

The Challenge of Globalization and the Response of Politics

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1. Introduction

I would like to thank you for inviting me, and welcome you all warmly to Munich. In addressing globalization, the Max-Planck-Institute for Intellectual Property, Competition and Tax Law is addressing an issue which has accompanied us for a while yet still remains topical.

The object of the conference, to discuss the various facets of the complex process of globalization, is well chosen. Owing to its substantial interdisciplinary competence, the Max Planck Society is the right institution to tackle this difficult issue. Hence the Max Planck Society again rises to the challenge of acting as a significant stimulus for the economy, academia and politics alike.

I welcome the opportunity to come here today and contribute to this major conference. I will present the response of Bavarian politics to the challenges of globalization. Bavaria, as part of the Federal Republic of Germany, is of course embedded in national politics. However, we do have considerable scope for manoeuvre in several important political areas.

2. Globalization today

Globalization is a politically intended, technically driven and economically meaningful process. It has picked up in pace in recent years:

World trade has grown steadily in double-digit percentage figures. In 2006 the worldwide exports amounted to USD 11.8 trillion, 15% above the figure for the preceding year. Foreign direct investments reached a value of USD 1.2 trillion in 2006, an increase of one third from the preceding year. Last year growth was slower especially owing to turbulences on the capital markets. However, there is no indication of a reversal of the trend.

With a share of 38% in the overall global exportation of goods, Europe has the largest share of all regions in the world.

In 2006 Germany was again the largest exporter of goods worldwide, with a volume of USD 1.11 trillion. The USA is ranked second with USD 1.04 trillion, and China is ranked third with USD 976 billion. This shows just how intensely Germany with its population of 82 million is enmeshed in the global economy. A free global economy is one essential prerequisite for our prosperity and for jobs in our country.

* The spoken words prevail. German language version is authorized. Translated from the German original by Catriona Thomas, MA, Karlsruhe.

The rise of numerous threshold countries, the steady increase in the international division of work and closer interweavement of markets result in tremendous changes to the global economy. International competition becomes more intense at all levels.

3. How do we have to respond?

I would like to give two answers to this question here today:

Firstly, we have to accept global competition. Secondly, we have to participate in drawing up the rules of the globalization game.

3.1 Global competition

It is clear that we cannot avoid competition. Calls for protective barriers harm Germany as an export nation. Withdrawal from the global economy is not a realistic option, but would result in unimaginable turbulences and a massive decrease in prosperity. The proposals made by the opponents of globalization are unrealistic.

The only option is for the enterprises and citizens of Bavaria and Germany to rise to the challenge of international competition. This is initially a mental process which is not easy for those who do not feel completely up to competition. Change also triggers anxiety among the population, not only in Germany. But the fact is that in the past we have coped well with international competition. Bavaria has the potential to succeed within globalization also in future. In addition, an economically strong country can also shape the process of change to a much better degree.

3.2 Drawing up the rules of globalization

The enterprises have to bear the main burden. The relevant vocabulary is familiar: increase in competitiveness, innovations in processes and products, rationalization, reductions in costs, accessing of markets and so forth. Bavarian and German enterprises have repeatedly proven their performance capacity and demonstrated that they are fit for international competition.

Employees also face major challenges: increased commitment, overtime, further training, life-long learning, flexibility, career changes, and mobility. I am very proud of the Bavarian workers, they are making a tremendous contribution! If necessary, even the trade unions in Bavaria are willing to accept change and exercise restraint as regards wages and salaries.

The industrial site of Bavaria, Germany as a whole and Europe all face particular challenges. Economic politics at all government levels has to set the signals correctly. Enterprises and employees alike have to receive appropriate assistance. Politics is not powerless in times of globalization. Quite the opposite! Good economic policies can improve site factors and have an enormous impact!

3.2.1 Social market economy vs. anglo-saxon capitalism

In my view the first question concerns the issue of a regulatory policy model. Can our social market economy keep up with Anglo-Saxon capitalism, which also provides orientation for many Asian countries? I believe the answer to this question is “YES”!

