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INTERVIEW

Keen Competition in East-West Trade

Interview with Mr Alfred E. Schulz, Member of the Board of Directors of DEMAG, Duisburg

Parallel to the economic growth and the increase of the living standards in the Eastern bloc the import requirements of its member countries are rising, too. For this reason all Western industrial nations make increasing efforts to establish themselves in these markets with good future prospects or to maintain and extend traditional positions. However, trade between the East and the West is more difficult than among Western industrial States. The differing control of the economies causes a multitude of difficulties in opening new business connections and for transactions. These impediments are still increased by differing conceptions of the world. INTERECONOMICS* interviewed Herr Alfred E. Schulz, Member of the Board of Directors of DEMAG Aktiengesellschaft, on the present situation of the West German Eastern trade.

QUESTION: Mr Schulz, in the field of trade relations the inflexible attitude of the West vis-à-vis the Eastern bloc has recently yielded to a more enterprising, almost friendly, policy. Is the reason for this that competition has become more acute in traditional export markets, or is it because of a more or less marked relaxation in the political sphere?

* The interview was arranged by Gerhard Schildmann and Dietrich Kobschull.

ANSWER: I think that both reasons play a part. If you are speaking of the East in general, there would appear to be both the beginnings of political understanding with the Eastern bloc and also stronger pressure by the West on Eastern bloc markets. As far as the Federal Republic is concerned, the only visible political relaxation is vis-à-vis Rumania. As for the Soviet Union, there is no sign of political relaxation. There appears to be

a certain amount of scope in relations with Czechoslovakia. The sharpening competition in Eastern bloc markets has long been apparent. I must remind you of the 10-year, £ 100 million loan from Britain to the USSR. I must also remind you that the French Government, too, is making considerable concessions. For various reasons, the Federal Republic is in a difficult position and its policies, therefore, should be the more flexible—not least its commercial policy.

ALFRED E. SCHULZ

belongs to those managers in the Federal Republic of Germany who in decisive positions directed Germany's post-war economic development. Today sixty years old, he first studied to become a banker and began his career in the Vereinigte Stahlwerke concern. 32 years old he was a member of the executive board of Henschel Flugmotorenwerke and later chairman of this board. After the war Herr Schulz was appointed board member of Henschel-Werke, Kassel. In 1953 he left this firm and joined the board of directors of DEMAG AG, Duisburg, to which he still is belonging. Besides he is a. o. chairman of the foreign trade committee of BDI (Federal Association of German Industry) in Cologne and member of the board of trustees of the German Foundation for Developing Countries. His activities concentrated on "Industrial external policy", i.e. the building-up and cultivation of economic relations with foreign countries. Here he is mainly interested in trade with the East.

QUESTION: The annual rates of growth of German trade with the East are above average; however, the Federal Republic's volume of trade with the East amounts to only about 4% of total German trade. In view of this ratio, is it not astounding that such great importance be ascribed to this trade?

ANSWER: Naturally, with the annual growth rates of German trade with the East, the volume of trade with the East has also increased. But its percentage ratio is only about 4%. There are, however, marked differences in this ratio if the various sectors of industry are considered separately. In the machine tool industry in

general, in my opinion, the ratio is already above 6%. In certain specialised sectors it amounts to more than 10%. I am, however, opposed to degrading a certain sector by saying that it stands at only so much per cent. The same thing was said when trade suffered because of diplomatic relations being broken off with the Arab States. Fortunately, German foreign trade is made up of a great number of "only so much per cents". This colourful palette means that by and large foreign trade is more secure and more stable in the face of outside influences.

QUESTION: In spite of this, it cannot be denied that trade with the East always gets more publicity than trade with many other areas. Is this because trade with the East is, perhaps, more risky than other foreign trade or do political aspects—ideology—play a dominating role?

ANSWER: There are many reasons why trade with the East gets greater publicity. From the economic point of view it is certainly not more risky, but possibly from the political one it is. On our side, we are not affected by ideology, only by tradition! As to the political question: you know that there is still an embargo list and you will recall the difficulties which arose because of a projected deal in pipes. Unfortunately the complications which arose because of this have not been forgotten in the USSR. Neither did revaluation exactly do our reputation any good. For a long time we were not in a position to offer the same conditions for trade with the East as other industrialised countries in the West or the same as we offer to other countries.

