



BDI

The Voice of
German Industry

PRINCIPLES ON ECONOMIC & TRADE POLICY

_____ **Summary**

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SUMMARY

Germany's position as a business location is under immense pressure. The country's industrial sector is suffering from the persistent lack of growth and competitiveness in both Germany and Europe. Changes in global politics and the international economic order are calling the German export model into question.

Furthermore, new requirements regarding security and resilience, as well as the EU's climate policy commitments, present us with additional challenges. New economic policy directions are therefore required in many areas to maintain prosperity and spark new growth through investment, innovation and structural reforms. The revival of a consistent policy framework for growth, competitiveness and regulation is just as indispensable as a well-balanced energy and climate policy, an appropriate framework for foreign trade policy, and a consistent digital and innovation policy.

The following paper sets out guidelines and key points addressing major issues in the economic policy debate of recent years, with a particular focus on further developing our general position.

ONE

Economic, competition, regulatory and industrial policy: enabling growth once again

1.1. The **social market economy** remains the cornerstone of Germany's economic success – even under changing international conditions, it must be consistently developed further. This includes the consistent expansion and deepening of the European Union's single market, which is the most important arena for growth and scaling up for businesses. The liberal, open international economic order also remains the guiding principle for German industry.

1.2 The central problem is the **decline in growth potential** with regard to numerous location factors in Germany and Europe. High labour and energy costs, as well as the tax burden, a shortage of venture capital and excessive regulatory burdens are undermining investment and innovation. Furthermore, we are witnessing a gradual erosion of competitiveness in the country's traditional strengths, such as research, development and innovation, the skilled workforce and infrastructure. Growth-friendly policies and structural reforms must therefore be given the highest priority in order to significantly improve competitiveness once again and to ensure prosperity and social stability.

1.3 The **threat to national security** further intensifies the pressure to return to a consistent growth policy. The new threats to our security require far-reaching preparations and structural adjustments within the economy itself. This will place a heavy burden on the public sector, businesses and the economy as a whole for some time to come, will further weigh on the already weak growth potential of Germany and the EU. These new security requirements therefore call for a stronger focus on growth policy to shoulder these burdens.

1.4 The German model of highly integrated national and European **value creation** – from raw materials to capital goods manufacturers – has come under pressure. It remains a matter of urgency to ensure that Germany as a business location provides the conditions for the economic success of this integrated value creation and to make even greater use of the advantages of integrated European product markets. The attractiveness of Germany and the EU for direct investment from third countries should be further enhanced, and the value creation of globally active German companies in third countries should be supported through foreign trade policy. Domestic and external success typically go hand in hand. The risk of value creation shifting to third countries must be countered by creating attractive business conditions.

1.5 **Public finances** face major consolidation challenges. Following the enormous expansion of credit financing, particularly for defence and infrastructure, these sectors must be reintegrated into normal budgetary financing in the medium term. To ensure that public finances are once again sustainable and sound in the future, the public sector must exercise spending discipline. Massive borrowing is only justified if it is accompanied by a more efficient use of public funds through reforms of state structures, the implementation of necessary structural reforms and the prioritisation of expenditure. Weakening or extending the debt brake enshrined in the Basic Law is not the right approach, as we are already experiencing the pressure on the budget from rising interest rates due to existing and increasing debt.

1.6 For several years now, Germany has been experiencing a sustained erosion of **manufacturing and industrial employment**. To reverse this trend, economic and industrial policy must be coherently geared towards strengthening the competitiveness of German industry and its value chains in the face of structural change. New key objectives such as climate neutrality, security and resilience must not take precedence over growth, productivity and prosperity; rather, they must be considered in tandem.

1.7 Small and medium-sized industrial **enterprises** are central to the performance, flexibility and resilience of industrial value creation networks in Germany. In the manufacturing sector, it is precisely small and medium-sized enterprises that have a decisive influence on the industrial structure. Many ‘hidden champions’ originate from this sector and make a significant contribution to innovation, technological expertise and export strength. At the same time, these companies that remain firmly rooted in their local regions, are particularly hard hit by rising costs, regulatory complexity and the uncertainty surrounding transformation. An industry characterised by SMEs therefore needs reliable, competitive framework conditions and a clear cap on financial and regulatory burdens.

1.8 **Competition policy is also location policy**. Open markets, clear competition rules and effective competition oversight remain core elements of our market-based economic system. However, in a world of growing international competition and states acting strategically, competition policy also determines whether companies invest in their home market or relocate their investments. Companies need clear guidelines, but they also need sufficient scope to develop and scale up new solutions. The legal framework must not result in companies operating in Germany and the EU being disadvantaged in international competition for business locations and consequently falling behind.