A social market economy is an economic regulatory system which activates the strengths of the market and competition, which provides incentives for achievement and personal initiative, and which triggers tremendous economic dynamics.

However, a social market economy is also a system which calls for solidarity within the population. It creates the best link between economic efficiency and reliable social security. This is consistent with our culture and our mentality, as well as our Christian concept of human nature.

Anglo-Saxon capitalism cannot serve as our model. In the social market economy that I stand for the focus lies on the human being, not on profits or capital. However, we do have to take care not to drift in another direction: the gilded memories of former East Germany in some quarters cause me considerable worry. The more socialist elements and elements of a planned economy are introduced, the less general prosperity will be achieved.

Every economist keeps one eye on demand and one eye on supply. To be specific: alleviating the burden on citizens results in increased demand. The creation of favourable framework conditions for enterprises results in a better supply situation. Price mechanisms and competition regulate supply and demand. The state only intervenes where the results are undesirable for society. This is the essence of a social market economy!

3.2.2 Bavaria's achievements

In past years the state of Bavaria has been able to develop considerable dynamics on this basis. The results generated by the Bavarian economic policies have been very impressive:

Bavaria always belongs to the top group in Germany as regards economic growth, which was 2.8% in Bavaria last year and therefore the strongest in Germany. Bavaria does not have to fear an international comparison either: our growth figures for 2006 and 2007 were higher than those for the USA, Japan and Switzerland.

The Bavarian unemployment rate was 4.4% in April. We are always second-placed in Germany behind Baden-Württemberg. What is important to me is that all regions of Bavaria can profit from the high employment rates. This goal has been achieved: of the 27 regions of Bavaria listed by the labour exchange, 21 had an unemployment rate of below 5%.

Bavaria has the most start-ups and the most patent applications of all German states. In 2007 Bavarian enterprises achieved the 14th consecutive export record. “Made in Bavaria” has in the meantime established itself as a premium trademark slogan.

Bavaria is the first federal state to have restructured its public finances. The Bavarian budget has been balanced since 2006 so that Standard & Poor's awarded us a top triple-A rating. Nor will the balanced budget be put in question in future.

How did we get there?

Bavarian economic policy success strategies have repeatedly proven to be correct. They have proved their worth within the globalization process. I would like to focus on five elements in particular:

3.2.2.1 Placing our trust in SME

One of Bavaria's trademarks is a healthy mixture of major, medium-sized and small businesses. SMEs are an eminently important factor for the Bavarian macro-economy:

SMEs represent a culture of willingness to achieve coupled with independence and entrepreneurship. SMEs ensure the stability of our economy, they remain loyal to their chosen industrial sites, and they represent a special relationship between employers and employees.

For this reason Bavarian government naturally seeks to ensure that its economic policy decisions have a positive impact on SMEs. A pivotal approach in this respect is to balance out any size-related disadvantages insofar as possible.

As early as 1974 Bavaria introduced the first legislation in Germany for the advancement of SMEs. The legislation was recently revised and adjusted so as to better accommodate the needs of SMEs. The most important changes are intensified advice for businesses, improved promotion of exports, a revision of public procurement procedures in line with the needs of SMEs, and additional support for the financing of SMEs.

These measures are tailored to the specific needs of small and SMEs. I do believe that we can thus provide effective support for the positive development of SMEs in Bavaria.

3.2.2.2 Consistent regional advancement

Bavaria as a whole will only have a prosperous future if its regions are not left behind. The objective pursued by the Bavarian government is that people everywhere in Bavaria continue to have good prospects for the future. We seek a positive development in the competitiveness, the quality of life and the perspectives for the future throughout all regions of Bavaria.

Clearly, Munich and Nuremberg are the economic motors that play a particular role in Bavaria. However, 60% of the Bavarian population lives in rural areas, where there are also outstanding achievements. It is the aim of Bavarian politics to provide equivalent – not identical – living conditions in town and country alike.