Equipment goods, in particular, are certainly not over-the-counter deals. Equipment goods, unfortunately, can only be sold on certain credit conditions. Now, after prolonged birth-pains, this question of credit has been solved to a certain extent. As far as the suppliers are concerned, the embargo risks are covered. But where embargo risks

are concerned, the recipient is also considerably involved, for he is working under a planned economy.

Just now, I mentioned commercial tradition. Particularly in commerce, the word "tradition" should not be used too frequently. In my opinion, however, it is permissible to speak of "tradition" vis-à-vis Eastern countries for these relationships date back to Hanseatic times.

QUESTION: In no other sector of economic policy do commercial and foreign policy rub shoulders as in this field. Do these close ties between trade and politics have an inhibiting or an encouraging effect upon the expansion of trade with Eastern bloc states?

ANSWER: Trade policy and foreign policy are very close, sometimes almost indistinguishable. Seen from outside this is not always obvious. The same holds for trade with the East. The Russians seem to know how to keep politics and trade—at least seen from outside—apart. The Federal Republic is frequently made to look politically foolish by the East, whereas trade representatives are not only welcomed with friendship—their goods are bought. We must not think that these merchants are people of no character. In my opinion, politics should, in certain cases, make use of experienced commercial people who have good contacts "over there". Businessmen can smooth the way for politicians and can open doors. Perhaps you recall the visit of the Minister of Economic Affairs to Rumania and that to Bulgaria of an Under-Secretary.

QUESTION: You have already mentioned the pipe embargo. In the last few weeks it has become possible to insure with HERMES against this type of embargo risk, irrespective of what government they are imposed by. What were the reasons for this new arrangement and what is the effect of it upon German industry?

ANSWER: The possibility that an embargo may be imposed at any time hangs like the sword of

Damocles over the head of German industry. This risk is automatically covered by the export insurances of our competitor industrial nations, whereas we have had to wage a weary and tedious fight to get this insurance included. I may mention that such an embargo could be imposed in any part of the world. It can happen in Cuba, or tomorrow in Rhodesia. In this case, commerce would have to pay the bill for the consequences of international politics. By arranging for the export credit insurance policy to cover embargo risks the Federal Government has merely remedied the position somewhat.

QUESTION: For a good year now, German exporters have had the opportunity to insure for periods of up to 8 years (matching) and also to obtain the necessary finance. It is now being said that not least due to this adjustment an end has been put to competition for credit, or rather, that credit terms will not rise further. Do you believe, Mr Schulz, that in the long run it will be possible to maintain this "balance"?

ANSWER: Our export credit terms, in particular those for delivery of capital goods, have got rather out of hand because of development aid. Bad examples—of whatever degree—spoil even the best of manners—which does not mean that I have any objection to longer credit periods for developing countries. Here, as elsewhere in export trade, there should be a certain solidarity between industrial nations. In my opinion, the agreements reached under the so-called Berne Union should not, as a rule, be exceeded, which means a maximum of 5 years; for consignments of complicated equipment this is naturally prolonged by the period of manufacture, i.e. up to a period of almost 7 years. The "matching case" already shows that the contracting parties to the Berne Union did not reach agreement. So we have no other solution but to adapt ourselves to such "slips", although vis-à-vis Eastern bloc countries credit terms are definitely limited to a maximum of 8 years.

QUESTION: The Berne Union is a gentlemen's agreement which dates from 1934. What do you think of it as an instrument of international trade policy? One has the impression that—at least outwardly—the Federal Government observes it rigidly.

ANSWER: The Federal Republic has certainly observed very punctiliously the conditions laid down by the Berne Union in a sort of gentlemen's agreement. As I mentioned, certain relations have been possible for developing countries. I think the matter should be allowed to rest there. In my opinion, not even countries with planned economies are helped by longer-term credits. This would only mean that they had to carry forward their debts into new plans.

