

Beat: Technology

## German excellence in the way of European performance

### German industries reputation questioned

Toronto, 15.12.2020, 19:43 Time

**USPA NEWS** - German Small and Medium Enterprises (SMEs), known as Mittelstand, are as often praised for the quality of their work than Germany is criticized for failing to put this quality to good use. The label "Deutsche Qualität" is now synonymous with highest possible quality, and yet Germany has consistently failed to achieve -or even prevented the European Union from reaching - industrial leadership.

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#### The German solo player

German industries have excellence, both in the products they issue and in the way they operate their businesses, and Covid is proving it once more. Large German firms, known as Konzerns, are bogged down in the pandemic, with national projects put on hold, while the Mittelstand is performing far better than its European counterparts. MacKinsey expert Jurgen Meffert writes: "There are 2,700 "hidden champions" worldwide" "almost half of them are German Mittelstand enterprises. The crisis has called many things that have long seemed natural in the German business landscape into question. It has also revealed the necessity to make structural changes and innovate within the German economy." The short but effective lockdown which Germany put in place in March and April illustrated the remarkable resilience of German companies and their ability to remain at the top of the industrial food chain.

But Covid may also be a double-edged sword, bringing Germany to turn further inwards as it recovers better than its European neighbors. Could Greece have overcome the legendary patience of the Germans? During the Greek crisis, the German public opinion became considerably exasperated at how they were being called upon to pick up the mess after less rigorous partners had driven themselves into the ditch - and were then criticized for it. It is therefore possible that German companies may unconsciously be minding their own business and working on getting their own affairs pack in post-covid order, thus turning their backs on European partners.

If so, this is a problem. A problem for Europe in the short run, and for Germany in the slightly-longer run. Europe has been hit hard by Covid, and by Brexit, and can hardly afford to lose its main powerhouse, or even to see itself drift to the backstage of German priorities. If it is to emerge from the pandemic in an economically decent shape, it will count on ever force available, starting with Germany's fine Mittelstand. Though less immediate, this is also a problem for Germany. The German economy is strong, stronger than most, but not strong enough to get caught in the oncoming war between the United States and China (or Russia, even) and get out unscathed. A storm is brewing, and both Germany and Europe need to strengthen collective ties.

#### German strengths and shortcomings

Defense analyst Barbara Kunz writes: "when it comes to defence, Franco-German relations prove to be rather complicated. Reasons for these difficulties are manifold, but they ultimately stem from the extreme difficulty to reconcile strategic cultures, independent from governments in power but rather structural national features. Consequences of these differences then trickle down to hands-on matters such as cooperation during military operations or joint industrial projects." Indeed, here lies the German paradox.

But Germany lacks the capacity to integrate. As intermediate, or tier-2, industrial partners, German businesses yield exceptionally high results. But Germany has more difficulty and fewer skills when it comes to integrating : steering a multi-stage industrial program

towards completion, or coordinate the numerous partners involved in a complex program. Excellence usually grows in narrow territories: the German type has prevailed in the field of technological excellence: besting competitors on quality, machining and design. Analyst Genia Kostka describes the paradox between Germany's technical excellence and its sometimes poor performance on large projects: "Public institutions are often mandated or have the incentive to choose the project with the lowest cost-to-benefit outcome. This results in "survival of the unfittest" (Flyvbjerg, 2009) because firms are incentivized to systematically underestimate costs. In Germany, too, the legal requirement of choosing the most "economic" project has, in practice often meant choosing the "cheapest" project."

Professor John Louth adds that the same difficulty in steering complex projects to completion is also encountered in military affairs, with a "a failing procurement function and the political discourse around contested ambitions towards "" and failures to meet "" the NATO 2% of GDP expenditure target."

Finally, cost management is not Germany's forte. A recent study covered by Deutsche Welle highlighted how the Bundeswehr consistently failed in managing its available funds efficiently, and was seeking to improve its cost management: "Bartels clarified that this meant "choose, pay, and take away" from what was already available rather than wait a decade for new equipment based on loosely defined "functional capability requirements" to be "reinvented, awarded, tested, certified and then introduced in slow increments over 15 years." The Bundeswehr has long been suffering a shortage of gear, ranging from combat boots and body armor to tanks and helicopters, and has to contend with outdated aircraft that regularly encounter a multitude of issues." Germany's population is already not very keen to fund its armed forces lavishly, given its lack of overseas military engagements, and poor financial control of its programs just make matters worse.