Policies for rural areas have to mobilize local potential. The Bavarian government provides significant impulses, for example by supporting the development of data highways in rural areas. Everyone and every entrepreneur has to be connected to the world, no matter where he or she lives in Bavaria. Rural areas have to be up-to-date technologically in order to be competitive within the globalization process.

When awarding business investment grants the emphasis is placed on Eastern and Northern Bavaria. The investment grant differential vis-à-vis the Czech Republic was limited to a maximum of 20% in order to prevent migration from the region.

3.2.2.3 *High-Tech orientation*

Bavaria offers not only the best possible assistance for medium-sized businesses and comprehensive regional support. A further brand is set by the government's technology policies. Bavaria is a high-tech state which places its bets on innovation and modern technologies. Bavaria thrives on the ideas of its citizens, on a spirit of inventiveness, research and entrepreneurship. Bavaria thrives on the creative potential that slumbers in every one of us.

The competitive advantages that are repeatedly attained in Bavaria, and that we need, are only possible on the basis of innovation and technical achievements. Competitive advantages alone enable the creation of new jobs. We can only be more expensive to the extent that we are better! This is why the Bavarian government particularly supports technical progress.

Following the major programs Bavaria Future Initiative and the High-Tech Initiative involving approximately EUR 4.2 billion for science and research during the 1990s, it is now important to further expand the existing strengths in Bavaria. This is the aim of the Allianz Bayern Innovativ. The focal idea behind this cluster strategy is to create a tight-knit network between business and science. This will speed up the transition of research results into enterprises and lead to innovations which enterprises can develop into new, marketable products. The platform for the cluster was erected with EUR 50 million.

The investment program Bavaria 2020 is the next step. A further EUR 100 million will be devoted especially to development clusters, and EUR 850 million to universities, research and innovation. To these amounts are added the recently released Transrapid resources, a further EUR 500 million. I will present a corresponding innovation package this summer, on top of the regular budget.

The portion of research and development expenditure in the GDP is currently 3% in Bavaria, giving the state an excellent position both nationally and internationally. However, we must not be satisfied with this. Other countries are catching up. We aim to raise the portion of research and development expenditure in the GDP to 3.6% by 2020 – a difficult but feasible target!

We aim to belong to the most innovative regions in Europe. We want the multitude of ideas in Bavaria to be developed into products here, and we want the globally competitive jobs to be created here.

Our cluster strategy will trigger a dynamic process. The transfer of technology will pick up in pace. Research results will lead more rapidly to marketable applications. The cluster strategy will thus generate new products, new markets and new jobs in Bavaria. It will enable enterprises to hold their own on national and international markets while operating out of the industrial site of Bavaria.

3.2.2.4 Education and academia

“A country’s competitiveness starts not on the factory floor or in the engineering lab. It starts in the classroom.” This has been acknowledged for over 100 years. It is a quote from Henry Ford, founder of the US automobile industry.

The phrase remains true today: nowadays, when knowledge is growing explosively and high-tech processes and globalization result in ever-tougher requirements in all professions, an excellent education is more important than ever.

We are therefore further developing our achievement-oriented education system. The structured school system in Bavaria offers young persons differentiated support and a choice of schools according to ability. The outstanding endorsements for Bavaria in the PISA and other studies are confirmation of our approach.

Our interest lies in offering the best possible education opportunities to everyone so that the best possible options give everyone a chance to discover and develop their talents and abilities. We wish to provide further individual support for the talented and the less talented. We also place additional emphasis on up-bringing, on virtues such as punctuality and reliability.

Our universities enjoy an outstanding international reputation. With the two Munich universities, Bavaria is the site of two of the three elite universities in Germany. Other Bavarian universities were also awarded excellent positions in the rankings. Students benefit from 38,000 newly created university places and 3,000 jobs – a considerable expansion of capacities.

