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Less Scope for Foreign Trade

by Dietrich Kebschull, Hamburg *

Few countries are as dependent on foreign trade as the Federal Republic of Germany. Its close ramifications with the world economy are reflected by an economic policy concept geared to the liberal trade system. The chances for a consistent continuation of this policy have, it must be said, greatly worsened of late.

However deeply economists of the various schools may be divided about basic issues of economic policy, on one point they are generally agreed: The export trade is considered to be one of the determinant factors for the fast – and relatively steady – economic growth in the Federal Republic of Germany in the post-war era. This progress on the export side went hand in hand with a similarly rapid development of imports over the same period.

In view of the paucity of its indigenous raw material resources and the relatively small size of the domestic market left to the Federal Republic the truncated state put its trust in the advantages of specialization in international competition. The large reservoir of qualified manpower, the know-how potential, the for the most part entirely new plant and equipment installed since the war, a good knowledge of marketing techniques and, last not least, the highly developed infrastructure were advantages of particular relevance to manufacturing industry, and as the manufacturing industry was oriented towards the world market, the Federal Republic was able to build up capacities of a size which allowed full use of economies of scale and thus resulted in lower unit costs. Well adapted to the demands of foreign customers, the German manufacturing industry was also well placed to advance farther and farther in the direction of specialization and thereby to open up new and profitable outlets for its products. This in turn improved the profit chances and financing facilities needed to maintain and enhance its competitive position.

In the early post-war period this process was helped along by the internal situation which was marked by a low level of wage costs and a consistent policy of price stability, and also by the undervaluation of the national currency and the large absorptive capacity of the foreign markets. Two special stimulants gave a boost to the foreign demand: the generally large demand backlog after the Second World War and the trade-creating effects of the European Economic Community. Any tendencies towards persistent demand stagnation for German goods were staved off until the late sixties because the cyclical trends in the major markets showed different time patterns.

Standard-Bearer of the Free Trade Movement

With this background it made sense for the Federal Republic to go ahead and become the standard-bearer of a worldwide free trade movement. It cannot do without free exchanges of goods and unhindered movements of capital, for the external economic policy in major foreign markets has a decisive influence on the capacity loading in the Federal Republic and thus on the opportunities for employment, earnings and growth. Any impediment to the German export trade is bound to have lasting effects on the internal economic development.

With exports of \$ 118 bn the Federal Republic in 1977 was second only to the USA (\$ 120 bn) and far ahead of Japan (\$ 81 bn). The German exports almost equalled those from France and Great Britain – who are fourth and fifth among the

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major exporting countries — together. In the seventies the ratio of exports to GNP rose even further in the Federal Republic, in common with all major industrial states, although it had already been very high in the sixties (Table 1).

Table 1
Exports as a Share of the Gross National Product of Selected Industrial States in 1971 and 1976

Country	1971	1976
Netherlands	47.6	54.3
Switzerland	30.1	32.9
Great Britain	22.4	28.2
Federal Republic of Germany	22.3	27.6
Italy	17.6	24.9
France	16.0	17.8 ^a
Japan	12.5	14.5
USA	6.1	8.3

^a 1975. — Source: Calculated from IMF: International Financial Statistics, May 1978.

There is no need to assume that the limits to increased foreign trade integration have been reached. This conclusion follows in the first place from a comparison with smaller countries with limited domestic markets and small natural resources which are generally drawn more strongly into the international division of labour by these handicaps and nevertheless flourish, and secondly from the fact that the foreign markets appear to offer the greatest scope for further expansion to the German industries which are relevant to economic growth. These are already placing between 25 and 50% of their total sales in foreign markets (Table 2).

Drift towards Protectionism

Consistent progress in the liberalization of trade and capital movements is an essential prerequisite for a further strengthening of the international integration. The predilection for liberalization has however notably weakened in the last decade. The slowdown of growth in almost all the industrialized states in recent years — attended by a marked increase in unemployment and higher inflation rates — has given greater prominence to the structural problems, both regional and sectoral. The evident lack of adaptability in the highly developed economies has put a strain on the liberal commitment to growth and free trade and inured governments to a return to protectionist measures of short-term effectiveness to conserve the existing structures.

