

FACT SHEET

Eastern Germany

Investment and Innovation Location



A Reunified Germany

Just three decades ago the Berlin Wall came down. The defining symbol of Cold War oppression, which had served to divide a city and a country for 28 years, was open. The Iron Curtain, already rusting in the new age of Glasnost and Perestroika which had laid siege to the Warsaw Pact, had fallen off its hinges.

The historical and political significance of the fall of the Berlin Wall in 1989 cannot be overestimated. The "Peaceful Revolution" of 1989 in East Germany played an important role in the *Wende* ("Turning Point") process which would ultimately result in German reunification in 1990. Less spectacular, but an equally important precursor to German unification after four decades of separation, was the act of economic and currency union signed between West Germany and the German Democratic Republic earlier in July the same year. On October 3, 1990, the German Democratic Republic signed constitution article 23 of the Basic Law for the Federal Republic of Germany, formally joining the Federal Republic of Germany.



The New Federal States

Basic Data and Economic Development



Area
108,863 km²



Population
16.1 million

Measurement	2017	2016	2015
GDP (nominal, in EUR billion)	493	476	460
GDP per capita (nominal, in EUR)	n.a.	29,477	28,649
Real GDP growth	1.9%	1.9%	2.2%

Source: Federal Statistical Office and the statistical offices of the Länder 2018

The New Federal States

Since reunification in 1990, Germany has been made up of 16 federal states. The region of Eastern Germany consists of six federal states (commonly referred to as the "new federal states"). These are Brandenburg, Mecklenburg-Vorpommern, Saxony-Anhalt, Saxony, Thuringia, and the city state capital of Berlin. The region is home to around 16 million of Germany's 80 million plus population, of which more than 3 million live in Berlin alone.

Rebuilding the East – A New Beginning

A massive program of investment in infrastructure has helped set the path for the steady growth being witnessed in the revitalized region today. According to the state-owned KfW Banking Group, public and private investment in Eastern Germany for the period up to 2015 equates at around EUR 1.6 trillion. During the same period, the bank itself financed one in every ten euros invested in Eastern Germany – providing EUR 100 billion in loans for SME investment alone.

The on-the-ground presence of internationally renowned universities, research institutes and centers of scientific excellence has helped drive the rapid development of a number of forward-looking industry sectors. Chief among these are the region's thriving renewable energies, nanotechnology, biotechnology, health care, and ICT sectors. By building on the traditionally strong industrial heritage of the federal states in the east, Germany has become an international force in the technologies and markets of the future.

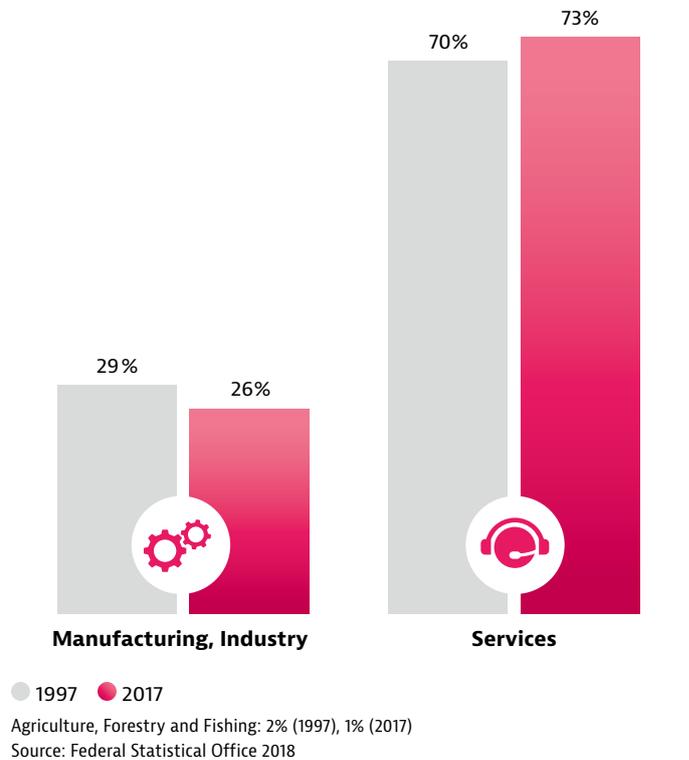
Concerted and forward-looking reconstruction and development policies involving both public and private partners at national and international levels have helped transform the economic landscape. Traditional economic sectors have been resurrected in some regions, with new economic sectors opening up in others. New federal state per capita GDP levels have more than doubled in the intervening years, with the region expected to achieve parity with the old federal states in less than a decade.

