



Speech

**by Peter Friedrich, Minister for the *Bundesrat*,
Europe and
International Affairs**

Topic:

**"The Secret of Germany's Performance: The *Mittel-*
stand Economy"**

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Contents:

1. Welcome
2. Baden-Württemberg, its Economy, Medium-Sized Companies
3. Appropriate Basic Conditions
4. Dual Education as Part of the Success
5. Internationalisation of Medium-Sized Companies
6. Energy Transition
7. Intelligent Growth
8. Challenges
9. Conclusion

1. Welcome

Mr Sakong and Ms Song, *representatives of Korean [and ???] businesses, universities and research institutes?*, *representatives of the press*, ladies and gentlemen,

Thank you very much for your extremely cordial reception, the excellent breakfast and your hospitality.

My sincerest thanks for your interest in this event and, in general, for the interest and attentiveness that we have experienced in South Korea.

President Sakong, I am very happy that you invited me to speak here at the Distinguished Lecture Forum of the Institute for Global Economics on a topic that is also of fundamental importance for my state of Baden-Württemberg: "The Secret of Germany's Performance: The *Mittelstand* Economy".

One of the purposes of this institute is to provide entrepreneurs and policymakers with expert knowledge through lectures and events such as these. I find such exchanges very exciting and important.

International competition has been intensified by the globalised world with its global competitors. To continue being as well-equipped for such competition as we have been up to now, we wish to reinforce our cooperation and exchanges. In our highly modern, complex world, which changes at lightning speed, it is necessary to be able to react quickly and accurately to changes.

In that respect, I share the opinion of the Director of the Institute, Mr Sakong: information is the cornerstone that makes it possible to adapt to changes in the globalised world and to find viable solutions.

The list of participants in the previous IGE forums is long and prestigious. I therefore feel

greatly honoured and am pleased to be able to make a contribution to this event today.

In the past few days I have already had the opportunity to make important contacts in politics, administration, economics and science while gaining interesting insights into Korean society.

I am confident that we will be able to continue this positive exchange today.

2. Baden-Württemberg, its Economy, Medium-Sized Companies

To introduce the topic of my speech, I would first like to tell you why I am here. One of the main reasons for my trip to South Korea is related to the topic of Medium-Sized Companies – the *Mittelstand* in German.

Until yesterday, I was travelling through South Korea on behalf of my state of Baden-Württemberg together with my colleague Winfried Hermann, who is Minister of Transport, and a distinguished delegation from the fields of business, science and public administration.

As the Minister of the *Bundesrat* [the Upper House of the German Parliament], Europe and International Affairs, exchanges between Baden-Württemberg and Korea and the extension of our relationship are important for me. Our focus is on medium-sized companies, too.

First a few facts and figures about us in Baden-Württemberg:

As you certainly know, the Federal Republic of Germany is a federation of states [or *Bundesländer*]. Baden-Württemberg is the third-biggest of the 16 states in Germany.

We are located in south-western Germany and at the same time in the centre of Europe.

We are a member of the European Union, which has 28 Member States and a population of 506 million.

Our state has a population of 10.8 million. By way of comparison, the City of Seoul has 10.4 million inhabitants.

Our biggest population centre is the region of Stuttgart, with 2.7 million inhabitants: Incheon, the third-largest city in South Korea, has 2.9 million inhabitants.

The surface area of our state is 35,800 km², compared to 99,400 km² in South Korea.

About 12% of our citizens are of foreign origin.

At 389 billion euros, our GDP was one of the highest in Europe in 2012.

We are one of the Europe's leading technology centres, and proud of it. We have a long-standing tradition of being innovative and

creative in developing technologies of the future.

More than 80 universities form the basis of what is the most modern university system in Germany. And we continue investing heavily in the future, allocating 5.1 % of the GDP to research and development.

Against that backdrop, our international positioning as a business location is very important to us and we actively encourage the international orientation and networking of our medium-sized companies.

Our corporate structure in Baden-Württemberg and in Germany as a whole is organised differently than in South Korea. In that connection, I would like to further clarify the role of medium-sized companies in Germany.

In Germany, we categorise all companies that have between 10 and 500 employees as the *Mittelstand*.

The *Mittelstand* make a significant contribution to the economic force of Germany as a business location. The dynamics generated by medium-sized companies help us stay internationally competitive.

That is why the *Mittelstand* are quite justifiably called the backbone of the German economy.

That is especially true of Baden-Württemberg, where we have the most and the best medium-sized companies – and I am not the only one to say so! About 98% of the companies in Baden-Württemberg are small- and medium-sized enterprises; in other words they are essential for our state.

That makes us the envy of the whole world!

Many of our companies have been handed down from generation to generation. Thanks to them, “Made in Baden-Württemberg” stands for high quality, precision and innovation.