If it was still possible to regard the arrangements for agriculture as an exceptional departure from the liberal principles when the EC was founded in 1957, it would appear today that the principles

themselves are put in jeopardy by the spread of obstructions to imports. That protectionist measures typical of the Eastern bloc states are arousing greater interest in the developing countries tends to reinforce this trend. In the wake of the successes of the oil exporting states the developing countries have formulated major demands in their action programme for a New International Economic Order which are aimed at monopolistic manipulation of the prices for their principal exports — primary commodities. "Successes" in this field would greatly affect the international competitiveness of manufacturing industries which depend upon raw materials. The industry of the Federal Republic in particular would in this case encounter considerable additional difficulties because it has hardly any indigenous raw materials to fall back upon.

It is well-nigh impossible to reconcile the internal economic problems of the leading commercial nations, the agrarian protectionism, the trade controversies between the USA and the EC, the growing tendency towards special sectoral arrangements, the enforcement of so-called "voluntary" self-restraint agreements with competitive but weaker trading partners and the desire for a worldwide *dirigiste* economic order with the economic policy objectives of the Federal Republic. As long as the Federal Republic aspires at growth, full employment, stable prices, protection against disruption from abroad and greater justice in distribution, it must persevere with its policy of integration in a free world economy.

Table 2
Importance of Exports for the Ten Largest German Export Industries^{a b} in 1977

(in DM mn and %)

Industry	Foreign Sales		
	in DM mn	in % of total exports by the Federal Republic	in % of total sales by the industry concerned
Mechanical engineering	44,494	19.7	45.3
Road vehicles	39,578	17.5	41.3
Chemicals	35,622	15.7	32.9
Electrotechnical products	25,629	11.3	28.1
Iron and steel	11,990	5.3	29.9
Food processing	7,093	3.1	6.7
Iron, sheet and metal goods	6,156	2.7	20.2
Textiles	5,617	2.5	18.1
Precision engineering, optical goods, watches	4,161	1.8	36.8
Shipbuilding	4,020	1.8	53.7
Total	184,360	81.4	—
Others	42,018	18.6	—
Total	226,378	100.0	—

^a Direct sales abroad only. ^b Enterprises with, in general, 20 or more employees. Source: Statistisches Bundesamt (Federal Statistical Office), Wirtschaft und Statistik, No. 4, 1978, p. 222, 223 and 228.

German Misdemeanours

The prospects for the realization of a free trade policy in keeping with the general economic and structural objectives of the Federal Republic are at present certainly not very bright. To begin with, there are the difficulties of implementing such a policy at home. The numerous exemptions for individual sectors must raise doubts about the often emphasized liberal tenor of its economic policy.

Not only could large parts of German agriculture and wide areas of the textile industry barely survive without the protectionist measures in the domain of foreign trade but the shipbuilding industry is kept alive almost entirely by state orders shielded from international competition and by financial assistance. The coal industry is also receiving special support; the state subsidies have been rising in this sector from DM 2 bn in 1975 to DM 4.6 bn in 1978, to which must be added about DM 5.6 bn for superannuation and similar payments. Moreover, as the subsidies alone will not keep out the foreign competition – especially from the USA and Poland – quantitative import restrictions freezing imports at 5.5 mn tonnes a year have been applied since 1955¹. Examples from the glass, ceramics and leather industries could be given to show that this kind of quantitative restriction is by no means a rare exception. The principal object in these cases is to ward off cheap imports from developing countries.

The EC's Protectionist Measures

These measures inside the Federal Republic cannot but have repercussions on the realization of the German interests in the ambit of the EC. The cobweb of trade-restricting measures spun in the EC in the recent past is neither conforming to its original concept nor coinciding with German interests. Following on the solidification of agricultural market orders, which even optimistic believers in free trade no longer consider reversible, the Orderly Marketing Agreements (OMA's) which regulate products, exports and imports are evidently gaining favour. A protectionist monster of this kind has been let loose on the textile industry in the shape of the multi-fibre agreement. For steel the situation is similar. Then there are the "voluntary" self-restraint agreements forced on Japan and low-wage developing countries for a large number of imports. Having been introduced in quasi-classical areas like textiles and leather goods, they are now spreading to much less sensitive areas, such as zip fasteners and lighters.

¹ Cf. (anon.) West Germans fear more protectionism, in: *The Journal of Commerce*, February 7, 1978.

² Cf. (anon.) German attack on EEC protectionism widens split over handling crisis, in: *The Times*, May 3, 1978.

The EC is also resorting increasingly to anti-dumping clauses to protect itself against allegedly underpriced and destructive imports.

Mention must furthermore be made of the fatal tendency to develop measures which are meant to facilitate international trade to such a state of superperfection that the intended beneficiaries can no longer find their way through them. Typical examples are the Generalized System of Preferences (GSP) and the arrangements in favour of the African, Caribbean and Pacific developing countries known as the Lomé Convention.

