

Economic Koenigswinter Conference

12-13 November 2004
Berlin

“Confronting Global Challenges: German-British Perspectives”. Summary Report

1. Hosted by T-Mobile / Deutsche Telekom in its beautiful Berlin headquarters, the 5th German-British Economic Koenigswinter Conference brought together for a good and lively discussion some 35 high-ranking participants from business, academia and politics from both countries, including a few Americans.
The discussion showed again the difference of perception and approach in both countries to global economic challenges. While both sides expressed confidence in mastering the challenges the mood was strikingly different:
 - the British participants displayed more self-confidence due to the continuing economic success of the British economy;
 - German participants were more preoccupied with their economic problems though with the expectation that they could be overcome;
 - EU-enlargement was noted positively by the British while on the German side the positive effects were viewed against the problems of an ever bigger EU, in particular if the Constitutional Treaty were not to be ratified; views on Turkey joining the European Union differ as well;
 - Enlargement may wake up reform-complacent Europe and force it to become more competitive in the globalizing economy;
 - Globalisation was positively viewed from an economic perspective but considered a hard sell;
 - China and India will be leading economies in a few years but Europe can keep its leading edge if it invests more in innovation, research and development and education;
 - Europeans should get their act together post-Iraq and heal the wounds with the US; President Bush will want to see the strategic transatlantic partnership repaired.
2. Minister for Economy and Labour, Wolfgang Clement, in support of the continuing German-British dialogue and the Koenigswinter Conferences, took the time to address the conference on the Saturday morning. In his key-note address “The World Economy in the next two Decades”, he gave a confident outlook on the EU and Germany mastering the challenges. He identified four factors as decisive for the world economy:
 - the globalisation of markets;
 - more efficient use of increasingly scarce resources (i.e. oil), the development of alternative resources and the care for the environment (i.e. CO₂-emission);
 - demographic developments (ageing) and labour migration; both can have a decisive impact on the international traffic on goods, services and finances;

- new technologies; research and development and sufficient investments in new technologies, in particular in information and communication, are the key to growth; in these sectors continental Europe has a lot to invest still.

Minister Clement recognised that the British economic indicators are better than Germany's thanks to the efficient British reforms some 20 years ago. Germany has to carry the burden of reunification.. There can be no doubt that Germany is among the economic winners from EU-enlargement and globalisation. The German public fails to recognize this because of the weak domestic economic situation, though exports were again up another 12%. Germany needs to restructure its industrial base, also in the service sector, and it needs to generate growth. The necessary reforms addressing education, labour costs, unemployment benefits and pension rights are under way. Workers attitudes and business relations have changed already. He was confident, that Germany will meet the criteria of the Lisbon Agenda.

3. The first discussion round focused on “Consequences of the EU-enlargement for German and British economies, industries and prospects for further extension of the EU to the East: more chances or more challenges?”

The latest EU-enlargement was generally welcomed, mainly from a political perspective; the new member countries have taken up their rightful place. But there was a fundamental difference between German and British views insofar as the British participants tended to see enlargement mainly in positive terms - the reason being their more comfortable economic situation and their pragmatic, non-integrationist approach to the European Union. In the German assessment prevailed an analysis of the economic and political challenges to the European Union project in a more integrated sense with preferably harmonization ex ante.

A German participant pointed out that in economic terms the new EU-members combined represent only the equivalent of the economic power of the Netherlands or of the biggest German state Northrhine-Westfalia. While the direct economic impact for the UK economy is small (0,1% of the GDP), Germany and Austria would benefit more directly from the growing cross border traffic (1,2% and 2,0% of the GDP); on the other side they will face competition due to high differences in labour cost and will be challenged by migration. He pointed out that Germany had successfully started to address high labour costs (Siemens by 30%).

A British participant felt that the danger of migration from East to West was overrated; the Spanish and Portuguese guest-workers, for instance, went back to their countries as soon as they could. But he argued, in view of the ageing populations in old and new EU-countries, that immigration was required and that, according to his view, it would probably come from Northern Africa.