1.9 Therefore, **market-opening and market-regulation policies** – which have been neglected in recent years – must be revitalised. The liberalisation of product, labour and capital markets can be a significant driver of growth. Recently, however, the EU has weakened growth and innovation through over-regulation in product markets. A new, positive regulatory agenda is therefore needed to support liberal markets for goods and services.

1.10 A return to the principles of better law-making and effective administrative action is urgently needed. Modern state structures must be created, and planning and authorisation procedures must be accelerated and simplified. The Federal Government and the EU must systematically review and reduce the existing regulatory burden.

1.11 Innovative strength is a key prerequisite for Europe's long-term competitiveness. In order to successfully shape structural change, economic policy should be more strongly geared towards innovation capacity and the exploitation of new technological opportunities. This requires innovation, research and technology policies to be consistently focused on growth opportunities in the manufacturing sector and the high-value-added services that underpin it.

1.12 In industrial policy, the objectives of climate neutrality, security and resilience should be reprioritised alongside those of growth and prosperity. This requires a more clearly defined governance model: growth, climate, resilience and security objectives must be defined, and measures aimed at achieving them must be designed more precisely and appropriately. Project management and evaluation, stakeholder dialogues on suitable economic policy instruments, milestones and responsibilities are indispensable. Above all, however, the complexity of support measures must be significantly reduced. At the European level, far-reaching, overarching EU regulations governing market organisation and state aid (including IPCEIs) prevent faster, less bureaucratic implementation and impact. This situation must be remedied. Irrespective of this, it is clear: the return of overarching security objectives to economic policy, as well as the legal and political reinforcement of the goal of climate neutrality, require industrial policy instruments.

1.13 Economic policy measures must also strengthen the resilience of the economy as a whole by safeguarding the supply of raw materials and basic materials, as well as critical value chains. Setting industrial policy priorities is a political task that must be addressed through a structured process involving the business community to create reliable framework conditions for the economy as a whole.

1.14 Ensuring a reliable, diversified and competitive supply of raw materials is increasingly becoming a key challenge for Germany and Europe as industrial centres. Critical dependencies on raw materials and intermediate products must be reduced, and strategic resilience built up along the entire value chain. This includes, in particular, the expansion of international partnerships for raw materials, the strengthening of European extraction, processing and recycling capacities, and a coherent policy framework to underpin industrial transformation processes.

TWO

Energy and Climate Policy: Shaping the Transformation in an Economically Viable Manner

2.1 Since the outset of the debate, the BDI has been an advocate for the success of the transformation whilst adhering to national and European climate targets. As some earlier assumptions – including those regarding availability and market ramp-up – have not materialised, a dilemma has arisen between the costs of the transformation, which is necessary for the sake of climate protection, and the industry’s dwindling competitiveness. The BDI continues to share the fundamental conviction that we must press ahead on the path of industrial transformation we have embarked upon. This stems from the business sector’s responsibility for global climate protection and the opportunities presented by the market potential of tomorrow’s technologies. However, this requires

- short-term relief measures to strengthen competitiveness,
- structural reforms to the energy transition to foster a more resilient and attractive business location,
- and greater flexibility in the German and European climate framework whilst maintaining the long-term goal of climate neutrality.

2.2 The aim must be to strike a balance between the steering effect of the CO₂ price whilst limiting its burden on businesses. This can only succeed if we move away from the old logic of complex bureaucratic subsidy programmes and explore new approaches. In particular, improved financial incentives for investment in transformation technologies and a reduction in the overall tax burden are essential to make the climate policy targets achievable.

2.3 Our responsibility towards future generations demands that we put an end to the release of climate-damaging emissions from the combustion of fossil fuels worldwide. The industrial transformation required to achieve this must be structured in an economically viable manner. This means that business cases must be derived from the obligation to transform, so that investments made today in tomorrow’s value creation are incentivised. The prerequisites for this are the protection of legitimate expectations and planning certainty – in other words, a reliable policy that sets out the framework and regularly aligns targets with actual developments.

2.4 The transformation of industry and other sectors can offer significant opportunities for value creation in the growing future markets for climate protection technologies and for emissions reductions. However, this requires the EU to act as an attractive home market in the face of increasingly intense global competition and to create reliable, investment-friendly framework conditions for the development and rapid market roll-out of these technologies.

2.5 Micromanagement through regulatory measures such as bans and technology mandates is inefficient and jeopardises investment. Instead, market-based measures and incentive schemes are needed.

