



THOMAS WHITE - GLOBAL INVESTING
CAPTURING VALUE WORLDWIDESM



Country Profile: Germany

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It has never been more important for you to understand what is occurring in the world beyond your country's borders. Whether you realize it or not, we are now all fellow citizens...Global Citizens.

The Thomas White organization was founded in 1992 with the goal of bringing the benefits of globalization to investors around the world. We believed that once investors understood that globalization was a positive force, they would also see the advantages of adding international equities to their portfolios. It only makes common sense that professional investors would begin searching the globe for the most attractive opportunities. Researching a wider universe of companies should improve long-term performance. Moreover, broad diversification typically lowers return volatility. Multinational corporations have been using this global strategy for years; why shouldn't investors do the same?

Now more than two decades later, our firm growth and strong subsequent portfolio performance have confirmed our investment premise. Currently, Thomas White professionals are performing research and managing over one billion dollars in close to 50 countries. We believe one reason for our success is that the nationalities of these analysts are as globally diverse as our portfolios.

A handwritten signature in dark blue ink, reading "John S. White, Jr." in a cursive script.

Germany: Rising from the Ashes



A 35 ton golden bronze adornment is perched atop Berlin's Victory Column completed in 1873 to celebrate Prussia's military successes. A survivor of the devastation of World War II, the monument stands today in testimony of a country which overcame adversity to become a global market leader.

Divided by time and unified by history lies a land in Europe. One man ensured that this country would be identified forever for his misdeeds. It is a land likened to the Roman God Janus, gazing in opposite directions, interminably linked to the specter of its past yet firmly entrenched in a liberalized present. The Federal Republic of Germany or *Bundesrepublik Deutschland* is nestled in the heart of Europe, locked in by [Poland](#), the Baltic and the North Sea, [Austria](#) and [France](#). Its 16 states are carpeted by multifarious terrains and structures – from the Alps to the glimmering Baltic Sea, from gothic churches and the medieval towns swathed in Arcadian charm to the cities and squares of modernity.

Dark pasts

Germany has always risen from the rubble of war and waste — beginning with medieval times when Anglo-Saxon tribes unleashed atrocities to the infamous World War II when Adolf Hitler wielded his baton over the world. Germany began to take shape in the ‘Dark Ages’

of medieval times. The 13th century witnessed the crusades and the country was scarred by warring German princes. Religious battles were rampant and it was only in the 16th century with the formidable presence of Martin Luther that Germany calmed its fractious seething. Luther's 95 Theses was a path-breaking moment, as was his translation of the Bible to German. But religious tensions, perpetually simmering beneath, bubbled to the surface, creating the setting for the Thirty Years War in the 17th century. The war ended, and so did the Holy Roman Empire much later, which became the access pass for Napoleon.

Germany's blurry countenance became sharper in the 19th century with the fall of Napoleon and the establishment of the German Empire led by Bismarck. It was during this time that Germany established a common market. The Zollverein or Toll Union abolished the toll between the various states in 1833, and by 1870, with industrialization in full swing, the traces of modern

Germany could be seen. The introduction of a rail system boosted the demand for coal and steel. The lush resources bulging in the Ruhr valley were pulled out, making Germany the biggest producer of coal in Europe. But the assassination of Franz Ferdinand, the Austrian heir to the throne, spurred World War I which reduced Germany to a shell. Germany was offered a ray of hope with improvements in industrial production, but these dreams were quickly scuffed out with the beginning of Hitler’s regime.

World War II punched a big void in Germany’s rising happiness, leaving post-war Germany with just smoldering embers of its affluence. The war divided Germany into East and West and the country was a mélange of poverty and riches and starvation and growth. West Germany quickly recovered enough to wear smiles of prosperity, while the East languished. A reunification of the two sides was achieved in 1990 with the tearing down of the Berlin Wall, a momentous occasion for the spiritually and physically disconnected population.

From Beethoven to the Autobahn

The German historical fabric is not just suffused with the dark tones of war but also the vicissitudes of intellectual richness. Germany’s fine culture involves magnificent music, moving poetry, deep philosophies and flawless sculptures.

Beethoven, Alzheimer, Gutenberg, Kant, Hegel, Goethe and Bach are universally recognized motifs of the fields that they represent. While rooted in its past, Germany is also a cosmopolitan and dynamic country offering something for everyone. *Sauerkraut*¹ and *wurst*² continue as traditional fares but enormous foreign influence over the years has widened the culinary spread immensely. Beer is synonymous with Germany and it is evident in the *Oktoberfest*³ which is held each year in the country, attracting about six million people from around the world. The European Parliament recognizes German beer as “traditional foodstuff”, all thanks to the Purity Law which allows German beer to contain only basic ingredients like hops, malt and water.