A German view was that the new members will bring new entrepreneurial spirit to the EU, which may help to wake up reform-complacent Europe and speed up the reform process. A British participant added, that enlargement could become for Germany what Lady Thatcher was for Britain, a catalyst for change.

The further extension of the EU to Bulgaria, Romania, Croatia and the remaining countries of the Western Balkans (Bosnia-Herzegovina, Macedonia, Albania, Serbia/Kosovo) was considered inevitable but highly problematic, even more so the inclusion of Turkey and, possibly, the Ukraine. The poor economic performance of Bulgaria and Romania will cause considerable problems according to a German expert. A British participant argued that the further enlargement process should proceed as the EU sees fit to accept new members. Globalization and EU-enlargement are seen by the UK to be in her self-interest, as is the EU-membership of Turkey. As a free-trader Britain

considers herself well placed in a globalized world. Enlargement is seen as an engine to competition and the UK believes in the transformational power and in the institutional flexibility of the EU; each enlargement in the past has led to economic prosperity. The inclusion of a secular Muslim state Turkey would strengthen the EU's outreach. Another British participant argued that the effort and the journey to get Turkey ready for inclusion are perhaps more important than membership itself. He pointed out, that both the EU and Turkey would be different once Turkey was ready to join.

After 9-11 a strategic-security view had to prevail in defining Turkey's EU- membership expectation, a German participant remarked. Another one was of the opinion, that if Turkey were to participate fully in all spheres of the EU, the system would collapse; a system of "concentric circles" would then have to be considered for the EU. British participants argued against such an approach of partial integration and different concentric circles and viewed this as a danger for the future of the EU as a whole. Another participant pointed at already existing variable "geometries" in the EU: Schengen, EURO.

The complex political, cultural and social dimension of the EU with 30 or more members was raised as well. Without a ratified Constitutional Treaty the necessary structures to administer such a big union would be lacking. Ratification by the UK was considered very difficult, if not unlikely; business will be split and therefore business organisations will remain neutral in the debate. A British participant expressed concern and felt that the EU would be in deep turmoil with the prospect of changing majorities and saw little option but to go forward with broad integration if ratification failed. Another one saw also substantial potential for economic conflict and argued for mechanisms which would allow countries to leave the EU without creating a crisis.

4. The second discussion round dealt with "What are the consequences of globalisation and new economic trends for our national economies? Will China and India become the leading economies of tomorrow? Can Europe remain competitive and what could be the basis for success?"

There were fewer differences between the German and British participants in judging the consequences of globalisation. The economic effects of globalisation were, in general, viewed positively but considered a hard sell to the public. One German-American participant felt that globalisation and its consequences will continue to surprise us ("you ain't seen nothing yet"). He considered the US better prepared than Europe because the pillars in the European culture such as state-provided social cohesion and solidarity, are not prevalent to that extent in the US system. Europe was also too inflexible institutionally: it takes 2 days in the US to start a new business, but 11 days in the UK and 45 days in Germany. Free trade seemed to be unpopular in Europe and governments do not trust the markets; in Germany there is resistance against a free market economy. Overall, he felt, Europe will benefit from globalization but there we will have to, as a society, compensate the losers who are afraid of having to bear the consequences alone.

A British participant pointed at the dichotomy between the UK and German-French attitudes: while Britain was outward-looking and wanted the EU to turn to global affairs Germany and France were inward-looking and preoccupied with themselves, with a kind of outward defensiveness. He warned against a too simplistic discussion of these differences.

There was nevertheless a general sense that Europe had a leading edge in a globalizing economy but that it had also to invest more in innovation, research and development and

education in order to stay competitive. A British participant felt that a merger of the manufacturing and service industries was perhaps even more important. A German discussant wanted to see more funds being made available in Germany for venture capital and start up companies.

China and India were considered leading economies in a few years time. The economic boom in China is impressive, but it will not continue that way in the same form forever.