QUESTION: What is the view of German industry in general about the problem of lengthening periods for payment?

ANSWER: It is the market which determines conditions. Willingly or unwillingly, we have to adapt ourselves when overwhelming competition offers more favourable credit conditions. For the USA, to export is not a matter of life and death. Their export ratio amounts to 4% of the GNP. But for the Federal Republic, to export is a life-and-death matter. Germany's exports amount to over 16%, and in important sectors of industry—machine tools, for instance—40% of goods produced currently go abroad and anyone can calculate the consequences—costs in relation to exploitation of capacity and all the other consequences.

QUESTION: What are the effects upon a firm's competitiveness when, for instance, the credit period is prolonged from its normal 4 years to 6 years? In talking with us, Bernhard Weiss, the ex-President of VDMA (Association of German Machine-Building Establishments), laid great stress upon the dangers inherent for firms in long payment schedules—particularly in view of the poverty of the German capital market and the bad trade outlook.

ANSWER: Any extension of credit periods always has unfavourable effects upon suppliers, certainly if—as is normally the case today—they have to play banker. Under the present system the supplier is subject to risk almost up to the end of the credit period. With the present high credit costs, any prolongation of credit terms has an absolutely devastating effect. At present interest rates, taken in conjunction with credit insurance payments, credit costs run at between 9% and 10%. I have pointed out several times that we, in the Federal Republic, are allowing ourselves the luxury not only of having the shortest working hours, the highest wage rates, the longest holidays, the highest social contributions in Europe, but also, as a country of superlatives, the highest rates of interest!

It is no good pointing out that, in spite of this, exports have risen. It cannot be made that simple, for these exports represent a hard and bitter struggle to make anywhere near full use of that capacity which has become surplus due to the domestic recession. I am absolutely in agreement with my friend, Bernhard Weiss, particularly with regard to his valuable efforts to make it possible for the German export industry to sell export claims à forfait, just as is done in other countries.

QUESTION: In justifying the firm's commitment (retention) it is always stated that this will prevent exporters from entering upon export business lightly.

ANSWER: To argue thus is an over-simplification. The large surplus of premiums received by HERMES in excess of the amounts paid out in damages shows fairly clearly that industry does not export imprudently. Unfortunately, the profits made by HERMES in this field are swallowed up in the budget. A thesis could be written on the legal aspects of insurance and also on the necessity of cash funds being immediately available in cases of emergency.

QUESTION: Mr Schulz, the instrumentation for promoting exports provides for ceilings to be put on the financing of business deals. Are these ceilings sufficiently high for deliveries to the Eastern bloc?

ANSWER: I am an opponent of such internal ceilings. They only lead to unnecessary discussion and very often to political obstinacy. Sometimes they even have an inhibiting effect upon essential flexibility.

QUESTION: Hitherto, the main deliveries to Eastern bloc countries have consisted mainly of large installations, machines and know-how. What is the outlook for sales of consumer goods?

ANSWER: German exporters have long wished for a chance to sell larger quantities of consumer goods to the Eastern bloc. However, we cannot dictate to these countries what they need. It is very difficult for us to lay down conditions about this.

QUESTION: There may be two reasons why it is not possible to sell larger quantities of German consumer goods to the Eastern bloc. First, because the Eastern bloc really does not want these goods, and secondly, because our industry does not make a sufficient effort to investigate the markets in the Eastern bloc. Does German industry do sufficient market research in the Eastern bloc?

ANSWER: It is not very easy to do market research in Eastern bloc countries. Recently, the governments of such countries have started to make use of this prohibited instrument of a tabooed form of economy. Naturally it is not easy, for in a country like the USSR, with a variety of ethnic groups, requirements and reactions, with a purely planned economy type of thinking, such a venture may meet with insuperable obstacles.

To carry out market research in Eastern bloc countries is not immediately possible using ordinary methods. Market investigation must be done in an unorthodox manner, although in conjunction with a

personal contribution. There is a broad range of dialogue, from which can be learned details of the requirements and the economic centres of gravity of economic planning.

