



Country Profile

Germany

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Thomas White Global Investing

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 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 15 years later, our firm growth and strong subsequent portfolio performance has 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.

Country Profile

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

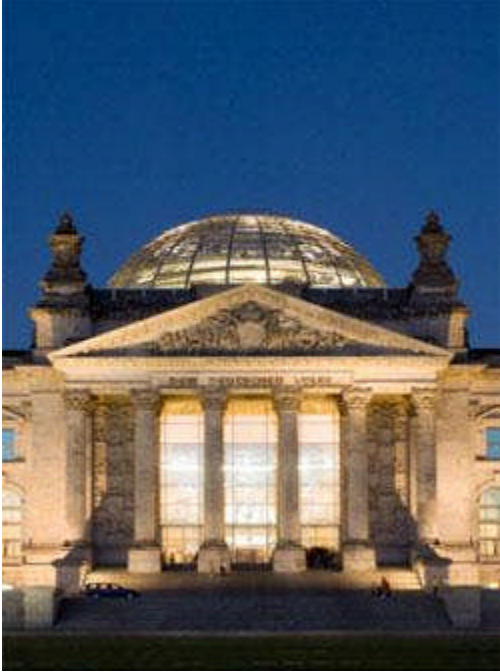
Germany has always risen from the rubble of war and waste - beginning with medieval times when Anglo-Saxon tribes unleashed atrocities to the infamous World War II when Adolf Hitler wielded his baton over the world. Germany began to take shape in the 'Dark Ages' of medieval times. The 13th century witnessed 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.

Germany and the World	
Nominal GDP (\$)	3.6 trillion
GDP Rank	4/186
Per Capita GNI (\$)	42,440
Per Capita GNI Rank	22/210
Population Rank	24/227
Geographical Area Rank	63/250
Global Competitiveness Rank	7/133
Economic Freedom Index Rank	25/179
Human Development Index Rank	23/179
Major Industries	Manufacturing, Mining, Automobiles, Chemicals

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.

[Sauerkraut¹](#) and [wurst²](#) continue as

Completed in the 19th century, the Reichstag was originally the headquarters of the German Parliament. Hitler later used the imposing edifice as a backdrop for his propaganda rallies.

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

[Oktoberfest³](#) 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.

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 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.

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.

Ripples of worry



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

The reunification of West Germany and East Germany or the German Democratic Republic (GDR) is the next major turning point in the country's evolution. The two Germanys united on October 3, 1990, but the first step towards economic homogeneity was taken earlier in July. The Deutsche Mark currency of West Germany or the Federal Republic now became common and began to be used in the GDR. In order to elevate East Germany to the financial level of its western doppelganger, public and private sectors intervened with benevolent offerings of aid and investment. These sectors enabled a smooth volte-face in the personality of the East – new infrastructure, a rise of small businesses and the advent of multinationals.

Recent Developments: Recessionary conditions gradually ebb

The German economy, the Euro-zone's erstwhile growth driver, has encountered its worst recession in the post-World War II era. As the ripples of the global financial crisis took effect, domestic consumption and investment demand diminished significantly. And with exports contributing to over 40% of GDP, the virtual collapse of world trade severely dented the country's fortunes. German export growth slowed down to 3.9% in 2008 compared to a 7.5% rise in exports recorded in 2007. Mirroring the global economic slowdown, the world's biggest exporter should be seeing exports toppling markedly in 2009 as well.

Falling into a recession since the third quarter of 2008, the German economy is expected to contract about 6% in 2009, according to government estimates. The European Commission predicts a 5.4% fall. With the global financial crisis hitting Germany hard, the pace of economic growth slowed

down to 1.3% in 2008 compared to a healthy 2.5% in 2009. What remains crystal clear is that the bulk of the contraction in economic activity has been attributable to plunging exports. Unemployment levels which were 7.3% in 2008 have been creeping up, touching 7.7% by July 2009. The jobless rate is expected to peak at a high of 12% in 2010, before economic recovery gets underway. While globalization has helped the export-reliant economy achieve robust growth rates in the past, a reliance on exports is now costing dearly as every third job depends on the export sector. Meanwhile, prices have been falling, with the consumer price index retreating by 0.1% in August 2009 from 2.8% for 2008 as a whole, as consumer demand weakened considerably.

To deal with the aftermath of the global financial crisis and ease the liquidity crunch situation, the government introduced a €500 billion (\$680 billion) bailout plan for its 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. The government also 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 has been targeted to cover €180 billion (\$250 billion) of the banks' toxic securities, the estimated distressed assets of the banking system could total up to a gigantic €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 includes tax incentives, measures pertaining to infrastructure and transport projects, and credit guarantees to help firms tide over the credit crunch. In addition, the European Central Bank cut benchmark rates to a record low to revive economic activity. This stimulus will push government

Closed! As unemployment levels creep up, employment offices are increasingly feeling the heat. Clearly, the export-driven German economy has been hit hard by the global economic downturn.

finances from a balanced budget in 2008 to a fiscal deficit of almost 6% by 2010.

Encouragingly, the economy recovered earlier than expected, recording a growth rate of 0.3% in the second quarter of 2009 compared to the previous quarter, where it had contracted 3.5%. The export-driven German economy has benefited from global stimulus efforts that are gradually reviving external demand, coupled with government subsidies and spending. Exports seem to be on the path to recovery in the second half of 2009, breathing life into the world's biggest exporter. Investor confidence and business sentiment also seem to be reviving now.

Meanwhile, Chancellor Angela Merkel got reelected for a second term in German general elections held in September 2009. A coalition government comprised of Merkel's center-right Christian Democratic Union (CDU) and Christian Socialist Union (CSU), along with the pro-business Free Democratic Party (FDP) will be assuming power in the country. Reviving the ailing economy and restraining its galloping budget deficit will be a top priority for the government. Hence, the Chancellor has ruled out any tax cuts before 2011.



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.

Yet, among other things, the country also faces a challenge of losing labor competitiveness to other countries which offer cheap labor. The transfer of mass manufacturing jobs abroad may further exacerbate the rate of job loss. This in turn has led to the rise of income inequality, with skilled workers' incomes increasing faster than those of low-skilled laborers.

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, with unemployment 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.

Thomas White International, Ltd.

One Financial Place,
440 South LaSalle Street,
Suite 3900,
Chicago, Illinois 60605.
Email: feedback@thomaswhite.com

Thomas White India Pvt., Ltd.

Suite 300, 3rd Floor
Phoenix Towers
16/1 Museum Road
Bangalore 560001
Tel.: 91-80-40187777

www.thomaswhite.com