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The BRICS – important trading partners for Germany

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Years of strong economic growth in the BRICS (Brazil, Russia, India, China, South Africa) have been a blessing for Germany's export industries and have attracted German direct investment. However, Germany is now feeling the recent significant loss of momentum in these countries' economies, although trade and investment remain remarkably high.

Economic development of the BRICS countries

The BRICS group of countries was conceived on an investment banker's drawing board. For a long time, it was regarded as a synonym of big, fast-growing markets and increasingly attractive investment opportunities. It is true, however, that the BRICS are anything but a homogeneous group. They are characterised by stark differences, both on an economic and political level, and they also have various structural weaknesses. Their long and high economic growth rates, however, are undisputed. The BRICS countries' cumulative GDP increased by 123% in real terms from 2000 to 2008. After that, however, GDP growth has been uneven across the group. In the global crisis year 2009, China and India were the only countries to grow, while the Brazilian, Russian and South African economies contracted. 2010 was once again a good year for all five. However, economic momentum in the BRICS has slowed down considerably since 2011 and Brazil and Russia in particular have slipped into a veritable crisis, albeit for different reasons.

Germany demonstrates its international competitiveness

The growth of the BRICS has considerably benefited Germany's export industry.

German goods exports to the BRICS totalled a mere EUR 27 billion in the year 2000 but climbed to EUR 131 billion in 2014 (see Figure). This is an increase from 4.5 to 11.6% of total exports. Today, the composition of Germany's exports to the BRICS by sector is as follows: 27% vehicles, 26% engineering, 13% chemical products, 12% electronics, 22% other sectors. Obviously, this sectoral composition deviates from the average in each individual country but is generally quite similar.

This development of exports is noteworthy, not least because the boom in the BRICS is essentially based on progress made in the manufacturing sector. This means that the BRICS have advanced in areas in which the German economy is strong as well. Germany is therefore facing increased competition, both within the BRICS and on third-country markets. The figures document Germany's high international competitiveness.

China and Russia - the heavyweights

As the chart illustrates, the BRICS have very different relevance for Germany. China and Russia clearly stand out and

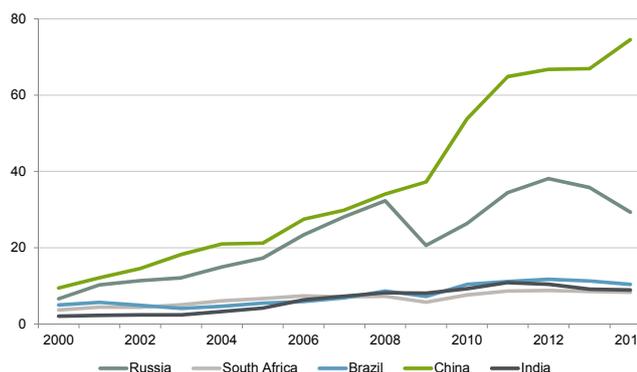
account for the biggest portion of export growth since 2000. Exports to Brazil, India and South Africa follow at a considerable distance, having also developed with far less dynamism.

China and Russia should be closely observed at the current margin as well. For a long time, the Chinese economy was running at full steam with growth rates in excess of 10% but it cooled down to 'only' 7.4% in the year 2014. Without a doubt, its trading partners have also come to feel this through lower import demand. Germany has no reason to complain in this regard, however, as German exports to China have continued to grow strongly even after 2010. Not so for Russia, with German exports to that country declining sharply since 2012 as a result of the Russian economic crisis and the sanctions imposed in 2014.

German direct investment (DI)

The BRICS are also attractive for German enterprises as an investment location. German capital stock invested in the BRICS totals more than EUR 100 billion, with German enterprises employing more than 1.4 million people there (data current as at end of 2012). The BRICS account for nine per cent of German direct investment worldwide. As with exports, China is also No. 1 among the BRICS for direct investment. ■

Figure: German goods exports to the BRICS (nominal, in EUR billion)



Source: Federal Statistical Office