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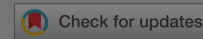
Original Articles

Kicking away the financial ladder? German development banking under economic globalisation

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economic system to implement industrial policies to their advantage, even as developing countries are given the opposite policy recommendations.

Keywords: [Development banks](#) [industrial policy](#) [globalisation](#) [policy space](#) [finance](#) [Germany](#)

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Disclosure statement

We have no potential conflict of interest to report.

Notes

1. Industrial policy is defined as the ‘...set of government actions that aim to influence the structure and performance of the industrial sector, with the goal of promoting economic growth and efficiency and addressing market failures’ (OECD, 2018).
2. The authors would like to thank the editor, Prof. Dr. Rüdiger Dornbusch, for his helpful comments. We will use the term ‘industrial policy’ throughout the paper.
3. For example, in 2018, the German government provided 100 billion EUR of the total 150 billion EUR of loans to the automotive industry. In 2019, the Bundesbank provided 100 billion EUR of the total 150 billion EUR of loans to the automotive industry. However, the figure does not include the 100 billion EUR of loans provided by the government only towards the automotive industry.

4. The total value of exports that KfW helped to finance in 1974 was about 10% of the export volume of durable capital goods to developing countries; the share of the latter in total German exports in turn amounts to roughly 5% (KfW, 1974, p. 72).
5. For example, KfW financed sales to Eastern Airlines in 1978, one of the weakest American airlines, which later became insolvent (Harries, [1998](#), p. 136).
6. These programmes have been important in financing SME investment since the 1980s; in 1985, the KfW financed 45% of the total investment of manufacturing small enterprises (revenues less than 5 mn. DM), and 20%–25% of medium firms (revenues between 5–10 mn. DM) (Götte, [1988](#)).
7. Self-financed loans made by KfW do not count towards core Federal budgets, and only the direct allocation from Federal or ERP budgets have to be recorded in the State Subsidies Reports (Subventionsberichte der Bundesregierung) as an officially declared subsidy (Bundesbank, [2000](#), p. 18).
8. The ERP fund was set up under the Marshall Plan, but when the Marshall plan ended in 1953, it was turned into a revolving fund for long-term investment loans, which grew over the decades due to the interest being accrued (KfW annual reports, various years).
9. While bringing benefits, KfW's reliance on international capital markets might also create new risks. These risks can be seen as:
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14. By 1989, the majority of KfW's financing for Airbus was provided on a market window basis (KfW, 1989, p. 41).
15. Deutsche Airbus was on the 'verge of bankruptcy' in 1989, necessitating a rescue plan by the German government, which included KfW providing a DM 505 mn. capital infusion by taking a 20% equity stake in the company (WTO, [2016](#), p. 267).
16. Musacchio and Lazzarini ([2014](#)) argue that the development bank lending to firms that are already competitive, and therefore able to raise finance privately, constitutes 'rent seeking' rather than industrial policy, because this merely subsidises the cost of capital, but does not increase productivity. We believe this argument does not apply to industries where there are sufficient scale economies. KfW financing remained vital to improving Airbus' productivity, even after it became internationally competitive, through enabling it to capture the market share, thus increasing the economics of scale and long-run productivity. Separately, KfW financed risky technological innovations, which would not have been financed in private markets.
17. Email correspondence on 17 October 2017.
18. Other important potential challenges included the Maastricht Treaty, the effect of which has already been discussed, the EU Banking Regulations and the post-crisis ECB Single Supervisory Mechanism. Since KfW is not a financial institution under German law, the
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20. F... ound off the Federal... is strongly oriented... &D will lead to a help... ork itself as is the us... they can sell to th... to encourage investment. The ultimate cost is passed on to the consumer.



22. Which in many cases would not have been possible without KfW financing, as KfW plays the role of lead bank in consortium lending.

23. The US Coalition of Solar Manufacturers that initiated investigations against China was led by the US arm of the German SolarWorld (Lewis, [2014](#)).

24. A coalition of European solar producers called ProSun was later formed to lead the filing of complaints at the WTO.

Additional information

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