Current State of the German Economy: Analytical Essay

1.1 - Introduction

The research project conducted in this report is to be formulated around the sole purpose of analysing the current state of the German economy to give an extensive guideline of how our projected, joint venture will perform with the sheer basis of knowledge gained by research conducted from web-based journal articles, forums, economy indexes or any relevant information gathered for a well-structured and professionally written research report.

Our report will include but not be limited to the key national, cultural, political, legal, environmental and economic factors and will also include the current issues that will somewhat have an effect on the set-up of our joint venture in Germany. We will also be using the Hofstede framework to investigate cultural dimensions that may have an impact on the business with these being contrasted against the cultural dimensions and expectations of that here in Australia.

Finally, the report will be concluding with an overview of what the German government has done to either promote or discourage foreign multinational corporations from investing in the economy

2.1 - Economic:

The German economy stands as the world's fourth largest totalling at more than one-fifth of European GDP, being the largest European trading partner and 6th largest partner all together with the United States (World economic database 2019).

However, Germany's Economic status was effected by the global economic crisis of 2008-09 and in October of 2008 was forced to finance a multibillion dollar euro bailout to prevent the country from economic collapse (C.v.j Simpson n.d). These German banks followed a similar strategic approach to that of American and Banks by allowing borrowers with poor credit history to borrow money as well as engaging in other risky pathways (C.v.j Simpson n.d).

The current economic status of Germany however looks far different to what it did during the crisis, with signs of relief coming at the economic years of 2010-11 with an economic expansion of 2.7% in 2011 followed by a further expansion by 1.3% the following year after the crisis (Global Trade 2011).

Germany's current export as of 2017 lies at a growth to $1.33 trillion and import sitting at $1.108 trillion with European trade being the highest trading source with Germany, and the United states sitting at 111B at second. Australia lies at a mere 0.01% of importing with Germany (OEC 2017).

According to the Herritage.org, the German economy's freedom score lies at 73.5, meaning that Germany is the 24th freest economy of 2019. But what does this mean? Business freedom as well as investing freedom is strong in Germany, meaning that the location is extremely possible to be starting a joint venture in.

2.2 - Political:

Germany is a democratic, federal parliamentary republic where their federal legislative power is ensured by the Bundestag, meaning the Parliament of Germany (Luyken 2017). The constitution of the Federal German republic provides the assembly of the Government, this dictates what systems Germany will follow. Germany still follows a system made many years ago in 1949 which tends to have some effects on Germany (PEST Analysis 2015).

2.3 - Legal:

Germany currently welcomes foreign direct investment (FDI). The FDI in Germany favour the principle of freedom in foreign trade and the use of payment transactions under the Foreign Trade and Payments act and the Foreign Trade and Payments Ordinance. To establish a company in Germany, traders must have a Visa. To obtain a Visa into Germany depends on entrepreneur's nationality and the specific business that is being intended to be established in Germany, provided that the said business establishment has a local representative that is on site in Germany upon establishment. The most widely used establishment method of a company in Germany by foreign investors is the GmbH (German Limited Liability Company) the reasoning behind this is the combination of few obligations and flexibility that go along with company establishment in Germany. GmbH requires a minimum of 25,000 euros to establish a company (Fridrich 2019).

2.4 - Social:

Germany's population lies at nearly 83 million according Worldometers meaning that it currently sits as the largest European Union country in terms of its population. Germany is currently a modern country shaped mainly by its widely ethnical diversity. Despite these changes Germans still consider family as the most important social reference unit (Zimmerman 2018).

2.5 - Environmental:

Being a huge industrialized country, Germany has a significant air pollution dilemma and unlike other Western countries, the problem seems have worsened over time. This is due to the reaction the Germany government had to the Fukushima nuclear disaster of 2011, where Chancellor Angela Merkel as well as the German government adopted policies phasing out German nuclear plants. This was done by allowing utilities to burn more coal, meaning that the Air pollution levels of 2012 and 13 were the highest they have been in Germany since the 1980s (Smith 2015). However, the German government has set goals to counter pollution and increase green emissions, they plan to achieve this by using fewer resources but using them more effectively and project that efficient use of raw materials in 2020 is to be double of what it was in 1994 (Smith 2015).

3.1 - Joint Venture or Wholly-Owned Subsidiary?

When establishing a Business in Germany we must take a look at the benefits a joint venture brings to the table over a wholly-owned subsidiary. In Germany one of the most beneficial ways of establishing a business as a foreign investor is the use of GmbH and the gathering of a Visa.

To achieve this the foreign investor needs to have a local representative on site at the establishment. Joint ventures are created by 2 or more people and help access a new market, for a foreign investor it can be very possible to create a Joint venture with a local representative which will In turn help the foreign investor obtain a work Visa, where visitations to Germany can be regular. Considering Germany's trades with the EU and the United States and China etc., business establishment in Germany has supreme potential and allows for a joint venture to thrive.

4.1 - Individualism Versus Collectivism (Teamwork vs Individual)

Germany tends to focus more on families and the parent child relationship giving it a score of 67 compared to Australia's individualism score of 90 directly translating to the tendency that Australia is a "Loosely knit society, in which people look after themselves" making Australia an Individualism society as opposed to Germanys collectivism society. (Hofstede Insights n.d)

4.2 - Power Distance (Recognises or encourages authority)

Germanys power distance is highly decentralised and supported by the middle class, control is disliked and leadership is constantly challenged to show skill giving it a low score of 35, Australia is extremely similar in the aspect of power distance (36). (Hofstede Insights n.d)

4.3 - Uncertainty Avoidance (Attitudes to risk taking)

Germany deals with uncertainty well and is one more uncertainty avoidant countries in the world comparing to Australia which is very intermediate with uncertainty avoidance. (Hofstede Insights n.d)

4.4 - Masculinity vs Femininity (Style of decision making

Germany is considered a masculine society making performance highly valued. Austrlia is very similar to Germany and is also considered a masculine society that is driven by performance. (Hofstede Insights n.d)

4.5 - Long-Term Orientation (Business Planning, Objectives and Performance)

Germany and Australia are on the complete opposite spectrum when it comes to Long-Term orientation. Germany is a pragmatic country having a pragmatic orientation with a perseverance in achieving results. Australia on the other hand is a normative country, Australia focuses on quick results rather than waiting for optimal results by investing into the future. (Hofstede Insights n.d)

4.6 - Indulgence Verses Restraint

German culture is restrained in nature and are considered to have a tendency to cynicism and pessimism compared to Australia which is an Indulgent country which generally displays desires

with regard to adoring life and having fun. (Hofstede Insights n.d)

5.1 - References:

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