Business Environment in Germany

Germany - Economic Outlook

Hong Kong Trade Development Council (HKTDC)

Recent Developments

• As Germany is a member of the European Union (EU), its trade relations with Hong Kong/the Chinese mainland are affected by EU’s common external trade policy and measures. As a euro-zone member, it has also adopted the euro as its legal tender from 1 January 2002.
• Upon the expiry of the textile safeguard quotas by the end of 2007, a joint system with China had been established to monitor EU imports of Chinese textiles and apparel, which was scheduled to operate for one year, covering 8 out of the 10 previously restricted categories. Starting 1 January 2009, textile and clothing products originating in China no longer require any import licence or surveillance document before entering the EU.
• The EU’s new scheme on generalised system of preferences (“GSP”) entered into effect on 1 January 2009, and will remain in force until 31 December 2011. While the Chinese mainland remains a beneficiary, certain products, including toys, textiles and textile articles, footwear, furniture, jewellery, electrical equipment and watches and clocks, will be excluded from preferential treatment.
• A number of Chinese mainland-origin products are subject to EU’s anti-dumping duties, including bicycles, ironing boards and certain saddles, which are of interest to Hong Kong exporters.
• Hong Kong’s total exports to Germany increased by 16% to US$7.6 billion in the first eight months of 2011, while its imports from Germany grew by 21% to US$5.8 billion.
• The total stock of German direct investment in Hong Kong amounted to US$4.9 billion (or HK$37.9 billion) as at the end of 2009.
• Blown by the global economic slowdown and the subsequent setbacks in the recovery of its manufacturing activities and exports, the German economy is forecast to see a more moderate growth this year. Despite continued improvements in the labour market, consumers and investors remain prudent due to the lingering sovereign debt crisis, while public spending control measures moderate government expenditure. In all, the export-led German economy is expected to see growth of 2.7% in 2011 and a far more modest 1.3% in 2012.

Current Economic Situation

With exports reviving and investment showing increased signs of relief in 2010 and early 2011, the export-dependent German economy registered an encouraging rebound. However, the tough debt spiral and the subsequent spillover through financial market volatility, declining exports and manufacturing activities have been factoring in, putting a check on the revival of domestic demand in Germany and slowing the pace of the country’s overall recovery.

Looking ahead, the German economy is forecast to continue growth in the rest of 2011 and 2012, but at a more modest pace. Despite continued improvements in the labour market, the ongoing austerity drive together with the uncertain prospects of the sovereign debt crisis will slow consumption and public spending, not to mention the expected slowdown in exports due mainly to
the weaker demand from its European neighbours and the adverse impact on purchasing power in light of sustained inflation. Taken together, the German economy is forecast to expand by 2.7% in 2011, followed by a far more modest growth of 1.3% in 2012.

Trade Policy

Germany is a member of the EU, and it follows EU’s common external trade policy and measures. As a euro-zone member, it has also adopted the euro as its legal tender from 1 January 2002.

Textiles and Clothing

Hong Kong’s textiles and clothing exports to the EU were previously subject to the World Trade Organisation (WTO) Agreement on Textiles and Clothing (ATC), under which quantitative restrictions on textiles and clothing were eliminated completely on 1 January 2005.

Likewise, the previous quotas imposed by the EU on textiles and clothing products originating from the Chinese mainland were removed on 1 January 2005. However, as a result of the EU-China agreement reached in June 2005, the EU imposed safeguard quotas on 10 categories of Chinese textile products for the period of 2005-2007. Upon the expiry of the textile safeguard quotas by the end of 2007, a joint system with China was established to monitor EU imports of Chinese textiles and apparel for one year, covering 8 out of the 10 previously restricted categories.

Starting 1 January 2009, textile and clothing products originating in China no longer require any import licence or surveillance document before entering the EU.

Non-textile Manufacturing Products

Previously, the EU also imposed Union-wide quotas on three categories of non-textile products originating from the Chinese mainland, including certain footwear, porcelain and ceramic tableware/kitchenware. But these quotas were liberalised on 1 January 2005.