Difficulties and problems will arise once the industrialisation moves from the coastal areas to the heartland; social and economic strains are to be expected. To manage these risks will become quite a challenge for our business engaged there. China requires enormous resources for its huge economy. World oil and steel prices and shipping rates are already up. The growth rates of its energy market are tremendous. Resources will get scarce on the world market, if China continues to grow at present rates. In a single year China added power plants amounting to the combined production of all German power stations put together. But apart from coal China has no oil or gas of its own which may well limit the growth perspectives; Russia holds the key to China's supply of energy resources. The present China emphasis by the Western business world was considered mainly an effort to get a foothold into the Chinese market and to invest there but without clear business perspectives and risks to get money out; exist strategies were so far lacking. A British participant saw nevertheless the risks to investments in India higher than in China.

Germany is more interested in China because of its own manufacturing strength, a sector China is specializing in as well. British participants regret that the UK had given up its manufacturing industries but considered their strengths in the service industries an asset which will help to shift the terms of trade in the UK's favour. Therefore, the UK and the US focus on India with her attractive service industry; the English language and traditional British connections are particularly helpful. German business seems reluctant to invest in India. India has a great long-term potential but, for the time, being it suffers from a state by state problem and from an administrative system inherited from the UK. But there was an important difference which would effect positively India's future economic development: India is a democracy. British participants were quite optimistic about the UK's prospects with both India and a prospering China as trading partners.

5. The clear election victory by President George W. Bush and the reinforced Republican majority in the US-Senate and the US-House of Representatives were viewed positively by an American political analyst. It was likely that on the one hand the self-confident policy line of the Administration (the role and influence of the Vice-President being questionable) will be strengthened but on the other hand there were for Europeans grounds for optimism to see the transatlantic partnership repaired. Bush will travel to Europe soon after his inauguration and will want to renew the strategic relationship with Europe. In the discussion there was a general feeling that wounds with the US should be healed and Europe needs to get its act together post-Iraq.

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Berlin, 12/13 November 2004

at Deutsche Telekom, Französische Straße 33a-c, 10117 Berlin

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Friday, 12 November 2004

- 15.30 Tea and Coffee
- 16.00 **Welcome** by Ambassador (ret.) *Gebhardt von Moltke*
(Chairman DBG), and *Lord Watson of Richmond, CBE*
(Chairman Burson-Marsteller Europe, Chairman of the British
Koenigswinter Steering Committee)
Opening remarks by *René Obermann*, Chairman of the Board
T-mobile
- 16.30 **Session 1:**
“Consequences of the EU-enlargement for German and British
economies/industries and prospects for further extension of the
EU to the East: more chances or more challenges?”
Chair: *Matthias Wissmann*, Member of Deutscher Bundestag
Introduction: *Andreas Utermann*, Global CIO, Allianz
Dresdner Asset Managemant
Prof. Dr. Michael Hüther, Director, Institut der Deutschen
Wirtschaft
- 19.00 End of session
- 19.30 Depart by coach to the Ambassador's Residence
- 20.00 Dinner at the invitation of H.E. *Sir Peter Torry KCMG*, British
Ambassador to the Federal Republic of Germany
at the Ambassador's Residence
Dinner speaker: *Dr. Wolfgang Reitzle*, CEO, Linde AG

Saturday, 13 November 2004

- 08.30 **Session 2:**
“After the US presidential and congressional elections: What impact for transatlantic political and economic relations?”
Chair: *Dr. Uwe Franke*, Chairman of the Board, Deutsche BP AG
Introduction: *Bill Drozdiak*, Executive Director, Transatlantic Center, German Marshall Fund, Brussels
- 09.15 **Key-note address:** “The world economy in the next two decades” by *Wolfgang Clement*, Federal Minister for Economic and Labour Affairs
- 10.00 Coffee break
- 10.30 **Session 3:**
“What are the consequences of globalisation and new economic trends for our national economies? Will China and India become the leading economies of tomorrow? Can Europe remain competitive and what could be the basis for success (entrepreneurialism, knowledge base, creativity, education)? Is there a risk of de-industrialisation at home?”
Chair: *Dr. Uwe Franke*, Chairman of the Board, Deutsche BP AG
Introduction: *Peter Day*, Business Correspondent BBC, *Prof. Dr. Michael C. Burda*, Humboldt-Universität
- 12.30 Winding-up
The Lord Watson of Richmond CBE
- 13.00 Buffet lunch

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