Germany and the World	
Nominal GDP (\$)	3.6 trillion
GDP Rank	4/193
Per Capita GNI (\$)	42,710
Per Capita GNI Rank	23/210
Population Rank	24/227
Geographical Area Rank	63/250
Global Competitiveness Rank	7/133
Economic Freedom Index Rank	23/179
Human Development Index Rank	22/182
Major Industries	Manufacturing, Mining, Automobiles, Chemicals

Hitler and the aftermath

The war left Germany in a mess of shattered dreams and disillusionment. But surprisingly, the economy survived the onslaught. Hailed as an “economic miracle”, Germany underwent an upturn very soon after World War II. It was partly due to the monetary reforms of 1948, and partly the result of economic aid from the U.S. These reforms were assisted by extra labor and



These colorful German beer steins may get a bit dusty. Beer sales in Germany have fallen to their lowest level since 1993, mainly due to an aging population and health-conscious young adults. German beer accounts for more than 10% of the global market.

long working hours put in by a large number of ‘*gastarbeiter*’ or ‘guest workers’ who aimed to earn money and return wealthy to their own countries. Unemployment was at its lowest and these guest workers were utilized to assist the German ‘social market economy’ which was created during this time. Ludwig Erhard, the creator of this model, based it on free trade and private enterprise aided by an infusion of capital, a bewitching mix that led West Germany to the path of riches.

From the 1950s, West Germany in particular flourished with innovative industrial relations cultivated with the financial sectors. Since the late 19th century, the German economy has been shaped by industrial production and international trade, foregoing agriculture which previously was a staple occupation. The number of industrial jobs shot up in tandem with the rise of the service sector which included retail, banking and tourism. By the 1970s, more than half of the German

workforce was employed by the automotive, metal products, electrical appliances, plastics and food processing industries.

Converging hopes and global ambitions

Germany’s new look facilitated its marriage with the global markets. The world’s third largest economy today has the feel and aura of one which has grappled with radical changes and won. With a population of 82.5 million, Germany is the largest and most important market in the European Union. Its purse strings are secured by exports, making Germany the biggest exporter of goods worldwide. Its exports hit a record 1,395 billion in 2007. This is a step up of 8.5% over the previous year, boosting the country’s trade surplus. Germany’s most important partners for barter are France, the [U.S.](#) and the [U.K.](#), but emerging giants [India](#) and [China](#) have been increasingly grabbing its attention. The traditional European image of the provider is now being challenged by these aggressively upcoming Asian economies, which are elbowing their way

through the Western muddle. The Asian steamroller is powered by advantages of low-cost labor, economies of scale and a highly productive working class, factors which are key issues in developed countries like Germany.

Recent developments: Smart recovery from recession

Through the major part of 2008 and 2009, Germany suffered its most brutal economic downturn in the post-World War II era. Given that exports have typically accounted for over 40% of its GDP, the virtual collapse of world trade severely dented the country's economy. German merchandise exports plunged 18.4% in 2009, witnessing their steepest decline in about 60 years. Toward the end of 2009, Germany also lost its status as the world's largest exporter to China. With export demand receding significantly, investment demand diminished, while the looming economic uncertainty took its toll on consumer sentiment.

Nonetheless, on the back of a quicker-than-expected revival in world trade and inventory restocking across the globe, the nation managed to emerge from recession in the second quarter of 2009 after experiencing four quarters of contraction. Since then, Germany has recovered commendably, clocking 3.6% GDP growth in 2010 — the best since its reunification — after a hefty 5% GDP decline in 2009. Germans welcomed 2011 in an upbeat mood — over a period of around one year, the nation's unemployment had reduced, public finances seemed to be in much better shape, consumer sentiment had improved, and business confidence was high. In fact, 2010 turned out to be an excellent year for the country as it regained its status as the Euro-zone's primary growth driver.



Germany is the world's export powerhouse. The European Union remains the country's largest market, accounting for 60% of all exports.

Several factors, both internal and external, contributed to Germany's remarkable resurgence. For one, Germany had not experienced a real estate or credit boom before the crisis. Therefore, it had fewer systemic problems to deal with. But most importantly, the emerging economies, while leading the global economic recovery in 2009, wanted exactly the things — luxury cars, and plant machinery, among other things — that Germany has always been good at producing. German firms, which had held on to their employees thanks to government subsidies, could respond to this demand quickly and, hence, cranked up production and sales sooner than their peers did in the rest of the developed world. The falling euro, which tumbled almost 15% in the first half of 2010, also played a key role in jumpstarting exports.

The government played its part and deployed all the policy tools at its disposal to give the economy a push. It introduced a €500 billion (\$680 billion) bailout plan for the banking sector in October 2008. A lifeline in the form of a bailout package by a government-led consortium of financial institutions was also given to a leading real estate lending institution, as one of its subsidiaries struggled under a huge debt burden. As well, the government announced a ‘bad bank’ scheme in May 2009, allowing banks to swap their toxic assets for government-backed bonds for an annual fee. While the plan’s goal is to cover €180 billion (\$250 billion) of the banks’ toxic securities, the estimated distressed assets of the banking system could total up to a mammoth €800 billion (\$1.1 billion). The government also announced two stimulus packages worth €82 billion (\$115 billion), amounting to about 3.25% of GDP. The package included tax incentives, measures pertaining to infrastructure and transport projects, and credit guarantees to help firms tide over the credit crunch.



