

Position Paper

Competitive framework conditions instead of state interventions and protectionism

A contribution by the American Chamber of Commerce in Germany e.V. to the debate on the “National Industry Strategy 2030 – Strategic Guidelines for a German and European Industrial Policy” of the Federal Ministry for Economic Affairs and Energy

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Preamble

The American Chamber of Commerce in Germany (AmCham Germany) is the voice of transatlantic business – an association of 2,300 large, mid-sized and small companies and private individuals, that are established in Germany, Europe or the USA and are investing, producing and providing services in the respective other market. AmCham Germany supports the global trade relations which rest on the strong foundation of the German-American partnership. This partnership relies on historical experience, joint interests and the grown social, political and economic interdependence of our societies. Furthermore, AmCham Germany engages in a transparent dialog and clearly advocates the transatlantic values. Apart from free trade, competitive and open markets, freedom, democracy and the rule of law are of central importance. Open societies are no less important for economic and social innovations, stability and prosperity than the free movement of goods, data, services and persons. Companies operating in the transatlantic business environment take entrepreneurial risks, fulfil their social duties and employ around 1.5 million employees in the two economic areas. The experiences and analyses of these companies show that the west must enhance its specific strengths in order to subsist against the backdrop of the current political and economic challenges.

Executive Summary

The initiative of the Federal Ministry for Economic Affairs and Energy under the auspices of Minister Peter Altmaier explores the economic challenges of Germany and Europe in a dramatically changing world. AmCham Germany welcomes the “National Industrial Strategy 2030: Strategic Guidelines for a German and European Industrial Policy” as an invitation to discuss and expressly endorses the commitment to a strong industry as well as market economic competition, free trade and multilateralism. AmCham Germany believes that the following points are of central relevance for the implementation of a corresponding industrial policy:

- **Co-operation:** An innovation and industry-friendly economic policy must be European and transatlantic. Both economic areas – Europe and the USA – have complementary strengths which must be leveraged in view of a future competitive edge, growth and employment.
- **Framework conditions:** The most important objective of the industrial policy consists in creating appropriate prerequisites to the enhancement of own strengths. State interventions in the economy should, however, remain the exception; whenever they take place, they must be targeted, clearly justified and executed with measurable targets.
- **Diversity:** Digitalization and innovation thrive on the diversity of talents and perspectives. Cross border co-operation is an essential prerequisite to increase efficiency and find new solutions. A fair, rule based competition is indispensable in this connection.

AmCham Germany considers the following recommendations as a **contribution to the discussion and an offer for a debate** on the “National Industrial Strategy 2030” and invites both the Federal Government and all the other stakeholders involved to a more detailed dialog. At the same time AmCham Germany continues to advocate in talks to its transatlantic partners an innovation and industry friendly political environment based on a stronger both German-American and European-American economic co-operation.

Starting Situation and Challenges

The history of the transatlantic relations of the past 70 years is mainly marked by joint successes. This applies, more particularly, to the economic partnership between the USA, Europe and Germany. More than half of all US foreign investments worldwide flows to Europe, including USD 136 billion to Germany. Conversely, Europe makes 54% of its global investments in the USA. The co-operation between the two currently most competitive and innovative economies in the world, USA and Germany, has resulted in a gain in prosperity for the two countries lasting for decades. At present, around one-third of the entire economic output in the world is accounted for by the two economies; they attract around 60% of the global venture capital, host 60 of the 100 largest companies in the world as well as hundreds of small, mid-sized and large world market leaders with highly innovative special products.

The two economies owe this success above all to their joint convictions which despite different expressions of market economy – social here, liberal there – are identical at the core. Rule-based competition and trade, individual rights such as (intellectual) property, the freedom of opinion and assembly and an independent justice are part of it. They have marked our society and economy and have made the two economies fast, innovative and enormously adaptable. We, therefore, do not see any alternative to a close partnership between Germany and the USA.