Europe's Adaptation Predicament

How strong the protectionist bias has by now become in the EC in pursuit of national self-interest became evident when the German Minister of Economic Affairs, Count Lambsdorff, tried to fend off an Irish move to curb shoe imports from third countries. Mr. Owen, the British chairman, pointed out to him that the other EC partners were far from regarding the German view on the fight against protectionism as the acme of perfection; the Federal Republic had very few structural problems compared with other EC countries and must, he said, note at long last that representatives of other states could not tolerate its *laissez-faire* approach. The Belgian Foreign Minister, M. Simonet, added the sarcastic comment that Count Lambsdorff was not only at the wrong conference but apparently still living in the previous century².

The Bonn summit, it may be surmised, has helped to ward off a new protectionist wave for the time being, and this was in the interest of all the participants. But this does not mean that the EC will now once again become an unequivocal promoter of liberal economic relations; for the scope for extensive liberalization measures has been narrowed so much by the internal structural problems as well as the opening of the EC's market to the ACP states, the agreements with the Mediterranean countries, the generalized system of preferences and the moves to bring Spain, Portugal and Greece into the EC that protracted tough negotiations with all concerned will be needed even for minor steps to extend the liberalization.

The Federal Republic which has its by far most important markets inside the EC is facing difficulties in this context insofar as other important trading countries will not be keen to open their markets if the EC does not offer them anything in return. To be specific, the USA – second in importance as a trading partner only to the EC (Table 3) – is unlikely to take incisive measures against protectionism and to do away with still existing obstacles to trade.

Protectionism Blossoming in the USA

Such tariffs as still exist between these two great trading countries of the world are now down to 4–10% on average. Apart from the top rates they matter no longer as obstacles to trade, and they may be cut substantially in the current GATT round. Far more important and effective are the numerous non-tariff obstacles to trade. They comprise the major areas of

- quantitative import restrictions,
- import levies,
- tariff value assessment,
- public procurement policy,
- subsidies and grants, and
- anti-dumping measures.

The non-tariff measures available at present are of such a large variety that it is almost impossible to give a comprehensive survey of them. Since the American trade unions have in the past few years come out more definitely against too great a measure of trade integration and are trying to safeguard workers' jobs through import restrictions, there is now hardly a single economic sector which does not indulge in thoughts of protection and promotion by the state.

The change in attitude to foreign investments cannot be ignored in this context. While the critics were at first to be found mostly in Europe and in the USA the trade unions were alone in warning against the "exporting of jobs" by investing abroad, European firms desirous of investing in the USA are now meeting with a markedly hostile reception. The attempts to prevent foreign firms

from gaining dominant market and monopoly positions suggest that the USA is at present in a protectionist mood similar to that noted in large parts of the EC in the second half of the sixties.

The course steered by the Carter Administration leaves little room for realistic hopes for a turn towards liberalization as at the time of the Kennedy round. The attitude of Japan, the great trading partner in the Far East, is probably the same, in spite of some hints of concessions at the summit talks in Bonn. With its entirely different historic development and its specific industrial and commercial structure Japan which is under pressure from internal problems has apparently never felt able to subscribe fully to the ideas which to German economic theory and practice seemed to be the ideal. There is little likelihood in the near future of a major departure from Japan's distinctly mercantilistic course which is reflected most strongly by the policy of import regulation, raw material procurement and foreign investments. Indicative of this is the fact that the Japanese have been far readier to make purely compensatory financial concessions to the developing countries than to open their market to them.

The Attitude of the Developing Countries

The countries of the Third World accounted in 1977 for about 17% of all German exports. In the future they will play an increasingly important role in determining the German export position – less by their absorptive capacity for German goods than through their political influence on the future arrangements for international economic relations.

