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## Trade needs international cooperation

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# INTERVIEW

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## Trade Needs International Cooperation

Interview with Otto Wolff von Amerongen, President of the Central Association of German Chambers of Industry and Commerce, Bonn \*

**Internationality is in the Federal Republic of Germany no mere slogan. A country whose industry and commerce is so closely interlinked with the economies of other countries needs international cooperation, and that not only within the restricted circle of its EEC partners, but also in the wider sphere of the world economy. An economic policy which aims at achieving a balance between the interests of the various countries concerns not only the state, but also industry, exporters and importers. In an attempt to ascertain their attitude towards the current questions of monetary policy, towards the problems of equalising the balances of payments and towards the present stagnation affecting European integration, we interviewed the President of the Central Association of German Chambers of Industry and Commerce.**

**QUESTION:** The Hanover Fair is regarded as an event of world-wide importance. Industrial enterprises from all parts of the world meet at that Fair. It is regarded not only as economic barometer for the Federal Republic of Germany but also as testing ground for the efficiency and competitiveness of industry. How do you judge the present position of the German industry among industrial nations?

**ANSWER:** In comparison with the preceding year, we achieved in 1968 a considerable increase in our industrial production, i.e. a growth of 12 p.c. This means that the Federal Republic has without doubt done better than all the other states of Western Europe. On the other hand, Germany's average growth rate over the past five years

has not been sensational with the result that German industry still has adequate reserves in hand to enable it to meet world demand, should it rise still further.

**QUESTION:** At stable prices?

**ANSWER:** Not necessarily. Naturally, German industry may also resort to price increases. Higher wages at home and increases in the prices in some raw material sectors could induce firms to adjust their prices to the higher levels prevailing abroad. But, naturally, always only to the extent to which the competitive market situation will permit it.

### **The Inevitability of Larger Concerns**

**QUESTION:** Competitiveness last but not least depends on the size of the enterprises. In this field a great deal is going on. There have recently been

so many mergers that people are beginning to speak of a "wave of mergers". Do you think it is necessary for already large concerns to join forces to improve their competitive position vis-à-vis foreign firms?

**ANSWER:** In my opinion at least it would be wrong to exaggerate the importance of this tendency towards concentration. These industrial mergers are by no means so numerous and important that one could speak of them in terms of a wave that is rolling forward on a broad front. What we in the Federal Republic of Germany are in fact doing is to catch up with developments which occurred in numerous competitor countries already a long time ago. Actually, by creating units of a size appropriate to the larger West European market German industry is only now adjusting itself to the intensified competition it has been facing from,

\* The Central Organisation of the 81 Chambers of Industry and Commerce in the Federal Republic of Germany represents all branches of the German economy at the highest level.

say, American and Japanese firms since tariffs on imports were lowered. In this respect there is only one thing to do: increase the size of the output units. The iron and steel producing industry for instance simply calls for powerful concerns like Thyssen. But this kind of concentration does not in any way prevent small and medium-sized undertakings from continuing to exist. On the contrary, the division of labour actually makes it easier for a multitude of smaller specialist enterprises to exist side by side with the large-scale ones.

### **Threat to Prosperity and Prices**

**QUESTION:** But internationally competitive firms will export more. Here we come to the problem of export surpluses. These surpluses are at present a matter of special concern to German economic policy. Safeguarding foreign trade and stable prices are apparently indissolubly linked in the economic thinking of the Federal Government. Where, in your opinion, does the threat to prosperity and prices come from—from outside or inside?

**ANSWER:** It is very difficult to give a clear-cut answer to this question. For this causes and effects are much too entangled. At home there is of course the general pressure owing to price developments, which comes mainly from the service industries but also from wage demands in general.

To avert the dangers that threaten prosperity and prices from abroad we are constantly being called upon to put our balance of payments in order or, to be more precise, to reduce our export surpluses. But any efforts in this direction will only be successful if our competitors in foreign markets tackle the task of controlling the inflationary trends in their own countries and of wiping out their balance-of-payments deficits by exercising budgetary, fiscal and monetary discipline. By carrying

out a quasi-revaluation, the Federal Republic for its part has taken the first step. Now it should be the turn of our partners!

### **Promotion of Direct Investments**

**QUESTION:** You have suggested that in order to neutralise its export surpluses Germany should increase its direct investments abroad. Don't you think the promotion of investments abroad would lead to larger exports?

**ANSWER:** I believe that in matters of direct investments one must distinguish between two phases. During the first phase, for instance when it is a question of equipping a subsidiary undertaking abroad, exports rise. But afterwards—during the second phase—the trend should be reversed. For one thing, long-term direct investments in underdeveloped countries will help them to become industrialised and thus reduce their dependence on imports in some sectors. And secondly, such countries will be enabled to build up genuine supply industries which will later export their wares to the Federal Republic.

By the way, I did not extol the merits of direct investments as being the nostrum and panacea for equalising the balance of payments. In my opinion, they can never do more than make a modest contribution towards overcoming our balance-of-payments problem.

**QUESTION:** Is there not a possibility that through direct investments abroad German firms will create such a reputation for German goods that German exports will be stimulated, while at the same time profits from these direct investments abroad will flow back into the Federal Republic, thus also increasing the balance-of-payments surplus?