The success of the Eastern Germany reconstruction project can also be indirectly measured in inward investment terms. According to fDi Markets, a total of 769 investment projects

Where Markets Meet

Eastern Germany provides access to a sophisticated logistics infrastructure which allows investors to serve established western European markets and burgeoning new markets in the east from a central location. The region's strategic location in important European transport corridors has allowed Eastern Germany to become an important hub for east-west and north-south traffic. The new federal states boast Europe's most modern road, rail, and airport networks. Between 1991 and 2016, approximately EUR 97 billion was invested in federal railways, trunk roads and waterways, as well as local roads and commuter rail transportation as part of the Community Transport Financing Act. This is equivalent to around 33 percent of total federal spending of EUR 296 billion for a

Gross Value Added by Economic Sector at Basic Prices



settled in the new federal states during the period 2013 to 2017. Today, three decades after the fall of the Wall, the rebuilt Eastern Germany numbers among the world's most attractive and innovative investment and technology locations.

region that houses 20 percent of the population and accounts for around 34 percent of the country's total land mass.

A significant number of the country's airports are located in the east. Goods distribution by sea is well served by around 2,400 km of navigable waters. Northern seaports provide quick and easy access to the UK, the Baltic states, and Scandinavia. Rail freight benefits from the 11,000 km of rail track dotted across the region. From Berlin alone, it is possible to reach 200 million consumers across Europe by rail or road freight within 24 hours. Eastern Germany's transportation and power supply infrastructure constitute a significant investment location advantage in European comparison.



Research and Technology Location

Central to the region's dynamic transformation into a knowledge-based industry economy has been the presence of an extensive academic and research infrastructure. Eastern Germany is home to around 20 universities, more than 40 universities of applied sciences and around 200 non-university research institutions – among which are some of the world's most renowned applied and fundamental research organizations (including the Fraunhofer-Gesellschaft, Helmholtz Association, Leibniz Association, and the Max Planck Society). Research and development intensity levels in the new federal states compare with the world's best. To date, around EUR 2 billion has been spent in the specific promotion of research, development and innovation in Eastern Germany, especially in those regions where universities and research institutions are located.

Innovation Clusters

The high density of universities, research organizations and innovative networks provides the foundation for a market-driven, knowledge-based economy which makes close working partnerships between science and industry possible.

Science and industry work in tandem in industry-specific "innovation clusters" which enjoy substantial public-private partnership R&D funding. A peerless landscape of innovation clusters has sprung up across the region, allowing Eastern Germany to take its place as a global innovation force. Comprehensive industry value chain presence in the respective clusters ensures that the newest and most innovative products and services are delivered to the highest possible standards. Major areas of cluster activity include biotech, ICT, optical technologies, and, of course, renewable energies.

Partnerships with world-class research providers allow companies to significantly reduce their R&D costs; an important consideration which has helped establish Eastern Germany as one of the world's most attractive future technology investment regions. The successes achieved by the Leading-Edge Cluster Competition are being built upon in the Internationalization of Leading-Edge Clusters, Forward-Looking Projects, and Comparable Networks successor initiative. International cooperation is promoted in this measure, with generous R&D funding made available to successful clusters.

Dynamic Market and Knowledge Economy

Eastern Germany has established itself as a highly developed market economy since the fall of the Berlin Wall. A competitive knowledge-based industry region has sprung up from the ruins of a failing communist planned economy.

An industrial “new beginning” was the overarching aim of the fledgling republic’s economic policy – and with good reason. In 1991, unemployment rates in the new eastern federal states were double those of their West German counterparts. Gross domestic product (GDP) in the same states (excluding Berlin) was little more than a third of western levels; export levels were half those of the existing federal states; and the eastern share of overall manufacturing sector value-added was a paltry 3.5 percent. Today the new federal states are recognized the world over as a highly competitive and innovative industry and technology location.

The region’s economy has been radically overhauled in the past three decades, being best characterized by a new landscape of internationally competitive small and medium-sized enterprises. German monetary, economic, and social union has helped pave the way for the high convergence in GDP per capita and consumption levels recorded to date.

Convergence in GDP per capita between east and west to date has exceeded expectations, with consumption convergence levels more positive still; this in no small part thanks to the role monetary union in 1990 played in forging a path for the immediate and successful transfer of the west’s economic and political institutions.

The repopulation of Eastern Germany in recent years owes much to the successful transformation and increased attractiveness of the region since reunification. Eastern Germany’s cities in particular are attracting more people and, in some

cases, even recording net migration gains. The economic and industrial reinvigoration of Eastern Germany, tied to falling unemployment rates and raised living standards, has been central to this repopulation which itself is a further sign of the successful transformation of the region.

Reindustrialization

Reindustrialization has been and remains the motor driving economic growth in the region. Industry share of the economy in the new federal states is around the 20 percent mark, with Germany enjoying the largest industrial base of all high-tech nations.

From the outset, the federal government and the new federal states have sought to strengthen the competitiveness of the region through a comprehensive reindustrialization program, thereby providing a strong set of foundations for a solid export economy. The transformation of the former East Germany into a region with a strong knowledge-based industry has also been central to establishing the new federal states as a successful export force in international markets.

