry among other sectors. In that period Germany carried out a large number of investments in Brazil. In the 1970s Germany had already become involved in the expansion of Brazilian nuclear power stations; there were plans to build eight stations, although finally only one was designed and

⁸⁷ J. Asuncion-Mund, *Indien Spezial*, Deutsche Bank Research, 2005, p. 5.

⁸⁸ http://www.asien-pazifik-ausschuss.de/de/positionen/_download/APA-Papier-Indien.pdf, p. 2.

⁸⁹ http://www.asien-pazifik-ausschuss.de/de/positionen/_download/IndienJointBusiness-Declaration07.pdf, p. 2.

constructed by German companies⁹⁰. In the 1990s Germany still had the status of a key investor on the Brazilian market, but towards the end of that decade Germany's involvement was greatly limited.

Currently, after the period of less intense relations which resulted from the currency crises which troubled the region in the late 1990s (among other factors), Germany now considers South America a new target in terms of its political and economic involvement. Germany is aware of the common democratic values connecting it with Brazil, and considers this country an attractive partner in global issues such as climate protection, the non-proliferation of nuclear weapons, combating international crime, the liberalisation of global trade and the construction of a global financial architecture⁹¹. Brazil has long been an interesting market for German companies, although its importance diminished considerably in the late 1990s in favour of the developing countries in Asia. High-ranking German politicians do not visit Brazil as often as other BRIC countries, nor have they proposed the initiation inter-governmental consultations with this country. In 2008 only a strategic partnership agreement between German and Brazil was signed. Brazil's good economic situation during the crisis, Germany's decision to abandon nuclear energy, and Brazil's status as the organiser of World Football Championships in 2014 and the Olympic Games in 2016 (on which the country is going to spend US\$6.5 billion in investments) have sparked new interest in investing in Brazil among German companies. In the context of the Eurozone crisis, German companies and politicians have come to the conclusion that their activities in Brazil have so far been too limited, considering the country's potential. A survey conducted by the German Chamber for Industry and Commerce, entitled *Going International 2012*, suggests that Brazil, along with China and Russia, is becoming an interesting target market for Germany's business expansion⁹². Another survey showed that nearly 61% of the respondents interviewed were dissatisfied with the level of support for their business interests offered by the German federal government⁹³. Chancellor Angela Merkel last visited Brazil in 2008; a year later Germany hosted Brazilian president Inácio Lula da Silva, and his successor Dilma

⁹⁰ A. Kuhn-Ossius, *Atommacht – Brasilien?*, <http://www.dw.de/atommacht-brasilien/a-4643131>

⁹¹ <https://www.auswaertiges-amt.de/cae/servlet/contentblob/367294/publicationFile/93979/LAK-Konzept.pdf>, p. 7.

⁹² <http://www.welt.de/wirtschaft/article13841422/Deutsche-Firmen-mit-besten-Aussichten-in-Brasilien.html>

⁹³ http://www.roedl.com/fileadmin/user_upload/Roedl_Deutschland/Aktuelles/RP_Studie_Brasilien_web.pdf