3.2.2.5 Expanding the infrastructure

Bavaria will continue to afford high priority to the development of its infrastructure in line with needs. This applies to roads, railways, waterways and air traffic. As an export-oriented state and as a state situated in central Europe, we depend on efficient travel connections in all directions.

Bavaria is the site of numerous foreign enterprises, in recent years of companies doing business with Eastern Europe out of our state. This requires good international travel connections both incoming and outgoing, especially for air travel.

4. Shaping the rules of globalization

I initially asked how Bavarian politics has to respond to the tougher competition generated by the globalization process. The first answer was: improve site conditions, as discussed in detail above.

However, this answer only holds true as long as international competition is fair. Hence the second answer is: We have to participate in shaping the rules of the globalization game. We have to ensure that the conditions of trade and business are fair. Governments and internationally recognized institutions such as the WTO are responsible for the rules of the game. Bavaria is able to participate through the German government and the European Union.

The rules of the international markets are far-reaching and in many cases also possess enforcement mechanisms. Due to the rapid pace of growth, however, these

mechanisms have not always kicked in swiftly enough on all occasions. Let me provide some examples:

In many threshold countries the social and environmental standards do not correspond with the level in Europe. Opinions throughout the world on which standards are important and desirable differ widely, while there is however agreement on minimum standards.

Global agreements exist in order to combat unacceptable forms of exploitation such as child labour. To this end the International Labour Organization enters into binding agreements on certain social standards with its 180 member states. The agreements have to be ratified by the individual member states. And here lies the problem: China, India and several other countries lag behind on the ratification of several agreements.

There are also numerous initiatives within the context of Corporate Social Responsibility: the OECD Guidelines for Multinational Enterprises, the UN norms on corporate responsibility, the global reporting guidelines on sustainable development, the environment management norm ISO 14001 and the communications and learning platform “Global Compact” initiated by the former UN Secretary General Kofi Annan.

The objective of these norms and standards is to obtain from businesses a voluntary undertaking of compliance with minimum social and ecological standards. The control of these mechanisms is left to the market, which means consumers are called on. Many NGOs provide transparency by calling attention to grave violations. Seals of quality can also help to improve transparency.

Product piracy is a further grave problem of unfair world trade. International trade in pirate trademark products has reached dramatic dimensions in recent years. To an increasing degree not only everyday consumer goods are affected, but also high-tech products. This causes massive harm to the Bavarian economy.

Here again: the majority of the WTO member states have in the meantime adopted provisions laying down minimum standards for intellectual property rights. China has even oriented its efforts to the German legislation. In practice the difficulties lie in applying the laws and in the enforcement of rights.

The European Union is taking significant measures in order to protect intellectual property vis-à-vis non-EU countries. Bavaria has repeatedly called for improvements at the national and the European level. Currently the focus lies on measures taken by the customs authorities. In accordance with its motto “cooperation instead of confrontation”, the EU is also attempting to influence non-EU countries, and first successes have ensued.

5. Conclusion

In sum: the regulations and mechanisms for fair competition are already in place. Basically speaking, the problems arise in enforcing these mechanisms. It is therefore the responsibility of the individual countries to recognize social and environmental standards. One of the decisive political responsibilities in future will be to implement such social and environmental standards in the sense of the internation-

alization of the social market economy. Bilateral free trade agreements do not constitute a panacea, but, rather, an initial pragmatic solution in many cases. This was one of the outcomes of an expert hearing held in Munich at the start of the year.

I am confident that things are going in the right direction. As regards environmental protection, for example, the Kyoto Protocol has demonstrated a global adjustment of views.

Ladies and gentlemen,

Bavaria is one of the winners in the globalization process. Our export rate of 50% is clear proof of this. The Bavarian government will work hard so that Bavaria continues to profit from globalization in future. We are presently enjoying the right tail wind due to the positive economic trend. If we also succeed in improving the international enforcement of existing legal provisions, our positive economic development will surely continue.



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