However, this success model is increasingly coming under pressure, internally and externally. Extremely effective economies, mainly in Asia, are establishing themselves to a growing extent also as innovation leaders and quality suppliers and force the consolidation of industry on established markets. Some of these economies are, moreover, distorting global competition to their benefit with state financed innovation and structural programs, offer their goods and services at subsidized prices and benefit at the creation of digital platforms from the economies of scale in their protected markets. Readiness to partner decreases in the west, multilateral treaties are challenged, and confrontation is increasingly replacing co-operation. How should Germany respond to this?

In the industrial sector Germany and the USA behave in a complementary manner: Germany is particularly strong in fundamental research, industrial production as well as in the system integration of digital technologies. The strengths of the USA lie, by contrast, in application and user related innovations, in particular digitalization and its translation into successful business models. AmCham Germany is convinced that both sides can benefit enormously from the respective strengths of the other and that together they have the potential for future growth and employment and constitute an important stability factor.

The advantage of the western economies on both sides of the Atlantic is their diversity on the basis of common fundamental values. It is also the guarantor for the competition of sustainable and innovative solutions. This is how the transatlantic economic area has so far been successful together and can continue to be in future if it combines its strengths and continues to enhance its co-operation.

Digitalization and Groundbreaking Innovations

AmCham Germany considers that the creation of a dynamic innovation environment and the successful digital transformation of the economy are the central drivers to continue to secure Germany's position as a leading industrial nation. As described in the "National Industrial Strategy 2030", Germany is well positioned in the field of fundamental research in many different areas but continues to have deficiencies at the translation of the findings into practically applicable business models. Instead of looking only unilaterally at the promotion of German and European companies, the potentials of cross border co-operation should be tapped at the same time and innovation and efficiency gains should be supported on an equal footing. A good example to illustrate this is the close co-operation of German automotive groups with American cloud providers, to advance networked driving and "Industry 4.0". Moreover, well balanced regulatory framework conditions are necessary to allow the innovative companies in Germany and Europe to secure a self-generated and sustainable growth. In this connection it is particularly important to consider the *Mittelstand*, which is of such central relevance for the German and European economy, more strongly in the field of regulation. Because recently we have witnessed more particularly in the digital area – for instance in data privacy or copyright – that the implementation of regulatory approaches originally targeting large internet groups are facing mainly mid-sized companies with the biggest challenges.

For the shaping of the framework conditions the joint western value foundation of Europe and the USA is of central importance. Key technologies such as Artificial intelligence involve apart from opportunities also risks if they can be used against our liberal fundamental rights. It is, therefore, necessary to define standards reflecting the joint western values for such technologies. These principles should not only be understood as guidelines for the development and application of artificially intelligent systems but rather as a strategically significant factor in global competition. To ensure that no other nations with diverging values assert themselves, a close co-operation of the USA and Europe and a clear approximation of the regulatory principles are absolutely essential.

Innovation is driven by thinking outside the box, a regular exchange and different perspectives. Interdisciplinary work in the most heterogeneous teams has, therefore, already become standard practice for a long time on both sides of the Atlantic. Whatever applies within the companies goes in the same way for the co-operation between companies. International co-operation and fair competition allow companies to learn from one another. Whilst for instance German companies can benefit from the American innovative strength in data-based applications, American companies find important partners for the further development and system integration of their products in the industrial and mid-sized German business community. In this connection it must of course be ensured that both sides benefit from this intensive exchange. On the basis of the common principles of free market economy and the rule of law, AmCham Germany, therefore, advocates a further strengthening of the rule and confidence-based international free trade. We reject any foreclosure of markets which is not in conformity with WTO, for instance through punitive tariffs allegedly justified by national security interests.

Guidelines for a Successful Industrial Policy

The uncontested need to readjust the German industrial policy must not mean that state interventions into the economy affairs become standard practice. AmCham Germany considers the “industrial and technological sovereignty” referred to in the “National Industrial Strategy 2030” as the ability to take comprehensively informed decisions about the use of the most recent technologies but not to be able to withstand global competition “in all areas”. In the same way an increase in the share of industry in the gross added value must result primarily from the decisions and actions of companies. “Maintaining closed value added chains” and fighting “for every industrial job” are understandable in their own right. However, as guidelines for industrial policy they would lead, when though through to the end, to an inefficient use of resources. It would not be possible to use the benefits of a worldwide division of labor and the conventional industrial structures would be maintained so that a necessary structural change would be prevented.