On the one hand, nowhere else in Europe has so many companies that are already internationally active. On the other hand, it is often difficult for small companies to find their way into the international market.

For our export-oriented economy, international presence is a must, especially in the Far East!

Half of German companies with an annual sales revenue of at least 2 million euros maintain contacts abroad. An especially large number of those companies come from Baden-Württemberg.

3. Appropriate General Conditions

Ladies and gentlemen, as I see it Baden-Württemberg rests on three strong pillars:

- strong municipalities,
- highly committed citizens
- a strong *Mittelstand*.

A few weeks ago, the German newspaper “Die Welt” reported: *“Baden-Württemberg is Germany’s most popular business location”*.

According to that article, a third of all the new settlement and expansion projects in Germany were carried out in our state: 224 projects, versus 136 in North-Rhine Westphalia, 68 in Hesse and 44 in Bavaria.

“Baden-Württemberg is a strong business location with good infrastructure and great potential in terms of well-trained workers,” said the author of the study (Peter Englisch).

As the state government, we create and maintain the best possible general conditions.

And where useful and possible, we also provide targeted funding in order to compensate for the structural and size-based disadvantages of medium-sized companies and to stimulate new developments.

Our objective in Baden-Württemberg is to organise our economic and regulatory policies in such a way as to ensure that our momen-

tary success can become a permanent economic success story.

We have many programmes to subsidise medium-sized companies.

I would now like to point out an instrument created quite a while ago that was originally used to promote medium-sized companies: the KFW. The KFW is the biggest national development bank in the world. It was founded to finance the reconstruction of the German economy after the Second World War.

The state branch of that national bank in Baden-Württemberg is the business development bank Landeskreditbank Baden-Württemberg, known as L-Bank. One of its main tasks is to promote medium-sized companies.

L-Bank has a special division, L-EA, that provides innovative young companies with venture capital funds.

This make it possible to finance family businesses handed down from generation to gen-

eration while at the same time opening up new, innovative business sectors characterised by a higher degree of risk. It is new technologies, especially, that benefit from such funding services.

The funding of medium-sized companies through low-interest lending programmes helps companies to make necessary investments on their own without having to rely on investors.

That makes them more competitive and creates new incentives for innovation in the economy.

Our objective is to use such funding services to compensate for the structural disadvantages of medium-sized companies vis-à-vis major corporations.

Many young start-ups profit from these programmes and create new jobs. Large companies, too, can benefit from the innovations of such small companies: apart from the fact that they offer opportunities for cooperation,

their extra innovation raises the status of business locations as a whole.

Another example of the creation of appropriate general conditions is state research funding: there is no place in the world where businesses can afford by themselves the enormous research and development costs needed for industry's ecological and digital upgrade.

It is therefore only logical to develop public research funding systematically. Japan, South Korea and Israel, among others, are setting new standards for such funding but we are working on it very actively, too.

Baden-Württemberg has currently managed to strengthen its position in terms of the intensity of research and development: with a share of 5.1% of the GDP. That must be the current world record!

To turn innovations into flourishing companies, we use tools such as “innovation vouch-

ers” to support small operations and medium-sized companies.

We have developed a new innovation voucher for the creative industries, which still harbour considerable growth potential.

We intend to continue advancing our innovation policy, for example through a venture capital fund for highly innovative start-ups.

In so doing, we are helping new technologies to break into the market and assisting their founders in the decisive development phase.

But medium-sized companies in our state are also forging their own way ahead with innovations.

Ecological and digital upgrading has become a part of practically all the classic economic sectors. And Baden-Württemberg’s companies have made great progress in that field.

New products and highly complex, intelligent services are giving medium-sized companies an advantage on all world markets.

Our medium-sized companies react flexibly, quickly and, above all, independently to changes in market demand.

Conservation of resources and energy, environmentally friendly products and methods are at the top of their agenda.

They are not waiting for governmental regulations or governmental funding and certainly do not need the government to tell them to get on with their modernisation.

They act on their own initiative, promoting ecological and digital changes under their own responsibility.

In doing so, they not only secure the future of their companies but also make an essential contribution to shaping our future lifestyle and society.

4. Dual Education as Part of the Success

In my opinion, the success story of the *Mittelstand* cannot be explained without mentioning the model of professional training in Ger-

many. I would therefore like to give you a very quick overview.

We have what is called a “dual education” system, which combines practical training at a company with theoretical studies.

Dual education is a special feature of Germany that has aroused worldwide interest. It enables a smooth, well-adjusted entry into the professional world. Graduates of such courses are highly qualified skilled workers who are in high demand, and our market needs them urgently.

Employees and employers alike appreciate this education model because it is systematically oriented towards professional practice.

These include at least 100,000 companies in the commercial and the service sectors with over 1.1 million employees in total, training nearly 40,000 young people each year.

They are one of the main reasons why our country is doing so well and prospering.