2.6 The most important condition for the transition to climate-neutral production and a reduction in emissions is that cleaner alternatives (in the form of sustainable electricity, molecules and CO₂ capture) are available. However, making fossil-based production more expensive is not enough to drive the transition to fossil-free structures. The transition must not be borne solely by the first movers – they cannot shoulder the costs of the ramp-up alone. Therefore, industrial and economic policy instruments for spreading costs over time, such as amortisation accounts, are necessary.

2.7 Where CO₂ avoidance costs are positive and there is market-driven potential for alternative technologies, a credible and predictable CO₂ price acts as an efficient bridge to close the gap between the use of fossil fuels and renewable energy. Emissions trading is the most efficient way of setting a CO₂ price and therefore remains the key steering mechanism. However, a level playing field must be ensured internationally through appropriate linkages and the harmonisation of the ambition levels of these systems. If there is no such level playing field with our key global competitors, robust and effective carbon leakage safeguards are required.

2.8 In sectors characterised by particularly hard-to-abate emissions and which, at the same time, have little or no clear market potential for alternative technologies, further support mechanisms are required. Otherwise, there is a risk that the cost gap between the use of fossil fuels and renewable energy cannot be bridged in the short to medium term by a carbon price alone, which may necessitate government support measures to enable scaling up.

2.9 In a challenging geopolitical situation, it is necessary to take measures to maintain or restore national competitiveness. This requires short-term policy measures, particularly to reduce electricity costs. This is because economically viable alternatives for reducing emissions and competitive electricity prices are prerequisites for the successful transformation of industry and the economy as a whole.

2.10 Furthermore, structural reforms to the energy system are required, the aim of which must be to restore cost-efficiency and competitiveness and thereby gradually eliminate the need for massive short-term support through the effects of long-term reforms.

2.11 From industry's perspective, further electrification and digitalisation, the rapid expansion of controllable power stations and energy storage facilities, and a diversified supply of natural gas are essential to making our energy system **more resilient**. The system must also be better protected against external attacks.

2.12 The transformation of **mobility** will succeed through technology-neutral regulation that supports a transition in propulsion technologies to low-carbon fuels. The two key instruments for this are the proactive, nationwide and demand-driven roll-out of charging and refuelling infrastructure (H₂ and carbon-neutral fuels), as well as clear carbon price signals via an effective emissions trading scheme (ETS 2) and a carbon-based approach to energy taxation in road transport. A coherent, comprehensive approach comprising regulatory requirements and key framework conditions requires, in particular, **high-performance transport infrastructure**. To accelerate the transformation of **the building sector**, a long-term, secure and reliable regulatory framework is needed, one that creates investment incentives and is supported by adequate and reliable funding and CO₂ pricing.

THREE

Digital and Innovation Policy: Speed and Sovereignty

3.1 A forward-looking digital and innovation policy requires reliable, technology-neutral and internationally compatible framework conditions that strengthen industrial value creation and secure technological sovereignty in the long term. At the same time, a modern digital policy requires a strong European focus. The expansion of common European data spaces, the further development of an integrated digital single market, the simplification of the digital acquis, and robust cybersecurity architectures are fundamental building blocks for technological sovereignty and resilience.

3.2 A high-performing research and innovation system is of central importance to the country's competitiveness; this system must rapidly translate the potential of German and European science into marketable products and scalable industrial applications, whilst providing funding for start-ups and scale-ups. Speed, entrepreneurial freedom and investment incentives are crucial in this regard.

3.3 Europe must develop resilience to external shocks and the influence of third countries. Resilient ICT supply chains are of particular importance for the protection of critical infrastructure as a whole.

3.4 Data centres are a prerequisite for a high-performing, resilient and sovereign digital economy. The availability of computing power in Germany is of strategic importance, which is why its further expansion must be accelerated. In addition to computing power, Europe needs significantly better framework conditions for the development, application and scaling of AI. Europe has so far placed too much emphasis on regulation, whilst providing insufficient support for development, testing and market launch. In future, the promotion of innovation must take centre stage.

3.5 Germany and Europe must strategically safeguard and expand their capabilities across the entire microelectronics value chain. At the same time, European sovereignty is only realistic within strategic partnerships: the targeted expansion of cooperation with like-minded countries and regions along the value chain is a prerequisite for increasing resilience without relinquishing the benefits of the international division of labour.