AmCham Germany has similar reservations concerning the selection of the companies to be supported by the state. Neither the absolute size of companies nor their origin (“national champions”) are guaranteeing in themselves industrial policy success. On the contrary: a state guarantee of survival for large German companies could favor a “moral hazard” and economic inefficiency. Consequently, the change in existing rules on merger control as well as the creation of a shareholding facility which provides for a state stake in companies for a limited period of time should be carefully reappraised. By contrast, the mid-sized companies with their strong position on many high-tech markets in the world, are much more significant for the success of the German economy. It is not the creation of national champions but a targeted improvement of the economic and political framework conditions which will strengthen its position. Corresponding recommendations will be concretized in the next chapter.

AmCham Germany believes that state interventions into the political developments in the name of a “national industrial policy” are only justified if they follow three clear guidelines. These are first **clear and substantiated motivations**: the industrial policy must disclose the reasons for which it is implemented. The repeated reference to the success of the USA and China is not differentiating enough between the state capitalist economy of China on the one hand, the superiority of US technology companies and the backward protection of some US industries. Here, the close interconnection of the transatlantic community of values must be taken into account more strongly. Moreover, there is a need for **overarching and closely limited goals**. Market and competition as well as a worldwide division of labor and value chains are superior principles of order of the western economies, in particular in the USA and Germany. Consequently, state interventions can only be justified if they serve the elimination of market failures. Radical changes in the industrial structure are painful but necessary adjustment processes to the economic transformation. Finally, a **transparent and consistent use of resources** is necessary. In open societies like the USA and Europe the political community accounts for its resources. These include above all competition, trade and security policy, which is to be deployed largely in the European framework. The scope for action of the EU and the internal market must, therefore, be strengthened.

Political Framework Conditions for a Competitive Industry

AmCham Germany expressly welcomes the commitment to a strong industry as well as market economic competition, free trade and multilateralism. The “National Industrial Strategy 2030” is right to postulate that the state should not intervene in business decisions of individual companies or the competition between companies unless there are unfair distortions of competition. These statements are, however, thwarted by the simultaneous demands for a stronger politicization of competition and anti-trust law. AmCham Germany believes that this is the wrong approach. Policymakers should rather focus on the targeted improvement of the political framework conditions for the business community and rely on an enhanced European and transatlantic co-operation in doing so. This is the only way for companies to be successful on the world markets as strong and innovative competitors.

Against this backdrop, AmCham Germany recommends to focus the further discussion about a future German and European industrial policy on the following items:

- 1. Strengthen the European internal market:** Despite all the progress made, the internal market continues to be too fragmented in important fields such as innovation, digitalization or infrastructure and is not leveraging its economies of scale enough. A strong Europe with a large and functioning internal market would be able to enforce its own interests essentially more effectively on a global level. At the same time the strengthening of the internal market does not work through a softening of European competition law. On the contrary: only a rule-based and fair competition strengthens companies in view of their global competitiveness. And only if Europe itself insists on strict competition rules, it can also demand those from other states.
- 2. Position Europe as a pioneer for free trade:** Europe’s success is based on open markets as well as a free and rule-based trade. It should, therefore, not respond to the increasing protectionism of other states with an own market foreclosure. Based on joint values, Europe could rather offer the USA a partnership to enforce a future regulatory framework for the global economy. The starting point could be a transatlantic free trade agreement which would at the same time allow for the generation of new growth on both sides of the Atlantic.
- 3. Protect free trade through WTO instruments:** A functioning free trade presupposes a level playing field on the basis of a rule-based, fair competition for all market players. Whenever companies are granted, for instance, state subsidies which are not in conformity with WTO or foreclose their market, the EU must consistently act against these infringements of the rules by means of the existing defense and protection instruments, to restore the level playing field in line with reciprocity. This is also expressly provided for by WTO, which should remain the central place to settle trade policy issues. However, it needs a reform in respect of which Germany should act as a driver together with Europe and the USA with the objective of enforcing the rules more effectively and making the procedures more transparent.
- 4. Create a dynamic innovative environment:** In order not to lose touch with major key technologies such as Artificial Intelligence, a dynamic innovative environment is needed.

