CHARACTERISTICS OF THE GERMAN MARKET

1. Demographic and Environmental*

The Federal Republic of Germany has a land area of 249,000 km^2 (96,139 square miles), comparable to that of southern Ontario. Fifty-four per cent of the land is developed for agricultural purposes and 29 per cent is forest. The major population and industrial centres are dispersed throughout the country. Notwithstanding a birth rate below the replacement level, Germany has the largest population (61.5 million people in 1981) in the European Economic Community (EEC). Throughout the 1970s, the population grew by only 1.5 per cent over a 10-year period. The F.R.G. is gradually becoming an "aged" society, with its disposable income increasingly concentrated in the hands of wage earners in their prime earning years.

Germany's transportation network is extremely well developed. The country has 4,300 km (2,700 miles) of navigable inland waterways, including the Rhine River and modern port facilities such as Hamburg, Bremen and Bremerhaven. It has more than 28,800 km (18,000 miles) of efficiently run rail lines and a comprehensive road network that services the dense traffic volume common to Europe.

2. Economic

With a per capita gross national product (GNP) in 1982 of approximately $13,200, the Federal Republic ranks as one of the world's most affluent nations. This wealth has been created by 20 years of impressive economic growth, averaging 4.9 per cent between 1963 and 1970 and 2.9 per cent during the 1970s. During the same period, inflation has kept well below the levels prevalent in other Western economies.

The manufacturing sector is traditionally the major contributor to the national wealth and remains the largest single component of the domestic economy. Its importance relative to the service sector, however, has declined in the last decade. In numerical terms, the number of workers in manufacturing dropped from a peak of 13 million in 1970 to 11.4 million in 1979. At the same time, employment in service industries grew from 43 per cent of the total work force to 49 per cent. Agricultural production has declined marginally.

The availability of manpower, historically, has been a recurring problem for the German government. From the late 1950s to the early 1970s, Germany enjoyed full employment. More accurately, a labour shortage existed, and Germany had to import foreign "guest workers," mostly from southern Europe and Turkey. In 1973 there were 2.6 million such workers in Germany, decreasing to 1.9 million by 1982. Worldwide inflationary pressures, shifts in world trade patterns, developing weaknesses within the F.R.G. economy, the gap between the qualifications of required and available labour (skilled vs. unskilled), and the relatively low mobility of local workers combined to raise unemployment to 10.1 per cent in early 1983.

* Reference Table I, page 34

3. Macroeconomic Trends* and National Planning

One of the foundations of Germany's economic growth during the last 30 years has been the development of the "social market economy". In that economy, all interested groups, such as government, industry and labour, function in a relatively co-operative manner within a framework shaped by national interest. That has created a climate where government, industry and labour formulate their respective demands to reach a compromise that permits healthy economic growth.

Contributing to Germany's post-war success is the application of free market principles. F.R.G. governments generally stay out of the marketplace and intervene only after extensive discussion with all interested parties. Following the initial phase of post-war reconstruction, German industry underwent several difficult periods of adjustment. German companies were forced to improve the technical quality and range of their products as a result of structural changes in the economy. That has helped the country achieve its position as the world's number two trading nation today. At the same time, the F.R.G. became a leading world market for imported industrial equipment and high-grade consumer durables.

Germany's economic prospects are heavily dependent on external business and financial conditions. The effects of external competition, commodity price increases and soaring petroleum import costs on the F.R.G. economy were dampened during most of the 1970s. Tight money policies, limited internal demand and a substantial currency appreciation left the country with a healthy trade surplus and relatively low inflation rate until the end of the decade. The oil price increases in 1979, however, forced the F.R.G. into a deficit position and highlighted such weaknesses developing in the economy as a chronic services deficit and a declining competitive position on the international market. Symptomatic of these problems were the increase of Japanese products into the domestic market and a deterioration of the German marketing position in North America. In addition, excess capacity developed or became more acute in such basic industries as steel, textiles, chemicals, motor vehicles and even in such sectors of traditional strength as electrical and mechanical engineering products. Those conditions were reflected in increasing bankruptcies, declining production and rising unit labour costs.

As the current economic recession became more pronounced in 1981, unemployment rose above the politically sensitive threshhold of 5 per cent. In 1982, disagreements over the strategy for addressing this problem contributed to the collapse of the SPD-FDP coalition and the formation of a new government headed by the CDU. In March 1983, the CDU-FDP coalition was elected.

* Refer to Table 2, page 34 ** Refer to Table 3 page 34

*** Refer to Table 4, page 34.