

# It's the Economy, Stupid! Rethinking Germany's National Industrial Policies Amidst a Changing International Security Environment

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## Economics and Security

For many centuries, strategists and political thinkers have argued that the economic base of a political entity is not only responsible for the provision of goods and services to its people, but also the premise for the technological, logistical and personnel support of its armed forces and thus key for national security. More than 2000 years ago, the Chinese strategists Sun Tzu, for instance, strongly warned generals and politicians against overspending in war and advised to be aware of the state's actual economic resources. Both King Archidamos II. and Pericles likewise emphasised the importance of economic means for waging war in their respective speeches before the outbreak of hostilities between the Spartans and the Athenians in the Peloponnesian War. Almost two millennia later, Machiavelli recommended that a political leader should always make sure "that with his economy his revenues are enough, that he can defend himself against all attacks". Thomas Hobbes similarly argued that "the wealth and riches" of a nation's citizens constitute the strength of the state (constituting the commonwealth in his parlance).

Within International Relations, especially scholars writing in the Realist tradition have emphasised for a long time the importance of economics for national security. The significance of a nation's industrial capacity was particularly highlighted by Hans Morgenthau: He maintained that in the industrial age "it was inevitable that the leading industrial nations have been identical with the great powers, and a change in industrial rank [...] has been accompanied or followed by a corresponding change in the hierarchy of power". Also Kenneth Waltz depicted economic capacity as essential and illustrated that the US "used its superior economic capability to promote its political and security interests". More recently, John Mearsheimer maintained that "economic might is the foundation of military might", while Fareed Zakaria seconded that "Britain was undone as a global power not because of bad politics but because of bad economics". For Graham Allison, one of the key lessons from the Cold War is that "domestic performance is important" and that without its greater economy the US might have fared quite differently in its rivalry with the Soviet Union.

Mirroring this thinking, the Obama Administration’s 2015 National Security Strategy (NSS) argued that “economic strength is the foundation of our national security and a critical source of our influence abroad”. In short, the relationship between national economics and a nation’s power and its overall security is widely shared and well-established. This is the major reason why alterations in the economic capacities of states are studied for assessing changes within the distribution of international power.

### National industrial policies in the twenty-first century

Having and maintaining a competitive industrial sector lies in the strategic interest of states and particularly of great powers. Given this delicate relationship between security and economics, the new 2017 NSS’s dictum according to which “the United States will no longer tolerate economic aggression” becomes more plausible. The Trump Administration sees “America’s economic security” threatened by other countries’ subsidized industries, mandatory technology transfers for US companies and distorted international markets. (Interestingly, even the word “economic” (118) is considerably more present in the NSS than the term “military” (70) or “strategy” (50).)

Also other great powers connect economic with security interests. That is why China’s Belt and Road Initiative (BRI) has gained such great public, political and academic attention since its launch in 2013. The BRI is seen as a grand strategy to further extent Beijing’s economic clout both at home and abroad and thus improve and secure China’s international position. Moreover, China announced a “Made in China 2025” initiative in 2015, which lists ten key industry sectors in which the Chinese governments seeks to improve the technological position of Chinese companies and compete with the developed Western economies in the very profitable advanced manufacturing sector. Given the impressive development of the Chinese economy, strategist, politicians and academics have for good reason concentrated on China’s rise and its re-appearance on the world stage. If measured in purchasing power parity, the Chinese GDP is already considerably larger than the one of the US. This, of course, is a significant economic development with considerable strategic consequences: Before being overtaken by China in 2014, the US had the biggest economy for more than 140 years. Its economic development has allowed China to considerably close the gap in defence expenditures with the US since the end of the Cold War (fig.1). As Henry Kissinger argues, this trend ought not to mean that Beijing should automatically be seen as a threat, but

