



All Eyes on Germany

Industrial Policy for Future Power

Long rejected by proponents of a free market economy, industrial policy recently regained political attention: With the US following a protectionist doctrine of “America First” under President Donald Trump and China pushing comprehensive transformation plans such as “Made in China 2025”, questions about a strategy for the future competitiveness of industry are also arising in Europe. In February 2019, the German Federal Government issued the “National Industrial Strategy 2030”, marking a watershed moment in its strategic policy planning.

Highlights

- *Germany’s “National Industrial Strategy 2030” revived the debate on a globally competitive industrial policy.*
- *The state of a country’s industry has significant impact on its global power position.*
- *“Hidden Champions” constitute a strong pillar of Germany’s economic competitiveness.*
- *A major point of contestation is the purposeful creation of national and European champions.*

Made in Germany

Germany, the European Union’s largest economic power, took the initiative at the beginning of 2019 by introducing the “National Industrial Strategy 2030”. The strategy includes such far-reaching measures as altering the German and European competition law in order to facilitate the emergence of global champions and allowing the German government to thwart unwanted acquisitions by foreign investors. Domestic critics, among them high representatives of the German industry, oppose the focus on global champions instead of small and medium-sized enterprises (SMEs) and doubt the ability of the state to foresee which technologies and companies will define the future.

Assessing Germany’s Industry

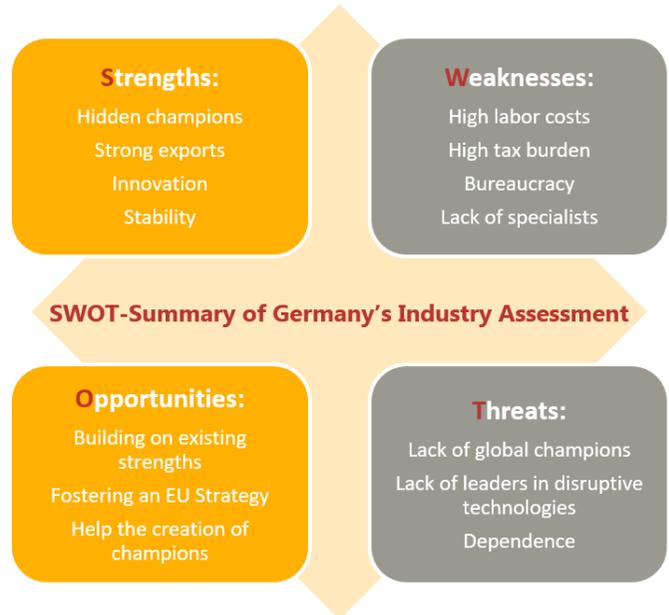
Germany’s economy still shows considerable strengths. The indicators of the Bonn Power Shift Monitor point out that Germany is still one of the major economies in the world, especially with regards to exports. In 2017, it ranked third in the category of service exports, and only China and the USA exported more goods than Germany. Moreover, both Germany’s merchandise and service exports have grown significantly during the most recent observation period of 2015-2017.

Taking a closer look at Germany’s industry, one concept defined the discussion of the last decades: the so-called hidden cham-

pions. This term was created by Hermann Simon and identifies companies that fulfill three conditions. First, the company operates in a very narrow market branch and ranks among its top enterprises. Second, the company usually does not exceed an annual revenue of three billion euros. And third, the company is very well known among experts, but not in public. Most of the hidden champions produce highly specialized material and tools for other companies instead of final goods and are unknown to the public as a consequence. It is estimated that of around 2.700 hidden champions worldwide, almost half of them are from Germany, which makes the country the unchallenged frontrunner. Due to the comparatively high stability and innovative energy of hidden champions, these figures are a big advantage for the German industry. Hermann Simon himself assumes that Germany's hidden champions are well-prepared for the digital future, and, thus, is optimistic about the development of the German industry. He rejects the industrial strategy of the German government, though, as market-distorting interventions.

Yet the strength of Germany's industry is not reducible to hidden champions alone. According to a study by the World Economic Forum, Germany belongs to the top economies in areas such as innovation capacity, stability in the financial sector, quality of the education and health system, infrastructure and macroeconomic stability, all of them aspects with a high importance for industries.

While Germany still is an attractive environment for industrial production, there are also growing weaknesses and threats. One internal problem is the increase of labor costs in the manufacturing industry, which was especially high during the last decade, compared to other highly developed countries. Furthermore, Germany's comparatively high business taxes are controversial, especially since competitors like the USA and France reduced or plan to reduce the tax burden. Last but not least, in a survey among companies in 2017, about half of the respondents regarded bureaucracy and the lack of skilled personnel as major impediments to investments.