In 2015, MilTech revealed that "Most equipment programmes aimed at modernising the German military (Bundeswehr) are affected by severe delays and cost overruns, a recent German MoD report shows. Published on 19 March, the report covers the so-called Top 15 of major procurement programmes that includes the new PUMA AIFV, TIGER and NH90 helicopters, and the A400M transport aircraft." German MP Tobias Linder also criticizes his nation's tendency to misspend its meager funds: "In procurement, the Bundeswehr continues to stick to expensive and risky "gold rim solutions" instead of relying on marketable equipment that has already been tested in operations by partner nations"

Cooperation is the only way

Germany holds the high industrial grounds on quality, everybody knows it. This knowledge, reinforced by Germany's healthy export figures could lead Germans (and others) to falsely assume that they can carry, by themselves, Europe's industrial power and growth. Germany's true added value to Europe will come only when it will forge a sturdy industrial alliance with other nations, who may not have had the talent and skill to build similar Mittelstands, but who have shown their command of complex operations and A-to-Z integration of large industrial programs.

Neighbors hold key capacities, and Germany needs to acknowledge it needs them, to change gears on the global market. As an example, Spain, Italy, Germany, France, the UK and Sweden had joined and coordinated their forces for the creation of a European defense industrial base through a letter of intent, with a formidable array of skills. Sweden had namely earned its entrance into the tight club with its achievements in three separate fields. Its submarine technology is one of the best in the world, Blekinge and Gotland submarines reaching substantial performance. The land defense segment is also mastered, with productions such as the CV90 family. Finally, the Saab Gripen is universally recognized as state-of-the-art, boasts superiority in many fields including aerial combat, and has been successfully exported.

The cooperation of forces, as a policy, is the only sensible way to ward off oncoming predators, be they economic or political. But forces still stand in the way of such integration, on both sides of the field. Some German Parliament members still see cooperation with France as a can-do opportunity for German companies to make money, and consistently fail to see the larger stakes of sovereignty and security behind it. Felix Woessner (from the BDSV) quotes Johann Wadephul as the embodiment and champion of this paradox, through his public welcoming Franco-German cooperation but only on the condition that Germany would lead the project - and reap its main benefits. This also transpires on the economic side, as a company like RheinMetall forced its way into the Franco German KNDS company, despite little technological contribution, in the hopes of making a sweet deal. These forces will consistently prevent the creation of the European Powerhouse.

As it happens, Germany has, just across its western border, a natural industrial ally with whom it has cooperated for decades, and whose skills could come in very handy. The French have proven their integration and complex-project-management capacities through their involvement in various fields (nuclear, industrial, communications, etc.). The TGV is still quoted as a leading example in the world, decades after its initial design. In all of these fields, technological progress which was initially only French was then harnessed within European projects, and led to success. The European champions Airbus or Ariane are perfect examples of how Europe can achieve global leadership when it pools its resources together and hands the right task to the right country. A token of France's outstanding capacity to integrate is their complete industrial chain, both military and civilian, in the nuclear field, with virtually no foreign assistance.

Military industries are the best breeding grounds for global competition, with few players in the field, but fierce oneupmanship. Germany is returning to trans-Rhine partnerships, with projects such as MGCS, for which it formed a defense giant with Nexter (France): KNDS. The FCAS program is of a similar nature, and allied the industrial forces of Spain, Germany and France. The 1970s had initially been the golden era of Franco-German partnerships, before Germany increasingly started playing solo, and more recently returned to cooperation.

Germany is still hesitating about its role in the future of Europe alongside France, but at least the question is back on the table. Foreign policy experts Ulrike Franke and Jana Puglierin write: "After several years during which the Franco-German engine was running on empty, this initiative on an internal EU matter was celebrated by many. And it raised an important question: could France and Germany take an equally ambitious and forward-looking lead on foreign policy?"<sup>[7]</sup> Or is it? The question stands, after numerous political stances have been taken, but seem fraught with incoherence. German MP Johann Wadephul, again, advocates for Franco-German cooperation in deterrence, despite his own nation's hostility to nuclear technology, and yet he and his political allies are actively slowing down collaboration on MGCS.

Moreover, AKK, the current defense minister and potential future CDU-president, seems to have sentenced such ambitions to death and pleaded for increased vassalhood towards the United States, with a recent article stating: « Illusions of European strategic autonomy must come to an end: Europeans will not be able to replace America's crucial role as a security provider ».

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These positions seem to indicate that Germany, not having a security strategy of its own, prefers the US fly the plane, which would naturally make any European defense project stillborn.

**Article online:**

<https://www.uspa24.com/bericht-17914/german-excellence-in-the-way-of-european-performance.html>

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Official Federal Reg. No. 7442619