Table 3
The Foreign Trade of the Federal Republic by, Groups of Countries, in 1970 and 1977
(in DM mn and %)

	Imports				Exports			
	1970		1977		1970		1977	
	DM mn	%	DM mn	%	DM mn	%	DM mn	%
Western industrialized countries	87,427	79.8	175,512	74.7	104,715	83.6	209,203	76.5
of which EC	54,355	49.6	113,324	48.2	58,006	46.3	122,702	44.9
USA	12,066	11.0	17,025	7.2	11,487	9.1	18,199	6.7
Japan	2,052	1.9	6,493	2.8	1,957	1.6	3,013	1.1
Eastern bloc countries	4,394	4.0	11,336	4.8	5,400	4.3	16,705	6.1
of which Europe	4,036	3.7	10,609	4.5	4,760	3.8	15,422	5.6
Asia	358	0.3	728	0.3	641	0.5	1,283	0.5
Developing countries	17,684	16.1	48,021	20.4	14,904	11.9	46,792	17.1
of which oil exporting countries	8,475	7.7	23,331	9.9	3,496	2.8	24,959	9.1
other developing countries	9,209	8.4	24,690	10.5	11,408	9.1	21,833	8.0
World total ¹	109,606	100.0	235,109	100.0	125,276	100.0	273,526	100.0

¹ Including supplies for ships and aircraft, arctic regions and countries not specified. — Source: Calculated from Statistisches Bundesamt (Federal Statistical Office): Fachserie G: Außenhandel; Wirtschaft und Statistik, No. 2, 1978.

For more than two decades the developing countries have been pinning great hopes on an acceleration and stabilization of their economic growth as a result of increased exports to the markets of the industrialized states of the West. Their integration with the world economy, coupled with a selective "aid by trade" policy on the part of the industrialized countries and extensive consultancy services, it was thought, would provide essential leverage to overcome the economic gap between the poor and the rich states and to solve the great social problems.

This strategy has however proved successful only for a few small states like Hongkong, Singapore, Taiwan and South Korea which were in any case "doomed" to engage in manufacturing activities and free trade because of their small local markets and lack of raw materials. Several advanced "threshold" countries – for instance Brazil, Mexico and Malaysia – also recorded further gains. But there are about a hundred developing countries, and most of them went empty-handed. Leaving the oil exporting countries out of account, the percentage share of the developing countries in the trade of the Federal Republic has fallen by approximately half since 1960. It was chiefly because of the explosive expansion of the demand for German goods from oil countries (OPEC) that the developing countries' share as a whole remained more or less unchanged.

A New Order for the World Economy

Neither the developing countries in a strong export position nor the OPEC countries – to say nothing of other countries of the Third World – have in fact come out in favour of continuing liberalization. International economic integration is to them not a programme for opening also their own markets so as to speed the removal of the obstacles to international trade but a means of maximizing their foreign currency earnings through the largest possible increase of exports and keeping a tight rein on overall imports. Their policies bear a strongly mercantilistic imprint as is clearly shown by the extensive demands for a New International Economic Order and an integrated commodity programme. The demand for freer access to other markets is – as always in the past – addressed to the industrialized states and not to the developing countries themselves. They are in fact barring their doors to each other by a great diversity of tariff and non-tariff measures. The suggestions that imports from Third World countries be admitted more readily, the preferential system of the EC be extended, sales of natural raw materials in competition with synthetics be made easier, the scope of the ACP system be widened, etc., are in character.

As for the developing countries themselves, it was generally thought that the appropriate measures were those which bestow benefits by eliminating market forces. In this context it has often been proposed to fix raw material prices by indexation, international commodity agreements or inter-state purchase and supply contracts. These have absolutely nothing to do with the German ideas of free trade and competition. However fond the developing countries are of speaking of "international trade integration", it would be illusory to believe that the interests pursued by them are by and large identical with those of the Federal Republic. Finding themselves in a precarious economic situation, the developing countries are – quite understandably – intent on justifying their own demands but they are giving no thought to requisite counterbalancing items.

Compromise Formulations

All in all, the prospects for a further advancement of the economic policy objectives of the Federal Republic with its great dependence upon foreign trade are therefore not rosy. It seems almost certain that the ideal of a world economy in which goods and capital movements proceed without hindrance will remain purely utopian. Those in charge of economic policy in the Federal Republic will have to be content with second- and third-best solutions.

Rather than dream of classic models, it seems advisable in this situation to consider approaches to the regulation of production, exports and imports – as for example the Orderly Marketing Agreements (OMA's) – and to orientate them as closely as possible towards a reference system based on free trade. Similar compromise formulations should be sought in the raw material sphere and especially in the energy sector.

This line of approach does not require the Federal Republic to abandon an economic policy at home which treats the foreign trade ramifications as a basic fact. The Federal Government should therefore pursue

- a policy of comprehensive promotion of the export trade by the state,
- a policy of facilitating investments abroad, and
- a structural policy directed towards the long term.

It should do so because the Federal Republic can only hold its own in the world – and thus maintain the standard of living of its population – if it keeps aloof from the short-term temptations of protectionism and manages to adapt its economic structure continually to the international developments.