Attention to External Threats

However, Germany's new industrial strategy is focused on external threats. So-called national and European champions are a central concept in this context. The idea is that the integration into a global market increases the relevance of the size of companies. In this logic, a critical size is needed in order to operate and compete effectively on a global scale. This can be illustrated by the example of aircraft manufacturer Airbus. The company's establishment was primarily aimed at affecting the aircraft industry. Even though diverse aircraft manufacturers existed in Europe, none of these alone had enough capital and knowledge to compete with the US global champions Boeing and McDonnell Douglas. Hence, France and Germany decided to combine the capabilities of European manufacturers so that the critical size could be reached. Today, Airbus is often cited as a successful example of industrial policy.

Infobox:

What is Industrial Policy?

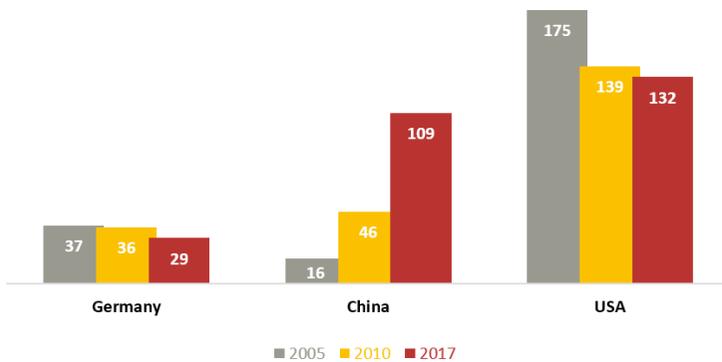
Industrial policy is the targeted influencing of the **sectoral production structure** of a national economy by the state. This implies that industrial policy only aims at affecting specific branches of the economy, not the national economy as a whole.

Industrial policy usually strikes for one of three goals, or a combination of them. First, it may aim at **preserving certain production structures** that are of vital importance to the state but at risk of dissolving, for example heavy industry for defense purposes.

The second intention is to **shape the process of structural adaptation**, mainly because of social reasons and labor market considerations, for example supporting workers who lost their job due to digitalization.

Thirdly, there is the goal of **strengthening the industries and companies of the future**, for example those with innovative approaches to artificial intelligence (AI). Due to these goals, instruments of industrial policy usually either affect the domestic production environment of companies or the external trade conditions toward other countries.

Germany Is Losing Global Fortune 500 Champions



According to the German government, Germany and Europe do not have enough own champions, while the US and China dominate. This is also corroborated by the Bonn Power Shift Monitor with reference to the category of Global Fortune 500 companies. This endangers the German and European sovereignty and future wealth. Furthermore, the lack of German leaders in disruptive technologies in domains of digitalization and AI add to the problem according to the new strategy.

Additionally, there is the issue of takeovers of German companies by foreign investors. Especially with regards to China, there is the fear of takeovers of companies with a high importance for critical infrastructure, which could lead to potential dependence. Therefore, the Federal government proposes the introduction of new protection mechanisms.

Where Does Germany's Industry Go From Here?

Even though the challenges and associated countermeasures are fiercely debated, many agree that the opportunities for Germany under these circumstances are for a good part based on the existing strengths. Some representatives of the German industry and economic experts like Hermann Simon stress the importance of improving the conditions for SMEs and hidden champions and doubt that the state can know what sectors will define the future. Others, for example Ulrich Lehner, chairman of the German Telekom AG, welcome the strategic initiative of the German government in the context of the power competition between China and the USA, but point out that it requires a European perspective and needs to be complemented by investments in education and research.

Germany's new industry policy mainly follows the goals of preserving essential production structures for the sake of sovereignty and strengthening the industries and companies of the future in order to secure and increase the level of wealth. Thus, its industrial strategy focusses on both, classical industrial segments such as steel, chemical industry or machines, and innovative trends like green tech and 3D printing.

Germany's new industrial policy aims to shape the domestic, European and broader international environment with a specific focus on securing and expanding the technological leadership as a competitive advantage. Ultimately, the future power position of countries in the global system will also be affected by the strategic actions of today.

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The Center for Global Studies (CGS) of the University of Bonn explores the phenomena of power and power shifts in International Relations. The Bonn Power Focus regularly investigates strategically relevant dimensions of power.

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