The dual education model has aroused great interest in Europe and the rest of the world. We are working together closely with several European partner countries that intend to introduce a dual model of this kind or be guided by it.

Medium-sized companies are available for the practical part of the education and therefore make a decisive contribution to our dual model of success.

5. Internationalisation of the *Mittelstand*

In order to cope with the international market our medium-sized companies are organising themselves into global networks.

The name “Baden-Württemberg” is well on its way to becoming an internationally known symbol of ecological and digital innovation in business.

This is where my trip to South Korea comes in again. Our economic delegations frequently travel all over the world.

This policy opens doors not only for the *Mittelstand* representatives in our delegations but also for the top-class scientists and researchers.

Why South Korea?

In the 1960s, South Korea was still one of the poorest countries in the world.

If you picture that and compare it with the current situation, you can see the enormous progress made by the country. Today South Korea is home to major industrial and technology groups that are successful all over the world.

The research and development infrastructure has been developed greatly.

It is primarily application-oriented.

It offers a sustainable basis for making further progress in the high-technology sector.

And it offers exciting new possibilities and opportunities for cooperation to stakeholders from Baden-Württemberg in the fields of business and science.

The best kind of cooperation is where both sides profit equally.

I think we Germans have something to learn from the enthusiasm with which a country like South Korea pushes ahead with its development...

...for example, the commitment and thirst for knowledge of its young students ...

... the enthusiasm about new technical innovations in society...

...or the ambitions of broad segments of the population to improve their socio-economic status through their own efforts.

On the other hand, a country like South Korea can also learn and benefit from our experience and achievements.

Cooperation between South Korea and Baden-Württemberg is already close and di-

verse, especially in the fields of business and science.

Many firms from Baden-Württemberg and other parts of Germany have been operating in South Korea for years. And I am well aware that their presence here secures many jobs in Baden-Württemberg and the rest of Germany, too.

With trips like these, we give companies another opportunity to discover this market. Economic relations are therefore a key aspect of this trip.

We meet our counterparts face-to-face, obtain up-to-date information about the markets and lay the groundwork for future cooperation projects.

I therefore hope that this trip will allow us to make concrete business contacts for small- and medium-sized companies ...

We also intend this trip to be a follow-up to the trip by Winfried Kretschmann, the Minister President of Baden-Württemberg, who visited Japan and South Korea in May 2013 in his capacity of President of the *Bundesrat*.

At that time, the politics of Baden-Württemberg and Germany as a whole were met with truly excellent appreciation and estimation. Besides the delegation's numerous meeting with the top-ranking officials, I would like to point out the extremely interesting discussion between the Minister President and President Park, who also showed great interest in the topic of the *Mittelstand*.

I am very happy that President Park is going to visit Germany in late March 2014.

On the previous trip, too, we were accompanied by a delegation of high-ranking representatives from the worlds of business and science.

Besides political meetings, the focus of that trip was on the “energy transition” in Germany, energy research and the subject of “renewable energy sources”.

6. Energy transition

Now we come to the keyword of the “energy transition” in Germany. You may be asking yourselves: What does the abandonment of nuclear energy in Germany have to do with medium-sized companies?

You will agree that energy is a very important subject for all of us.

Let’s take the example of South Korea.

South Korea’s economic and structural circumstances and conditions are completely different in certain respects, of course.

But here, too, there is a strong interest in developing regenerative energy sources.

Here, too, the objective is sustainable development.

It is a path of ecological renewal.

At the Daimler Group's New Year's reception, Mr Zetsche, Daimler's Chairman of the Board, recently stated the objective that the Group is working toward: "*We are going to bring the energy transition to the streets*".

That is exactly what we expect!

Production processes have to be redesigned and made more energy-efficient. If possible, plants should produce their own energy. Any resulting surplus energy will be fed into the power grid and the costs of upgrading the grids will be shared by all.

Our industry, large and medium-sized companies, have recognised the potential for innovation in this area, including on the international market.

None less than Ban Ki-moon, South Korea's ex-Foreign Minister and current UN Secretary-General, proclaimed a worldwide "*Green New Deal*" years ago.

Ladies and gentlemen, South Korea already ranks as Germany's fourth biggest non-European trading partner after the USA, China and Japan.

Nevertheless, there is still some room for progress, both on the import and export end.

Strengthening our economic, scientific and technical relationship in this key sector therefore has great potential.

7. Intelligent growth

Ecological upgrading based on the central theme of sustainability is a central project of our state's government.

The impression I get from my countless meetings here is that the economy has already advanced very far.

I have come to know companies that use new technologies and methods to reduce their consumption of materials drastically, for example.

Factories that generate their own power supply.

Companies that boost their energy efficiency by using state-of-the-art combined heat and power plants, which protects their budgets and the environment at the same time.

Many companies see that these topics could open up future markets in an energy-hungry world.

