

Viewpoint

The Other Germany: An Open Door to Europe and Beyond

W. Tom Sommerlatte

„With German unification apparently imminent, there is a danger that Americans will adopt a passive attitude towards commercial relations with the German Democratic Republic (GDR). European and Japanese firms, however, are not waiting for unification, but are moving quickly and decisively to take advantage of political and economic change in East Germany.“ This is how the American Chamber of Commerce depicts the current situation in its recent edition of *Commerce in Germany*.

The suddenness of the opening of East Germany to Western business has caught many international corporations by surprise – particularly U.S. corporations, who tend either to see East Germany in roughly the same basket as other Eastern European countries or to think that they will eventually cover this emerging market from their existing bases in West Germany. But, as the American Chamber of Commerce puts it: „Simply to await unification would put U.S. firms at a significant disadvantage.“

Rather, U.S. corporations – indeed, all international companies – should now be taking a serious look at the opportunity represented by East Germany. Even though East Germany represents only about 2.5 percent of the population and less than 20 percent of the gross national product of West Germany, it is likely to become a major contributor to the economic growth of the European Community. The East German populace recently elected a government largely controlled by Christian Democrats and Liberals. As this issue of *Prism* goes to press, urgent negotiations are under way with the West German government, and it appears likely that monetary and economic union of the two Germanies will take place on schedule this summer. There has been much talk about the risk of inflation, about East Germany's foreign debt (on the order of \$20 billion), and about its unhealthy industry structures, as evidenced by low productivity, low quality, high levels of environmental pollution, and abnormal backward integration. Nonetheless, from a political and economic point of view, the only possible strategy on integration is to move ahead.

West German companies have been and continue to be fairly entrepreneurial in dealing with this situation. They have entered hundreds, if not thousands, of cooperation agreements, joint ventures, and investments in industrial and retail premises.

Their objectives have been several:

- * To secure positions in the East German market (which promises to reach the size of the Dutch market)
- * To improve their bases for business with the U.S.S.R. by exploiting the strong existing business relationships of Russian-speaking East German businesspeople
- * To avoid new competition from East German companies (especially if affiliated with other partners)

So far, however, other Western companies have been extremely cautious vis-a-vis East Germany. We know of U.S. companies that have been approached by East German companies, but have declined to enter into talks. The general attitude seems to be: „Let's wait until they can pay in hard currency.“ This is not the attitude of the Japanese, who are already very active in East Germany.

Why should U.S. and other Western corporations deal now with the additional piece of Germany? Perhaps the most immediate benefit is access to Western Europe. The imminent economic integration of Europe makes a presence in Germany essential for achieving a competitive European position in many industries. In the last few years, many U.S. and Western European corporations have shown great interest in acquisitions in the Federal Republic of Germany, but have found few opportunities. All of a sudden, the opening of East Germany presents many opportunities for such a presence – and they are financially attractive. At this stage, East German companies are very open to a wide range of arrangements for cooperation, participation, and takeover. There is a large pool of technically competent workers, engineers, and researchers, and the task of bringing their productivity up to Western European standards is fairly straightforward.

In the very near future, places such as Dresden, Leipzig, and Chemnitz will be within the „walls“ of the European Community – German locations independent of their „Eastern“ histories.

In addition to these advantages, a position in East Germany will also represent a favorable base for business in Eastern Europe, particularly the U.S.S.R. Most large East German companies enjoy a high penetration and a solid position in the Eastern markets. Their people know how to deal with these markets.

In some industries, East German companies also already have positions in Western Europe that can be strengthened with additional technology and marketing know-how. Such industries include segments of general manufacturing, the chemical industry, and mechanical engineering. Names such as Zeiss, Buna, Leuna, or

Polygraph are well known in the West. Even in information technology, East Germany offers a surprising know-how base.

These opportunities will not be around for very long. What is currently happening is a kind of *Ausverkauf* (clearance sale) to West German companies, with not enough outside bidders.

Some U.S. corporations seem to believe that East Germany is, and will remain for some while, an „Eastern“ country. COCOM export controls continue to be applied, OPIC risk coverage is not applicable to U.S. investment in East Germany, and there is substantial skepticism as to whether monetary and political unification can be counted on. But East Germany must be recognized as an additional piece of Germany that is in the process of being fitted back into a whole. In the process, this piece allows exceptionally advantageous entry into more than just East Germany for those who have the right vision.

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