**ANSWER:** As far as the return of profits from foreign investments is concerned, we are

touching on a question that will not be ripe for discussion for another ten years. For it is a well-known fact—as best exemplified by the American firms in the Federal Republic—that profits from subsidiaries abroad are used, at least in the initial stage, for reinvestment. Whether the reflux will ever become a really important factor is a question that can scarcely be answered today.

But now a few words about what you call "image": the good reputation which some subsidiaries have gained abroad for the products of their companies is not easily transferred to all the products of the country concerned. Manufacturers of investment goods are inclined to make use of the argument of the "image" in discussing their own relative importance to the consumer industry. Their argument runs as follows: "When we export, then there remains always the bridge or the railway engine we have constructed to serve as a permanent shop sign." But, Gentlemen, we do not want to export industrial monuments. Furniture, mattresses, wine, beer, etc., are just as good export articles as machines and bridges. I question the value of slogans like "the flag-ship function of the investment goods industry"; they unjustly glorify the producer of investment goods at the expense of the consumer goods industry.

### **Revaluation Would Have Been a Mistake**

**QUESTION:** German exports have risen too sharply according to foreign critics. Was the "quasi-revaluation" through variations in the added-value tax on goods crossing the frontier really "what the doctor ordered", or was it no more than a postponement of the choice between the alternative of revaluation or inflation?

**ANSWER:** I have never regarded this law as made-to-measure.

sure solution. True, I do not belong to those who at first strongly opposed revaluation, but who later, once the law was promulgated, changed to the view that it would have been better to revalue. The law is certainly not without its defects and at variance with certain promises. But I am by no means sure that in November of last year revaluation would have been better. The other countries might have become accustomed to periodically recurring changes in the exchange value of the German Mark in the stability-conscious Federal Republic, for did we not already have a revaluation in 1961? From this point of view it is as well that the Government has resolutely resisted all pressure in favour of revaluation.

### **European Visions**

**QUESTION:** In view of the close economic links that exist between countries the need to coordinate their economic policies should be obvious to all of them. Even in the EEC, national solo runs are becoming more and more the rule. Now, a short while ago, the French President uttered some views about a "great European integration". According to him, EEC, EFTA and a future Nordic Economic Union would all become merged in one great free-trade zone. What are your reactions to this vision of the General?

**ANSWER:** Behind the thoughts the General has uttered there are certainly some concrete intentions. But I must confess that my faith is not strong enough to attach much importance to visions of this kind.

At present, there exists no practical alternative to the Treaties of Rome, and as long as these visions assume no tangible shape, it would be unwise to deviate in any way from these treaties. This does not mean, on the other hand, that one should insist with greater urgency on political solutions with-

in the EEC. France's attitude in this regard is well known. It would therefore be more sensible to proceed along the path that is open to all partners.

### **Dilution of EEC**

**QUESTION:** Would you expect far-reaching consequences to result for the German industry from a dilution of EEC?

**ANSWER:** It is hardly possible to say what would be the consequences of a dilution of the EEC—its merger in a vast free-trade zone. I should be inclined to think that such a development would be harmful to the German industry. It is however possible to judge the EEC from two different points of view. Any businessman who is directly concerned with the exchange of goods between the member states of the Community will point to the high rate of growth in trade between the EEC countries since the Community was founded. He will do this to illustrate how European integration has helped trade and to stress the vital need for the Common Market.

An outside observer, on the other hand, will say that the EEC represents an excessive concentration of trade in one area. The share of other regions in Germany's foreign trade—regions such as for instance EFTA, South America and also North America—is relatively small. For more than 40 p.c. of our foreign trade is with our five partner countries. These strong commercial ties between the EEC countries show, on the one hand, how attractive the Common Market is despite all the political difficulties and, on the other, how it works at the expense of the regional diversification of the German foreign trade.

### **Open Door to the World and Internationality**

**QUESTION:** In the context of foreign trade, integration and

development policy "internationality" is becoming more and more of a catchword. We are expected to act as Europeans and think in Atlantic terms; at the same time we are supposed to strive for cooperation with the Eastern Bloc, while helping the developing countries. Is all this not a little too much of that "internationality" whose praises are sung—on what tangible evidence, exactly?—particularly in the Federal Republic?

**ANSWER:** You are right; the stress laid in the Federal Republic on internationality has a certain snob appeal. But it is also easy to see why the Germans like to pose as internationalists. After all, from 1931—practically from the promulgation of Chancellor Bruening's Emergency Decrees—until about 1955, we were to a large extent cut off from the rest of the world. What we are witnessing today is the reaction to this isolation.

But subjective interpretations like these are not the whole story, for the "internationality" we have been discussing is at the same time the measure of our dependence on international trade. The Netherlands apart, there is no country on the Continent so dependent on foreign trade as the Federal Republic. It is precisely because of our active trade exchanges with the rest of the world—a trade that represents 25 p.c. of our gross national product—that we have every reason to cultivate an international outlook. Open-mindedness towards the rest of the world has long been practised traditionally in some regions of Germany such as the ancient Hanseatic towns of Hamburg, Bremen and Lubeck. That this open-mindedness has in the last few years spread throughout the length and breadth of the Federal Republic of Germany is as much the positive effect of our close links with the world economy as it is their necessary prerequisite.