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The role of the armaments industry in the economy of the FRG

The development of the German armaments industry has been related to the defense policy of the Federal Republic of Germany (FRG) and the role of its armed forces in national security since the reunification of the country in 1990. Taking into consideration Prussian and Nazi militarism, which was one of the main causes of both World Wars, the government in Berlin was very cautious about the promotion of the armaments industry and the role of the Bundeswehr was rather limited. The constitutional regulations constituted the basis for this approach – the article 87a of the Fundamental Statute states that the military of the FRG can only be used in defensive actions. The defensive nature of the Bundeswehr was reinforced by the article 24.2, which states that the participation of the armed forces in military operations can take place only within the systems of collective defense and collective security. It was the verdict of the German Constitutional Tribunal from 1994 which gave the armed forces of the FRG the formal right to participate in foreign operations, but only within the collective systems (the UN, NATO and the EU). The decision of the Constitutional Tribunal, which allowed for the emancipation of the FRG’s security policy within less than a decade, also had an influence over the development of the armaments industry.

The first turning point for the German armaments industry was the change in the government's perception of its importance for the countries security policy and its role in economic development and GDP growth. This was directly related to the increase in the expeditional engagement of the Bundeswehr and, in particular, the involvement of NATO in Afghanistan. The participation of the German armed forces in the ISAF operation revealed their shortages of equipment, which created an opportunity for the armaments sector of the FRG.

The second turning point for the German armaments industry was the increase in the world's demand for arms and military equipment in the first decade of the 21st century. On the one hand, it was caused by the 9/11 terrorist attacks in the United States and the resulting conflicts in Afghanistan and Iraq. On the other hand, it was related to the development and modernization of the armed forces of the rising global (China, Brazil, India) and regional (Saudi Arabia, Indonesia, South Korea, Malaysia, the Republic of South Africa) powers. In the years 2002-2011 almost all regions of the world experienced an increase in military spendings: North Africa by 110%, Eastern Europe by 86%, East Asia by 69% and North America by 59%. The German armaments industry took advantage of this trend and increased the export of its products. In 2009 as much as 70% of the FRG's armaments sector income came from the export of arms and military equipment. Moreover, the economic indicators reveal that this trend is expected to continue in the second decade of the 21st century.

The first indicator of the importance of the armaments industry in the German economy is the number of companies from this sector on the list of the top 100 arms-producing and military services companies in the world, which is published yearly by the Stockholm International Peace Research Institute (SIPRI). In 2010 it included: Rheinmetall (ranked 31st), Krauss-Maffei Wegmann (52), ThyssenKrupp (56), Diehl (63) and MTU Aero Engines (100). The presence of five German armaments sector companies in the ranking underlines a stable position of the FRG's industry on the international arena.

The second indicator is the export of arms and military equipment by the companies of the armaments sector. In a research conducted in 2007-2011 by SIPRI, Germany was placed on the list of the world's main arms and military equipment exporters third behind the USA and Russia – with a 9% share in the market. During the years 2007-2011, in comparison to 2002-2006, the German export of arms and military equipment grew by 37% and its market share went up from 6% to 9%. The main recipients of armaments from the FRG in 2005-2009 were Turkey (14%), Greece (13%) and the Republic of South Africa (12%). During those years 27% of the German arms and military equipment export was constituted by armored fighting vehicles, 1700 of which were sold to 21 countries. The main receivers of German arms and military equipment remained unchanged in 2006-2010 – Greece (15%), the Republic of South Africa (11%) and Turkey (10%). During those years 44% of the exported equipment were ships – the FRG sold, among others, four MEKO-A200 frigates to South Africa, six MEKO-A100 frigates to Malaysia, three type 214 submarines to South Korea and two type 209 submarines to Turkey. Thanks to those transactions, in the years 2007-2011, South Korea also became one of the main receivers of German arms and military equipment (10%).

Moreover, it should be expected that in the coming years also Algeria and Saudi Arabia will gain importance as recipients of German materiel. With regard to the former, the FRG confirmed a sale of 54 TPz-1 armored transport vehicles and expressed the willingness to sell ships and communication systems as well. In the latter case, green light was given to a sale of 200 Leopard 2A7+ tanks. It needs to be stressed that the contract with Saudi Arabia has not yet been signed. Still, both transactions caused numerous protests in German society as well as political opposition, because it is generally believed that the offered equipment can be used to suppress the potential political unrest in these countries.

At the same time, it must be emphasized that the German export of arms and military equipment in 2010 – for the first time since the reunification – exceeded two billion euro. Table 1 reflects the value of the German export of arms and military equipment in the years 2000-2010 estimated by the Federal Ministry for Economics and Technology.

Table 1. The value of the German export of arms and military equipment in 2000-2010 (in billion euro)

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Export value	0,68	0,367	0,318	1,332	1,129	1,629	1,374	1,51	1,427	1,338	2,119

Compiled on the basis of Bericht der Bundesregierung über ihre Exportpolitik für konventionelle Rüstungsgüter im Jahre 2010, Berlin 2011.