The motto is “intelligent growth”.

Intelligent growth requires interconnected, highly flexible control systems such as smart grids as part of the energy transition.

The principle is that machines should communicate with one another.

The decisive question is whether we can maintain our current advantage through goal-directed research and development.

That is no problem for major corporations: they've had their own research centres for years.

It is more difficult for small- and medium-sized companies, however. That is why our state government insists on promoting such research through tax benefits.

At 4.4 billion euros a year, our expenditure on universities, science and research has reached a record high.

We are setting up pioneering “green-tech” power grids together with our state environmental technology agency (Umwelttechnik BW).

We are uniting forces and bringing together participants from all relevant areas.

We are paving the way for Baden-Württemberg to be able to become a pioneering region in the field of sustainable mobility.

The supporting pillars of this policy are the state agency for e-mobility (e-mobil BW), the state agency for light construction and the new Helmholtz Institute for Battery Research in Ulm. Car2Go in Stuttgart is one example of an interest pilot project.

Moreover, we are investing in research and development on innovative energy storage units and intelligent power grids.

By doing so, we are laying the groundwork for the storage of wind and solar power, intelligent load management and the electric vehicles of the future.

We want to make Baden-Württemberg the forerunner of environmentally friendly trade and industry and will support the introduction of resource-efficient technologies in companies.

Ladies and gentlemen, I have the greatest respect for what your medium-sized companies are achieving in your country.

Thus, what we in politics and civil society have to think about even harder is the question of how to change the general conditions in order to facilitate business for them.

8. Challenges

Ladies and gentlemen, this brings us to a new topic: the challenges that a medium-sized

company must meet in order to remain successful.

A number of different challenges have to be faced:

a) The demographic situation in Germany clearly shows that we will have to rely on immigration by qualified workers if we want to maintain and develop the positions of our companies on the world markets.

That is equally true for both large and medium-sized companies.

In our country, people are traditionally quite willing to integrate immigrants.

What we still need to work on is developing a more goal-directed culture of hospitality for people from other countries; people who will lend us a helping hand to accomplish something and to create a livelihood for themselves and their families in Germany.

According to the available analyses, Baden-Württemberg currently has a shortage of trained technical specialists, engineers, com-

puter scientists, care personnel and educators.

To facilitate immigration to Baden-Württemberg, we have prepared the “State Recognition Act” [Landesanerkenntnisgesetz].

This creates the necessary conditions to make use of the potential of immigration. This will help Baden-Württemberg’s economy as well as the immigrants themselves, who will be able to work in the professions for which they were trained.

We have therefore founded an “Alliance for Skilled Workers” with employers and trade unions, municipalities and employment agencies.

With this joint alliance, we are addressing one of the main concerns of medium-sized companies: the shortage of skilled workers.

We can no longer allow a situation in which qualified immigrants have to be hired as as-

sistants because their qualifications are not officially recognised in Baden-Württemberg.

We adopted a whole package of measures and the initial signs of success are already apparent.

Since then, such alliances have been formed in all regions of Baden-Württemberg based on the state-wide model.

b) Economic development requires a working infrastructure.

We have a high level of infrastructure but we certainly need to catch up in certain areas.

We recognise that there are problems such as worn-out roads, school buildings that need repairs, outdated lecture halls, etc.

We have therefore been forced to increase spending on certain areas, such as:

- renovation of state buildings,
- maintenance of state roads,
- investments in hospitals

- and flood protection, to give only a few examples.

To create child-care places, one of the justified demands made by the economic sector, we have entered into an agreement with the municipalities and tripled state resources.

The development of full-day schools is just as important. That would require 10 billion euros nationwide.

Otherwise we will be unable to cope with the challenges of ensuring a sustainable infrastructure.

Our budgets are challenged here, too, by the simultaneous need to cut spending.

We will make sure that the companies' investment capabilities, i.e. their ability to generate equity capital and use it to develop long-term strategies encouraging innovation and technological leadership, are not impaired.

9. Conclusion

Ladies and gentlemen,

Daimler AG comes from Baden-Württemberg.

People in our country used to always say that when Daimler catches a cold, the whole state gets the flu.

There may still be something to that today

But it is even truer to say that when medium-sized companies are doing well, the state can't complain.

And I am glad that we scarcely have anything to complain about from the economic standpoint.

I am glad that we have such a successful bottom line with our *Mittelstand* economy.

Germany's economic outlook for this new year seems promising.

But that must not make us careless or too cocky.

Economic success, like social cohesion, cannot be taken for granted – not even in Baden-Württemberg!

We need to make an effort and constantly take new paths in order to remain successful.

So, the topic of medium-sized companies has many different facets.

I hope I have been able to point out a few of those aspects to you in this lecture.

And I am looking forward to the discussion that follows, where we will be able to examine these topics in greater depth.

Thank you very much!