Germany Takes Eurasian Medicine For U.S. Flu

by Rainer Apel

The expected "Autumn of mass layoffs" has arrived in Germany—directly linked to the deepening depression that has hit the real economy in the United States. While President Bush keeps advertising his "stimulus" package, and Chancellor Gerhard Schröder insists "there is no recession," industry tells a different story: Many people will lose their jobs this Autumn and Winter, because fewer cars and industrial and consumer goods are being produced.

In Germany, mid-October represented a watershed. The umbrella organization of the German Chambers of Industry published a confidence poll of its member chambers on Oct. 16, which characterized the outlook as "very, very grim." The same day, the Association of Independent Entrepreneurs declared there was little confidence in the future, but rather hope. The Association of Construction Firms, on Oct. 12, had reported that corporate defaults in its sector had increased by 20% in the first half of this year, compared to the first half of 2000. "New Economy" firms were hit much worse, reporting an 80% increase in defaults over the same period. September saw a net increase of joblessness by 40,000, compared to September 2000.

Some of the biggest names in industry, transport, and banking made panic headlines in the media, with announcements of fresh plans for layoffs: During Oct. 12-17, some of Germany's leading banks announced about 22,000 layoffs: Dresdner Bank, 7,800 (15% of its workforce); Hypovereinsbank, 7,500 (10%); Commerzbank, 3,400 (8%); and even Deutsche Bank hinted that it might cut more than the already-announced 2,600 jobs. Between Oct. 14 and 17, some of the leading industrial firms announced plans for new layoffs, after three bad economic quarters in a row, with no hope for the fourth quarter, either: Siemens, 7,000 jobs in the mobile phone and communications sector, on top of 8,000 announced earlier; Opel, 2,500; the Dutch company Philips, announced 11,000 job cuts at its German sites on Oct. 16.

Directly linked to the situation in the United States, several big German automotive firms reported a drastic drop in sales for the third quarter. Germany's leading car-maker, DaimlerChrysler, will shut three of its U.S. plants which produced trucks; this will affect several thousand jobs on the American side and an unstated number in Germany. Germany's leading tire producer Continental reports a drastic drop in third-quarter sales, forcing the company to cut production at Continental Tire North America by 15%, and at its car brakes producer, Continental Teves North America, by 20%. And, the combination of its own indebtedness and the September drop of U.S. airline passenger volume by one-third, Germany's Lufthansa airline on Oct. 15 announced plans for cutting the work-week to four days. The fate of SwissAir—which almost defaulted on its debt, and was saved for two weeks by a "fuel emergency loan" of $220 million from the Swiss government—hangs like a Damocles' sword over Lufthansa, as well. At SwissAir, most of 52,000 jobs are threatened now.

China Bucks The World Trend

If spectacular defaults of prominent firms, such as America's Bethlehem Steel, have been avoided in Germany so far, it is due to a remarkable increase in exports to China, which helped to compensate losses in other Asian markets, Europe, Japan, and the United States. A press conference of the Asia-Pacific Division of the Association of German Machine Builders (VDMA) in Beijing on Oct. 15, illustrated that with rather impressive figures.

The increase of exports to East Asia by 30% last year, which compensated for much of the losses suffered in the wake of the Asia crisis of 1997-98, will not be repeated this year, the VDMA reported. Most of the Asian-Pacific importers of German machines are suffering more and more from the effects of depression in Japan and in the United States—their biggest export markets—so that investments in new machinery have been cut back considerably during 2001. But the Chinese market continues to develop, contrary to the global trend, the VDMA noted: China has become the number-one importer of German machines in Asia, whereas Japan fell back to number two this year. In the first half of 2001, machine exports to China saw a 58% increase compared to the first half of last year. In wood-processing and mining, but also industrial assembly-line technologies, the increase is 130%.

Granted, there is a big slump in Chinese textile manufacturing—which has to do with the depression in the United States, the number-one importer of Chinese textiles—and a slump in the consumer electronics sector, also caused by the drop in U.S. imports. But other sectors of the Chinese economy, like wood processing, mining, construction, machine-tools, aircraft, and power production, feature an increased interest in German machinery.

With respect to China, the VDMA is confident that the situation will improve, not least because of China's massive investments in the development of its industrial and transport infrastructure. Counter-balancing the bad U.S. auto news, Kolbenschmidt, a leading German producer of automotive pumps and cylinders, announced a new joint venture with the Shanghai Automotive Industries Corp., on Oct. 16.

All of that underlines again the strategic importance of real economic cooperation along the Eurasian Land-Bridge—the more important for an exporting industrial nation like Germany. Schröder will visit China from Oct. 31-Nov. 3.