Within this context, it is also important to point to the systematically improving military cooperation between Germany and Russia, including the transfer of advanced military technologies to a non-NATO country. On June 17, 2011, Germany and Russia signed an agreement concerning the construction of a new generation military training center for the Russian armed forces. The center will be located within the Russian military training grounds in Mulino near Moscow. In fact, its construction in cooperation with Germany constitutes one of the most important elements in the modernization process of the Russian army. The center will provide comprehensive training opportunities – both on 3D simulators and training grounds – of military brigades, including a clash of two brigades. Indeed, being the first such structure in the Russian army, the center will significantly change the mode and nature of the training of ground units as well as their cooperation with the air and the airborne forces.

The preparations to open the center are progressing rapidly – the decision about its creation was made by Germany and Russia in December 2010 and in February 2011 the Russian Ministry of Defense and the German company Rheinmetall signed a contract for the center's design. In June 2011 an agreement was made about its construction and the beginning of training in 2013. The value of the contract is estimated at 280 million euro. This also includes the simulators ordered by the Russian armed forces from Germany, which will be equivalent to those used in the Bundeswehr training centers. This cooperation, however, is not only of commercial nature – the implementation of the center's design is accompanied by an intensification in the cooperation of the Russian and German armed forces. For example, in February 2011, both countries signed a memorandum on cooperation in the training of officers and non-commissioned officers.

The third indicator of the importance of the armaments industry in the economy of Germany is the consolidation process of the sector. So far, it has not yet led to a creation of a single dominant entity in the market, like it happened in the UK (BAE Systems), Italy (Finmeccanica) or France (Thales, Dassault). Nevertheless, the global economic crisis of 2008-2010 contributed to the strengthening of the cooperation between the German defense companies. In October 2009 the leading companies of the sector (Rheinmetall, Krauss-Maffei Wegmann, Diehl, ThyssenKrupp, Lürssen) created the Federal Association of the German Security and Defense Industry (Bundesverband der Deutschen Sicherheits- und Verteidigungsindustrie e.V. – BDSV), which currently counts 115 companies, to include small and medium ones. The aim of the creation of BDSV was to establish a lobbying powerbase to better coordinate the cooperation with the German government, parliament and other companies at the European level. The previous level of cooperation, both within the sector as well as with the external institutions, was considered insufficient. It is to be expected that BDSV's influence on the armaments sector will systematically grow.

Conclusions

The above overview of the evolution of the German armaments industry points to the following elements:

- The first decade of the 21st century confirmed that the armaments industry has begun to play an important role in the economy of the country and performs a crucial function for the FRG. The armaments industry still serves four basic functions: it satisfies the current needs of armed forces when it comes to arms and military equipment, it provides the appropriate readiness of the mobilization base, it conducts the research and developmental activities regarding the new types of arms and military equipment and increases the prestige of the country on the international arena. However, because of the global economic crisis of 2008-2010, when thinking about the armaments industry, it is the economic logic that is playing an increasingly important role, while the military logic is slowly loosing ground.

- In the first decade of the 21st century the most important factors influencing the armaments sector in Europe were the processes of internationalization and consolidation, an increasing demand for arms and military equipment all over the world, the improving expedition capabilities of the military forces of European countries and their participation in the armed conflicts in Afghanistan and Iraq. These factors also had an influence on the German armaments industry acting within the fragmented European market.

- The importance of the armaments industry for the FRG's economy grew systematically in the first decade of the 21st century. The influence of the sector grew with respect to the central administration, through the creation of BDSV, as well as the share of arms and military equipment export in the total export of the FRG (from 0.11% in 2000 to 0.20% in 2010). Moreover, the total value of the German arms and military equipment export grew from 680 million euro in 2000 to 2.119 billion euro in 2010, which reflects the stable position of the FRG's armaments industry on the international arena.

- As a result of the economic crisis, companies from the armaments sector faced financial difficulties, mainly due to the reduced number of orders and decreased spendings on the renovation and modernization of military equipment. Currently, the German federal government and the Ministry of Defense are trying to minimize the negative consequences for the German armaments sector caused by smaller defense budgets in the FRG and other countries of NATO and the EU. On the one hand, the government will most likely simplify the processes of granting permits for the export of arms and military equipment abroad. On the other hand, the Ministry of Defense will more often act as an advocate of the German armaments companies' interests abroad and support the establishment of business contacts by offering military and technical cooperation.

- It is in the vital interest of Poland to improve the mechanisms of arms and military equipment export control in the EU (Council Common Position 2008/944/CFSP of 8 December 2008 defining common rules governing control of exports of military technology and equipment) and NATO. The goal of Poland should be to create in NATO an efficient mechanism for information exchange and discussion about the export of technologies which affects the security of the member states. One of the solutions might be to establish a mechanism of consultations between the allies regarding the transfer of technologies outside NATO (by using the means of condition analysis) as a part of, for example, the next NATO's Defense and Deterrence Posture Review (DDPR).

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