The presence of around 60 non-profit industry research institutions play an instrumental role in allowing industry SMEs to research and develop new products and services in order to consolidate the region’s profile as an industrial innovation force. Historical programs like the INNO-KOM funding program promote the sustainable strengthening of the new federal states as an innovative force by supporting the R&D activities of industry research organizations in the region. The program was relaunched as INNO-KOM in January 2017 in order to recreate INNO-KOM Ost’s successes in structurally weak regions across the whole of the country. Some EUR 65 million of the available EUR 71 million budget has been reserved for the new federal states.

Internationalization of Leading-Edge Clusters, Forward-Looking Projects, and Comparable Networks

Eastern Germany is home to a number of industry networks and clusters that act as impulse givers in their respective sectors. The federal and state governments have launched a raft of measures to support cluster development, based on each individual state’s respective industry, science and research strengths. Innovation through international cooperation between German clusters, networks and innovation regions is promoted through this Leading-Edge Cluster successor competition. Individual R&D partnership projects will be developed

with partners from the prioritized international innovation regions. Joint activities with international partners will receive funding of up to EUR 4 million (up to EUR 1 million per cluster or network during the concept development phase and up to EUR 3 million during the implementation phase) over the five-year duration of the three rounds of competition. Successful cluster winners include AMZ Sachsen, BioEconomy, Cool Silicon, MERGE, OptoNet, Organic Electronics Saxony, and WIGRATEC.

Investment Funding

The GRW Program

A number of incentives programs exist to support investment in the new federal states. The most important investment grant program is the Joint Task for the Improvement of Regional Economic Structures (GRW). The GRW is a national incentives program which offers direct subsidies for investment projects in specific areas. Eligible costs in the context of production site set-up or service location development refers to either the investment-related capital expenditure for new buildings, equipment and machinery or personnel costs during the establishment phase of a new business.

Funding regulations determining, for example, eligible activities or level of support are set at the federal state level. The level of eligible GRW support available is set according to geographical location. The available funding is subject to company size. Reimbursement of up to 20 percent of eligible investment costs is possible for large enterprises, up to 30 percent for medium-sized enterprises, and up to 40 percent for small companies. The maximum support areas are located in Eastern Germany.



www.gtai.com/cash-incentives

R&D Funding

The High-Tech Strategy

All research programs financed by the German federal government are concentrated within the High-Tech Strategy. The High-Tech Strategy defines future fields of priority with a high dependency on R&D: digital economy & society, sustainable economy & energy, innovative working environment, healthy living, intelligent mobility, and civil security. Each area consists of a number of different R&D programs.

Public R&D funding in Eastern Germany typically takes the form of non-repayable grants. These are made available mainly for R&D personnel expenditure purposes. Associated costs for instruments and equipment are also eligible where they can clearly be assigned to the relevant R&D project. The level of support available normally amounts to 50 percent of eligible project costs. In certain instances, small and medium-sized enterprises (SMEs) can benefit from higher levels of support still. Cooperation between project partners, especially between enterprises and research institutions, is usually a condition of eligibility. The federal government periodically calls for R&D project proposals followed by a competition of best project ideas.

A number of national R&D programs with no specific technological focus also exist. Application for incentives available under these programs is possible at all times (i.e. no prior calls for proposals or application deadlines). The Central Innovation Program for SMEs (ZIM) is the most prominent of these programs. It offers an additional bonus for R&D projects of small enterprises in Eastern Germany. The "Entrepreneurial Regions" (*Unternehmen Region*) innovation initiative also consolidates five programs in one closely integrated financial support instrument to promote the special character of innovation in Eastern Germany.



Credit and Guarantee Programs

The credit programs provided by the national development bank KfW Group as well as regional development banks also play an important role in the German funding system. Lengthy credit periods, attractive interest rates and repayment-free periods are the most important features of the measures provided. A number of development loan programs provide an additional interest-rate advantage to investments made in the new federal states, with SMEs in particular often entitled to preferential conditions. Public guarantees can be used to replace or supplement any shortfall in loan securities. A special government-state guarantee instrument providing a public guarantee of up to 80 percent of the loan amount borrowed is available for investment projects with a volume of more than EUR 10 million in Eastern Germany.



www.gtai.com/rd-incentives



www.gtai.com/public-loans

ABOUT US

Germany Trade & Invest – Powerhouse Eastern Germany

GTAI activities that market Eastern Germany as a business location to the world are bundled together under the “Powerhouse Eastern Germany” umbrella brand. Prospective international investors are advised about market opportunities available in the new federal states.

GTAI’s Powerhouse Eastern Germany division promotes the benefits of doing business in the new federal states to international investors as well as seeking to increase the opportunities of Eastern German businesses in the international marketplace. International business delegation and exchange trips play a central role in achieving this dual objective.

Powerhouse Eastern Germany branded conference and special events help communicate the message that the regenerated region has established itself as one of Europe’s most attractive and innovative production and service locations.

Particular focus is attached to the region’s strong and dynamic industry sectors including the renewable energies, chemical, mechanical engineering, automotive, biotechnology, and service sectors. All international companies interested in locating in Eastern Germany are supported by GTAI and the responsible economic development agencies of the respective new federal states.



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Notes

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