Scheme of Generalised Tariff Preferences

The EU’s new scheme on generalised system of preferences (“GSP”) entered into effect on 1 January 2009, and will remain in force until 31 December 2011. The scheme classifies products into two categories, namely sensitive products that enjoy the benefits of reduced tariff rates by 3.5 percentage points, and non-sensitive products that enjoy total tariff suspension. Under the new GSP scheme, the Chinese mainland remains a beneficiary. But certain products, including toys, textiles and textile articles, footwear, furniture, jewellery, electrical equipment and watches and clocks, are excluded from preferential treatment. Regarding Hong Kong, the territory has been fully excluded from the EU’s GSP scheme since 1 May 1998.

Anti-dumping Measures

The EU has initiated anti-dumping (AD) proceedings against certain mainland-origin products. Currently, there are a number of mainland-origin items subject to EU’s anti-dumping measures, including bicycles, ironing boards and certain saddles, which are among the affected products of interest to Hong Kong. As at the end of June 2011, the EU did not apply any AD measures on imports from Hong Kong.
Other Measures

To combat the spread of the Asian longhorn beetle, the EU introduced in July 1999 emergency controls on wooden packaging material originating in the Chinese mainland. Wood covered by the measures must be stripped of its bark and free of insect bore holes greater than 3mm across, or have been kiln-dried to below 20% moisture content.

For health reasons, the EU has adopted a Directive on the control of the use of nickel in objects intended to be in contact with the skin, such as watches and jewellery. Following the emergency ban adopted in December 1999, the EU has adopted a Directive to ban the use of some phthalates in certain PVC toys and childcare articles on a permanent basis, which will come into effect from 16 January 2007. In addition, the EU has adopted a Directive to prohibit from September 2003 the trading of clothing, footwear and other textile and leather articles which contain azo-dyes, from which aromatic amines may be derived.

On the other hand, the EU has adopted a number of Directives for environmental protection, which may have an impact on the sales of a wide range of consumer goods and consumer electronics. Notable examples include the Directive on Waste Electrical and Electronic Equipment (WEEE) implemented in August 2005, and the Directive on Restriction of Hazardous Substances (RoHS) implemented in July 2006. On 3 December 2008, the European Commission (EC) presented two proposals: one for a recast RoHS Directive and the other for a recast WEEE Directive.

The recast RoHS Directive was published on 1 July 2011. It will have to be implemented throughout the EU-27 as of 2 January 2013. The new Directive will continue to prohibit EEE that contains the same six dangerous substances as the old RoHS Directive. Nonetheless, the new Directive will widen, as from 22 July 2019, the current scope of the previous RoHS Directive, by including any EEE that will have fallen out of the old RoHS Directive’s scope, with only limited exceptions.

Another important law for Hong Kong companies to grapple with concerns waste EEE, i.e., the WEEE Directive. Under the recast, the collection and recycling targets will increase, although there is a battle going on at EU level as to how high some of these targets should ultimately be. To clear the remaining conflicting issues during negotiations over the recast, the implementation may not occur before 2014.

On the heels of the recast RoHS Directive and the soon-to-be adopted recast WEEE Directive, the EU’s new framework Directive for setting eco-design requirements for energy-related product (ErP) is now in place. The ErP Directive is no longer limited to only EEE (as it was under its predecessor, the energy-using product, or EuP, Directive), but potentially covers any product that is related to the use of energy, including shower heads and other bathroom fittings, as well as insulation and construction materials.

Moreover, REACH, an EU Regulation which stands for Registration, Evaluation, Authorisation and Restriction of Chemicals, entered into force in June 2007. Among others, it requires EU manufacturers and importers of chemical substances (whether on their own, in preparations or in certain articles) to gather comprehensive information on properties of their substances produced or imported in volumes of 1 tonne or more per year, and to register such substances prior to manufacturing in or import into the EU.

Following the entry into force of the new Toy Safety Directive (Directive 2009/48/EC) on 20 July
2011, the Official Journal of the EU published on 11 August 2011 references to two important safety standards concerning electric toys (EN 62115:2005 and its amendment EN 62115:2005/A2:2011) and two previous standards on the mechanical and physical properties of toys and a standard on the flammability of toys.

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