QUESTION: The counterpart of German exports are consignments from the Eastern bloc. Has the the German economy anything seriously to fear from exports from the East?

ANSWER: For the time being we do not need, generally speaking, to fear consignments from the Eastern bloc. However, it could be that Eastern "dumping" imports might become dangerous for us. But this type of dumping is controlled and can be prevented by means of special proceedings via the Bundesamt für Gewerbliche Wirtschaft (Federal Office for Industry and Trade). I almost think that we have far more to fear from Japanese imports.

QUESTION: Ought the Federal Government to pay more attention to market research, promotion, fairs and exhibitions—in short, the classic field of export promotion?

ANSWER: This is an old grievance with the organisations of industrial economy, insofar as they are concerned with export. May I put it in one sentence?

We do not expect to be better placed, but at least to be on the same footing as those industrial nations with which we have to contend as competitors in the world market. For this purpose, not only must the above-mentioned wishes be realised, but also for help to be given in market research and promotion and also with fairs and exhibitions. I do not deny that some assistance has already been given. But I could say a great deal about this which would go beyond the scope of this interview.

QUESTION: Co-operation between Western and Eastern firms is supposed to help the rapid development and/or industrialisation of Eastern bloc countries. What has been the experience of German industry hitherto?

ANSWER: The word "co-operation" has become a catch-word ever since it was first used, but it is given different interpretations by different people. It is my experience that when the Eastern bloc states speak of co-operation, they mean first of all working jointly on world markets in respect of certain consignments. If I supply a machine to a certain country, they wish to collaborate with a supplementary delivery. As quid pro quo for this participation, the East may buy goods from us to the value of the participation. This is the original meaning of co-operation, as the Eastern bloc understands it. Later, the meaning of the word was expanded. Today we can say that excessively optimistic concepts, such as often have been and still are connected with this instrument, are out of place. The example given above is applicable in certain cases. At the moment there is nothing more in this, if only because—in spite of the many signs of détente—there are still considerable differences between our two economic systems.

QUESTION: There is another obstacle to co-operation between the Federal Republic and any Eastern bloc country, i.e. the movement towards integration inside the Eastern bloc (COMECON). Is this concept not such that, in the long run, foreign trade with the Western bloc will decline to the same extent that living standards inside COMECON rise? In other words, is there a possibility that one day our trade with the East will decline in this way?

ANSWER: The Council for Mutual Economic Aid—known in English as COMECON—is directed primarily at the standardisation of production and the reallocation of production to certain points of gravity. We all know that certain difficulties have been encountered here. To me, it also seems utopian. Nations are not machines and human beings, after all, still have an important role to play with their varying mentalities. The original concept of the Council was not a success because it overlooked the human aspect. Rising standards of

living mean, in general, an increase in foreign trade. Therefore I do not believe that trade with the East will decline when living standards inside COMECON rise.

QUESTION: In Geneva, Mr Schulz, they have for some time been concerned with the Kennedy Round. The main purpose of this is to abolish customs barriers between the USA and countries in Europe. Do you believe that a similar conference would ever become possible between COMECON and the European Economic Community or between COMECON and the representatives in Geneva?

ANSWER: As to a trade conference between COMECON, on the one hand, and a true European Economic Union (not Customs Union), enlarged by the EFTA countries, on the other, I can only say that it would be too good to be true. You know, too, that thus far the results of the Kennedy Round have not been precisely overwhelming.

QUESTION: In any discussions on trade with the East one is reminded of Lenin's famous words that capitalists put the rope round their own necks with their consignments. Does such a danger really exist?

ANSWER: These words were spoken at a quite different time, i.e. about 50 years ago. At that time the movement of the Russian masses was under way; the Russian revolution was in full swing. It is quite obvious that under such conditions words have to be given a different value. Were I to take these words at their face value, we would be forced to close our frontiers to everything originating from Communist sources, both culturally and commercially. I am sure you will admit that this would be absolutely ridiculous. This is why I say that these words of Lenin's are no longer applicable and—at least at the time they were pronounced—were meant differently. Neither can I understand why we always have to quote Lenin. Have we no better interpreters of world trade?