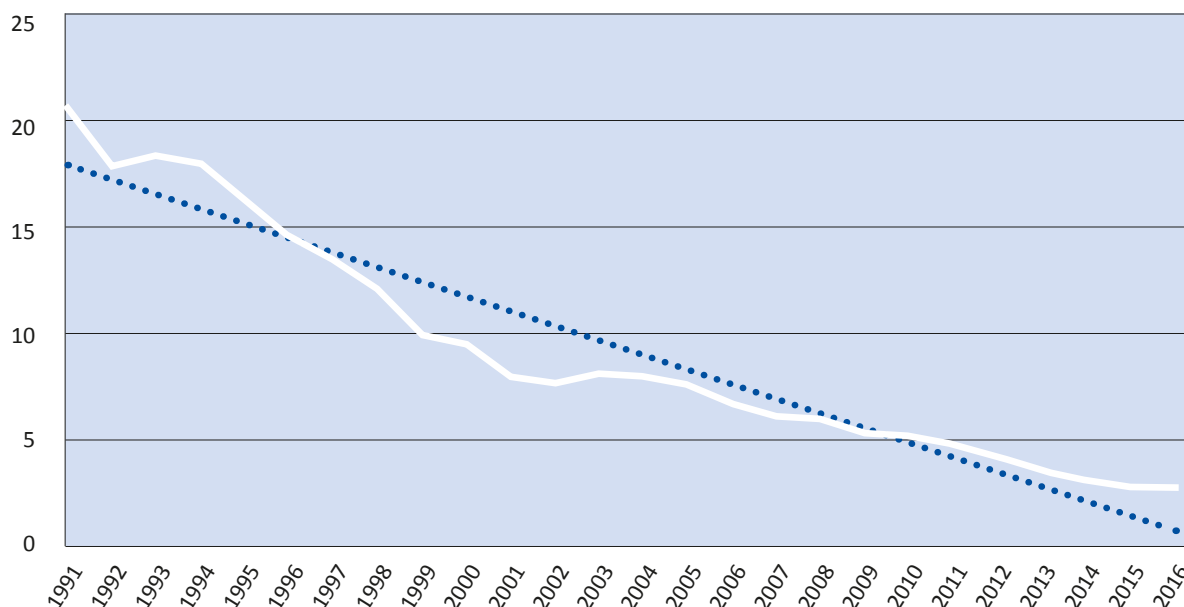


Fig. 1: Ratio of the defence spending between the US and China (1991-2016; incl. trend line; own calculation based on SIPRI data)

rather as “a potential partner in the construction of world order”. Yet the closing spending gap still outlines the wider strategic effects of continuing economic growth in case such a partnership cannot be established.

Of course, China is not the only country pursuing an ambitious industrial policy: In Asia, countries like Japan, South Korea, Singapore, Hong Kong or Taiwan have been using similar policies to enhance their industrial capacities, catch up with the West and defend their improved industrial position now as best as possible. Also the US has relied on protectionist policies in the past to nurture infant industries, absorb advanced technologies of other nations and regulate foreign investors. Even in the heart of Western capitalism, politicians more than often do not play by the text books of liberal economics: The Obama Administration, for instance, took a neo-mercantilist stance and used over 80 billion USD of taxpayers’ money in order to avoid the total collapse of the US auto industry during the Financial Crisis (a strategically wise decision given the military importance of a domestic automotive industry). The current success of Silicon Valley, to give another example for state intervention in the US, is based on substantial government funding, incentives and protection in the past (and today). As Nigel Cameron outlines, “the core technologies that enabled Silicon Valley were not developed by Silicon Valley geniuses funded by Silicon Valley venture capital. It was the federal government, chiefly through DARPA, who made the development of these now ubiquitous technologies possible, and who gifted them to anyone who was interested.” Mariana Mazzucato suggests in her prized *The Entrepreneurial State* that with the right programs and institutions, governments can actually trigger innovation and allow domestic companies to develop a technological edge over competitors home and abroad.