FOUR

Foreign Trade and European Policy: Strengthening Competitiveness, Strategically Safeguarding Openness

4.1 European economic policy must be much more consistently geared towards strengthening economic growth, productivity and innovation. Relevant proposals from experts (the Draghi Report, the Letta Report) are available and have been enshrined in the strategic guidelines of the European institutions. Coordination between the institutions and across policy areas must be improved as a matter of urgency. Growth and competitiveness must be firmly embedded in research and innovation funding, integration within the single market, and the supporting industrial and foreign trade policies. Overall investment must be increased by more than a third in the medium term, by the end of the decade, including defence spending. Implementation has so far been lacking.

4.2 Germany's and Europe's foreign trade policy must fulfil the requirements of economic openness and competition, as well as security and resilience. To this end, it must systematically interlink trade, industry, investment and security policies and follow the guiding principle of 'Promote – Protect – Partner'.

4.3 Attractive business conditions remain crucial for success in systemic competition with China. Key measures to strengthen competitiveness must be implemented more swiftly and on a larger scale; however, this is not sufficient in view of structural market distortions and security risks in key strategic areas. 'Derisking' remains the correct approach, but must be implemented much more rigorously. Economic and technological exchange with China remains of great importance, but must be more clearly aligned with strategic interests. In this regard, there are considerable differences between and within sectors regarding business relations with China, which must be taken into account. Systemic competition with the Chinese economy is increasingly calling into question the resilience of the open social market economy and requires an appropriate response in terms of industrial and trade policy. This includes not only strengthening European competitiveness by promoting key technologies, but also reducing strategic dependencies – particularly in relation to critical raw materials. This requires establishing a swift and legally certain framework for investment screening and export controls, while effectively deploying trade policy instruments to address systemic distortions. Even though 'derisking' entails costs – including in the form of retaliatory measures – passivity would be far more costly in economic terms in the long run and irresponsible from a security policy perspective.

4.4 In relation to the US, given the ongoing paradigm shift in US trade and industrial policy, a self-assured, interest-driven European stance is required. An enhanced transatlantic dialogue on derisking should develop common priorities regarding critical technologies and resilient supply chains, whilst at the same time safeguarding Europe's autonomy. Where protectionist measures by the US undermine the competitiveness of European companies, appropriate European countermeasures must be considered without straining the long-term strategic relationship.

4.5 In addition to recalibrating its relations with the US and China, the EU must strategically expand its partnerships with other regions of the world and align them more clearly with economic and security interests. The aim is to build a resilient network of like-minded partners that safeguards market access, investment protection and the diversification of critical supply chains – particularly for raw materials and strategically relevant key technologies. This requires a pragmatic, interest-driven approach to trade policy which, alongside comprehensive agreements, makes greater use of sectoral and phased cooperation formats. Partnerships should be developed in a targeted manner along industrial value chains and be based on reciprocal benefits, resilience and long-term competitiveness.

4.6 Resilience and security considerations are an integral part of foreign trade. To this end, the European Union requires an effective, balanced toolkit that deploys defensive instruments such as anti-dumping and anti-subsidy measures, or the Foreign Subsidies Regulation, in a targeted and swift manner to counteract distortions of competition. Trade policy measures should take sector-specific conditions into account and be initiated and implemented only with the involvement of the affected industries, following an appropriate

‘impact assessment’, and must take the Union’s interests into account. The development of new trade defence instruments should be carefully weighed up. In view of the critical situation – particularly due to China’s state-induced massive overcapacity in some sectors and state intervention in currency management – WTO-compliant temporary defensive measures may in some cases take effect too late or prove insufficient; nevertheless, they should be utilised as a matter of priority. The advantages and disadvantages of possible instruments, such as local content requirements, tariff quotas, sector-wide or even general tariffs, must be carefully examined and weighed up against one another.

4.7 The WTO and multilateralism remain a fundamental framework for European foreign trade policy. Germany and the EU should continue to actively pursue WTO reform, strengthen plurilateral approaches and defend key elements of the global trading system.

4.8 Europe has a great opportunity to further increase its prosperity and economic strength through deeper integration of the single market and the enlargement of the EU itself. In particular, the systematic removal of barriers to goods and services can significantly boost trade between Member States, open up opportunities for businesses to scale up, and enhance the competitiveness of European suppliers on the global market. The development of pan-European infrastructure for energy, transport and other sectors must be added to this in order to enable a functioning single market in certain fields in the first place.

4.9 To this end, the EU must urgently improve its legislation and reduce the excessive administrative burdens on businesses. In doing so, the focus must not be solely on new laws; rather, the *acquis* must be systematically reviewed, improved and streamlined.

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Breite Straße 29
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Sarah Schwake
Senior Communications Manager

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Maria Dolecek

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