Rousseff in 2012. The year before, the then German president Christian Wulff visited Brazil. More visits have been paid by representatives of German federal ministries. Germany considers the annual German-Brazil Trade Days as an opportunity to further develop bilateral economic relations. For instance the main topic discussed at the 2011 forum was innovation and ways to improve it. Another sign of the growing interest on the part of German politicians in tightening economic relations with Brazil was the invitation to Brazil's president to become the main guest during Germany's most prestigious high-tech fair, CeBIT organised in Hanover. During the fair President Rousseff invited German companies to take part in Brazil's privatisation initiatives and public procurement projects concerning the construction of high-speed rail and airports⁹⁴. Another sign of the growing interest of both parties in strengthening their bilateral relations is the increased number of delegations which visited Brazil in 2010. In that year, around 50 delegations composed of representatives of various enterprises and 6 delegations composed of politicians visited Brazil. This can also be seen as a response to Brazil's intention to deepen its cooperation with Germany⁹⁵. Another indication of Germany's preferred areas of interest in its relations with Brazil are the visits paid to this country by the German federal ministers responsible for development aid and infrastructure. Brazil has also hosted the German foreign minister. As can be concluded from the words of Germany's foreign minister, Guido Westerwelle, Germany has great expectations of its relations with Brazil. Westerwelle⁹⁶ considers Brazil as Germany's key partner in shaping globalisation, and a country Germany hopes to ally with on multilateral cooperation forums. Among the key areas of interest common to the two countries, the minister has listed climate protection, UN reforms, G20 and the global financial system. During her 2012 visit to Germany, the Brazilian president tried to convince Chancellor Merkel that the creation of rescue funds for Eurozone countries might weaken the currency and have a negative impact on Europe's trade partners. She suggested that the possible lifting of import duties on cars sold in Brazil might depend on the level of the euro exchange rate. In 2012 Brazil decided to raise the import duty on cars manufactured abroad to at least 65%, a rise of 30 percentage points. A year before, due to the excessive rise in the Brazilian currency's exchange rate, the

⁹⁴ <http://www.wiwo.de/politik/ausland/suedamerika-deutsche-unternehmer-entdecken-brasilien/5301968.html>

⁹⁵ <http://www.handelsblatt.com/politik/international/vizepraesident-temer-brasilien-wuenscht-sich-mehr-aufmerksamkeit-von-merkel/7410576.html>

⁹⁶ http://www.auswaertiges-amt.de/sid_o9C82F2Do42ACE6C8DAB3E4CC93oD2C5/DE/Infoservice/Presse/Interviews/2012/120702-BM_DieWelt.html?nn=382708

Brazilian government launched a wave of protectionist measures such as tax reliefs for Brazilian companies operating in specific sectors, as well as subsidised business credits⁹⁷.

Dialogue between German and Brazilian institutions has been split into individual, sector-specific topics. **A joint German-Brazilian Mixed Economic Committee has been active since August 2008. On the German side, the Committee's work is led jointly by the secretary of state at the Ministry of the Economy, Bernd Pfaffenbach, and a member of the management board of MAN Ferrostaal, Stephan Reimelt**⁹⁸. This composition is supposed to guarantee the participation of business circles in shaping the German-Brazilian cooperation. The Committee's tasks involve stimulating the intensification of economic relations and reducing trade barriers. Another important task delegated to the Committee is assisting German companies in making contacts with Brazilian companies. The Joint Trade Days organised in 2012 by the German Industry Association and several Brazilian industry organisations under the Committee's patronage is an example of such activities. Germany has openly declared that one of the that conference's main aims was to explore the potential for bilateral cooperation in operations connected with the sports events Brazil is organising. During the conference, Germany's economy minister Philip Rösler pointed to certain protectionist tendencies reported by German companies⁹⁹. Germany co-finances eight trade fairs organised in Brazil. German Chambers of Industry and Commerce have opened three offices in Brazil.

These activities prove that Germany prefers to focus on winning contracts for German companies, and that Brazil is not among the strategic goals of its expansion. On the other hand, Germany has maintained intensive relations with Brazil and carried out numerous economic initiatives, so it would be relatively easy to increase its involvement on the Brazilian market should better investment opportunities appear, e.g. in the renewable energy sector. Germany has conducted an active cultural policy in Brazil, for instance by opening five branches of the Goethe-Institut there. The German Office for Academic Exchange has granted a large number of scholarships for students who wish to continue their education in Germany. In 1993 around 16,000 students from

⁹⁷ A. Busch, Das schleichende Gift, *Handelsblatt*, 21 March 2012, p. 9.

⁹⁸ <http://www.bmw.de/DE/Presse/pressemitteilungen,did=267612.html>

⁹⁹ <http://www.bmw.de/DE/Presse/pressemitteilungen,did=495054.html>

Brazil took part in academic programmes managed by this institution. This number is expected to grow by 10,000 in the near future. In 2013 a Germany Year will be organised in Brazil to promote German culture and tradition; in 2014 a Brazil Year will be organised in Germany.