The US is not the only Western country relying on industrial policies. Since the 1960s, debates about a closer coordination of the European Community’s member states’ national industrial policies have played a strong role in Western European policy circles

in order to cope with the rising competition from the US, Japan and other countries. Basically every European country has run programs with sympathies for what the former French president Jacques Chirac once approvingly called “economic patriotism”. Unsurprisingly, the US has had a keen eye on the industrial policy which its leading competitors have run over the last decades. Not all (perhaps even most) of these governmental programs did achieve their political or economic aims. As the eventual implosion of the Soviet Union’s command economy showed, the state evidently is neither the best investor nor the most prolific economic administrator. Still, given the link between economics and security, governmental interventions into the economic sphere did and will take place, and as outlined, some of these interventions have in the past been instrumental for key innovations and economic progress.

#### **The Altmaier-Plan: Germany’s “Nationale Industriestrategie 2030”**

The changing international environment (particularly due to globalisation, technological change, the crisis of the Pax Americana and the rise of China) and a greater willingness of national governments around the world to interfere in their domestic markets (America First being just one of many examples) puts new pressure on policymakers for ensuring the economic well-being and safety of their nations. As Europe’s largest economy, Germany is no exception to this. A new proposal for maintaining and further developing the industrial sector was presented by Peter Altmaier, Germany’s Federal Minister for Economic Affairs and Energy, in February 2019. The “Nationale Industriestrategie 2030 – Strategische Leitlinien für eine deutsche und europäische Industriepolitik”, or Altmaier-Plan, started a debate within Germany about how to best react to the huge international changes particularly amidst a greater political willingness within foreign governments to not rely on a level-playing field competition and instead provide their domestic companies with asymmetrical protection.



Altmaier argues that while Germany's economy has fared quite well over the last decades due to its strong position in important industrial segments, this is no guarantee for a positive future development. He identifies not only the above-mentioned geopolitical developments and a revival of industrial policies by foreign governments that seek to (quasi)monopolize or distort domestic markets via protectionism as challenges to Germany's economic security, but also outlines the effects that new and game-changing disruptive technologies can create for established industries. In particular, Altmaier identifies digitalisation and automation, artificial intelligence, nano- and biotechnology, lightweight construction, new (composite) materials as well as quantum technology as economic game changers. According to him, these areas are of interest for Germany and Europe and justify soft and indirect political efforts in line with Germany's social market economy to ensure that the level of manufacturing is not further receding in Europe. The Altmaier-Plan aims to raise the level of manufacturing in Germany to 25% and Europe to 20% of GDP, support small and medium-sized businesses, preserve value-added chains in Europe and Germany, and adjust the legal framework in order to allow for the establishment of national and European champions. Importantly, Altmaier also wants to better protect those segments of the German industry against mergers and acquisitions that are seen as being important for the country's national security (e.g. critical infrastructures). For doing so, he envisions the establishment of a state-run holding facility in order to allow for a temporary stake of the federal government in national companies deemed to be important for Germany's national security and capacity for technological innovation.

It is beyond the scope of this text to assess the economic soundness of the measures proposed by the Altmaier-Plan and its adherence to the long-held and sound principles of Germany's social market economy. Altmaier labels his plan to be a first draft, which is open for discussion and amendments – leading economists will hopefully be able to further develop and improve it. What is important, however, is that the Altmaier-Plan is trying to start a debate in Berlin about the best way for ensuring prosperity, liberty and security for Germany and Europe amidst a drastically changing global environment.

West-Germany's socio-economic model proved to be very successful during the Cold War, when international trade was limited, and it did after the reunification during the three decades of economic liberalisation that followed the demise of the Soviet Union. Given the ongoing massive international changes, it is about time that Germany has a grand debate about how to realistically respond to the immense strategic turbulences both country and continent face and end a plagues strategic short-sightedness that lasted too long already. Of course, such a discussion must also include the economic sphere, given its great importance for a country's security and political power. Following Graham Allison, a "coherent strategy does not guarantee success, but its absence is a reliable route to failure". The Altmaier-Plan is an important attempt to evade failure and help crafting such a grand strategy for Germany in order to tackle the geostrategic challenges ahead.