States like the USA show how innovations can be brought to the market faster and can be capitalized as application-oriented business models through targeted incentives, such as fiscal research promotion, the mobilization of venture capital, the renunciation of superfluous regulation or the application of experimental clauses. The diversity of the German innovation system made up of industry, the *Mittelstand*, innovative startups as well as public research institutions, needs to be enhanced and networked even further on the international level. Moreover, it should be ensured that innovative technologies developed in Germany are strengthened within the meaning of patent protection.

- 5. Seize the opportunities of digital transformation:** Digitalization likewise requires more dynamics through more attractive governmental framework conditions. This requires the fast completion of the digital European internal market and the creation of an effective IT infrastructure with a comprehensive rapid internet. Moreover, Europe and the USA should press for joint ethical rules in digital transformation as well as justified data privacy requirements of the business community and consumers being turned into a positive distinguishing feature. At the same time innovative digital applications and business models should not be impaired by excessively restrictive data privacy or unnecessary regulations. Digital platforms need a modern, efficient regulatory framework which creates legal certainty without obstructing their success through superfluous regulatory hurdles.
- 6. Modernize education, infrastructure and administration:** A modernization of public administration with less bureaucracy and faster decision processes and the extension of an effective infrastructure are essential to increase the own locational attractiveness and competitiveness. The extension of digital infrastructures is, more particularly, a prerequisite to the application of new digital technologies – for instance in the transportation and health sectors as well as in production. At the same time the digitalization of the administration can contribute towards making it more service-oriented and efficient and reducing bureaucracy. Finally, the educational system must be fundamentally reformed to support through a targeted development of mathematics, informatics, natural sciences and technology skills (MINT skills) the development of new technologies and openness towards it. Through the support for lifelong learning, technological and industrial transformation processes can be cushioned more easily for employees. In addition, the education system must actively deal with social challenges such as immigration. A look at the USA as a country of immigration clearly shows that the society and economy can enormously benefit from the dynamics and talents of immigrants. Here a targeted promotion through education and qualification of immigrants plays a very important role to be able to integrate them better into our society and the world of labor and have them deploy their potentials.
- 7. Reduce the burden of taxes and charges:** Fiscal policy is locational policy. Against the backdrop of the lowering of corporate taxes in the USA, but also in European countries such as France and the UK, Germany must ensure that it does not lose in competitiveness. At the same time tax incentives for research and capital investments would trigger important impulses for future growth. In Germany, the costs and hence the competitive position of local companies have partly significantly deteriorated as a result of state interventions for instance for reasons of environmental and climate protection, the energy turnaround or social politics during the past years and decades, as is correctly stated in the guidelines. Here, too, it

is important to take countermeasures through a basic lowering of the cost charges of the companies, for instance in the fields of energy and bureaucracy.

- 8. Mobilize new financing sources:** A strong industry goes along with a strong capital market which finances investments, exports and operations and ranges from seed money to bank financing. If the economic development slows down, it should be ensured that new banking regulations such as the International Financial Reporting Standards (IFRS) do not have a procyclical effect and do not make access to capital more difficult mainly for mid-sized companies. It is, however, important that state activities do not compete with private economy investments. By contrast, the government should not interfere with company-driven decisions such as the merger of competitors in the financial sector and should restrict itself to its necessary controlling duties. In order to ensure a better promotion of innovations and innovative start-ups, new financing sources such as crowdfunding, venture capital and growth capital should be consistently supported and promoted. Not only German companies benefit from their advantages, but all companies which contribute in Germany towards growth and employment.

About the American Chamber of Commerce in Germany e.V. (AmCham Germany)

Set up 116 years ago and with more than 2,300 members, AmCham Germany is the oldest and largest business association in Germany and represents the interests of US American, German as well as multinational companies from all industries and of all sizes. As the voice of transatlantic business, AmCham Germany is committed to a free and rule-based trade as well as to a competitive and innovation-friendly business climate.

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