While employment offices had been increasingly feeling the heat of the economic downturn in 2009, the easing of joblessness, with export recovery underway, has come as a welcome relief to Germany.

Overall, exports have been on a gradual uptrend since the end of 2009, sparking concomitant revivals in investor confidence and business sentiment. Germany’s economic momentum is reflected in its easing unemployment rate, which has declined from a high of 7.7% in mid-2009 to about 7.3% in February 2011, seasonally adjusted. Clearly the export sector, which creates every third job in the country, has been instrumental in bringing down unemployment. To further boost the labor market, the government has extended its jobs incentives program to 2012, which was earlier slated to end in 2010.

Meanwhile, Chancellor Angela Merkel got re-elected for a second term in the German general elections held in September 2009. A coalition government comprising Merkel’s center-right Christian Democratic Union (CDU) and Christian Socialist Union (CSU), along with the pro-business Free Democratic Party (FDP) has assumed power in the country. Boosting economic growth and restraining the country’s galloping budget deficit are the top priority for the government.

In fact, for the first time since 1969, Germany announced a balanced budget in 2007 when its revenues grew strongly on the back of robust export growth. The government managed a small budget surplus in 2008, but registered a deficit of 3% in 2009 due to its stimulus programs. According to initial estimates, the deficit expanded to 3.5% in 2010. In order to rein in the budget deficit, the government has approved austerity measures, which are expected to cut the

deficit by a record €80 billion (\$96 billion) between 2011 and 2014. The plan is to lower the deficit to below the mandated 3% level for Euro-zone members by 2012. The measures are designed to slash spending and incorporate cuts in social welfare benefits.

‘German engineering’ exports to remain the primary growth engine

German engineering is perhaps as much a global brand as French wine and Swiss watches. That is why when 33 Chilean miners trapped inside a copper mine needed to be brought out through a 2000-foot vertical shaft barely 60 centimeters wide, a German family-owned firm with 60 employees was approached to provide a key precision tool that would keep the deep-drilling machines absolutely vertical. The firm, Micon, is one among numerous small- and medium-enterprises that are collectively called *Mittelstand* in Germany.

Mittelstand businesses, which are typically family-owned, dominate little-known areas of industry, specializing in producing machinery ranging from passport printers to envelope makers. None of these firms are household names, but many of them are considered world leaders in their areas. Historically, the *Mittelstand* has been as much the force behind Germany’s export engine as the country’s large publicly listed companies. In fact, so strong has been this force that unlike other developed nations, Germany has been able to maintain its share of global exports over the past decade, despite the meteoric rise of China.

With globalization, both the *Mittelstand* and corporate Germany have expanded their operations, making inroads into rapidly developing emerging markets like China and, in some cases, establishing cheaper production facilities in Eastern Europe and Asia. The country’s auto industry has been the biggest beneficiary of this trend. In fact, 2010 was the first year in which the industry manufactured more cars abroad than in its German factories. Moreover, German automakers managed to increase their market share in key markets like the U.S., China, and India in 2010. Not surprisingly, therefore, the German automobile industry posted a growth of more than 25% during the year. Strategic globalization has helped German automakers in several ways. Besides reducing shipping costs, wage expenses, and the impact of exchange rate fluctuations, production facilities in foreign locations have made it easier for the automakers to understand local customer preferences better



Home to the European Central Bank, German Federal Bank and Frankfurt Stock Exchange, Frankfurt has not only been the financial center of the country, but a hub of Continental Europe as well.


and get a stronger foothold in those markets. Thus, having embraced globalization completely, German industry is better placed than ever to exploit new opportunities in the global economy.

Hurdles on the way

Ironically, though, the success of its export sector is both a matter of pride and weakness for Germany because it reflects the country's excessive reliance on foreign demand. In order to insulate itself from economic setbacks, such as the one it suffered in 2009, Germany needs to adopt a growth model that focuses on domestic consumption as much as it does on exports. However, consumer spending in Germany remains relatively weak, despite recent improvements. Besides, in sharp contrast to its industrial strength, Germany's services sector remains inefficient, held back by inadequate competition, low productivity, and too much red tape and protection.

An aging population is also adding to Germany's economic woes. Germany has the third largest aging population in the world next to [Japan](#) and [Italy](#). The dwindling workforce is finding it more difficult to support the expanding number of retirees. Germany's aging problem has reached this extreme because of very low birth rates averaging less than 1.4 babies per woman. The country's social security system is creaking with the strain of maintaining its aged, while unemployment is adding to the equation.

Silver lining

Germany is an intricate symphony of technology, art, innovations, history, and business. The echoes of its past still reverberate through the tony streets of the neon drenched metropolis. It has etched its free spirit by communing with global economies and has shown its plurality by welcoming guests from all over. Postmodern Germany was whittled out from the emptiness of war, by the hands of immigrants who form about 9% of the population. Their integration was always uneasy, but efforts are being redoubled today to ensure a happy amalgamation. Individualism, family and traditions are welded together firmly by the fires of modernity, and Germany receives one and all with open arms. 

[1]: *Pickled cabbage*

[2]: *Sausage*

[3]: *A 16 day beer festival held in Bavaria during late September-October*

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