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Germany's Relations with Africa

by Hans Wallner, Federal Ministry of Economics, Bonn

In the past years German foreign trade with Africa has shown a strong and lasting expansion. This conclusion is reached when comparing present foreign trade figures to those of former years. In 1961, German exports to Africa amounted to only DM 2.24 bn and German imports from Africa to DM 2.463 bn.

The long-term development of the exchange of goods between the Federal Republic and the countries of Africa as producer and consumer countries is characterised by a traditional net deficit for the Federal Republic. This deficit rose from DM 0.223 bn in 1961 to DM 2.824 bn in 1968 and to DM 1.5 bn in the first nine months of 1969. This net deficit in German-African trade is, above all, due to the imports of crude oil from Libya which have shown a strong increase in the past years.

The more than 40 independent African states as well as the dependent territories still existing on this continent are of rather different importance as trade partners of the Federal Republic. Some of the important African trade partners are to be discussed below at greater length.

Libya as Supplier of Crude Oil

As far as imports are concerned, Libya ranked first in 1968, with DM 2.365 bn and thus supplied 34 p.c. of German imports from Africa. In the first nine months of 1969, German imports from Libya amounted to DM 1.957 bn (corresponding period in 1968: DM 1.692 bn). In the course of a few years' time Libya has thus become the biggest African supplier of the Federal Republic. German imports from Libya consist almost exclusively of crude oil. In 1968, more than a third of German imports of crude oil came from Libya. In the period between 1961 and 1968, German exports to Libya rose from DM 80 mn to DM 225 mn. In 1968, German foreign trade with Libya alone thus showed a net deficit for the Federal Republic amounting to more than DM 2 bn. The figures for the first nine months of 1969 show that the rising trend of German foreign trade with Libya continues. So far the change of the political system in Libya which took place in the course of 1969 had no adverse effects on German foreign trade with this country.

Another important trade partner of the Federal Republic on the African continent is the Republic of South Africa. In the first nine months of 1969, German imports from South Africa increased to DM 863 mn, whereas they had reached DM 762 mn in the corresponding period of 1968. During the same period German exports to South Africa amounted to DM 1.189 bn, whereas in the corresponding period of 1968 they had amounted to DM 1.009 bn. German foreign trade with South Africa thus shows a continuous net surplus for the Federal Republic, which in 1968 had amounted to DM 436 mn. In view of the considerable economic growth potential of South Africa it may well be assumed that German foreign trade with this country will also show a strong expansion in the years to come. The Federal Republic is South Africa's third largest supplier country after the United Kingdom and the United States. While German exports to South Africa mainly consist of machinery, motor vehicles and products of the electrical industry, the Federal Republic's main imports from South Africa are copper and agricultural products.

Relevance of Nigeria . . .

Among the black-African countries Nigeria is the Federal Republic's most important trade partner. German exports to Nigeria were DM 266 mn in 1968, and in the first nine months of 1969, they amounted to DM 195 mn (corresponding period in 1968: DM 182 mn). German imports from Nigeria amounted to DM 192 mn in 1968, and they increased during the first nine months of 1969 again to DM 153 mn (corresponding period of 1968: DM 90 mn). These figures show the effects of the Nigerian civil war on this country's foreign trade. After a downward development of the exchange of goods in 1966 and, above all, in 1967 and 1968, a strong upward trend was again to be recorded in the first nine months of 1969. This is much more felt in the case of Nigerian exports to the Federal Republic than in the case of Nigerian imports of products from the Federal Republic. This might be due to the Nigerian system of import licensing by which civil imports are to be curbed in view of the foreign exchange shortage. In Nigeria this causes a great backlog demand for imported

FOREIGN TRADE

Table 1
German Foreign Trade with Africa

| Year | Total Exports in bn DM | Exports to Africa | | Total Imports in bn DM | Imports from Africa | |
|------|---------------------------|-------------------|-----------------------------|---------------------------|---------------------|-----------------------------|
| | | in bn DM | in p.c. of total Exports | | in bn DM | in p.c. of total Imports |
| 1968 | 99.55 | 4.00 | 4 | 81.17 | 6.90 | 8.5 |

Table 2
German Foreign Trade with Some African States

| | Libya | | Republic of South Africa | | Nigeria | | Ivory Coast | |
|------------------|-------|-------|--------------------------|-------|---------|------|-------------|------|
| | 1961 | 1968 | 1961 | 1968 | 1961 | 1968 | 1961 | 1968 |
| Exports in mn DM | 80 | 225 | 552 | 1,420 | 158 | 266 | 33 | 85 |
| Imports in mn DM | 3 | 2,365 | 359 | 982 | 175 | 192 | 59 | 267 |

goods which in the case of a liberalisation of imports—after the civil war has come to an end—will trigger off a strong import boom. Traditionally German imports from Nigeria consist of ground-nuts, palm oil kernels, cocoa, tropical wood and for some years of crude oil — this product now ranging first in Nigerian exports to the Federal Republic.

... and Others as Trading Partners

Among the countries of the CFA-zone, the Ivory Coast succeeded in expanding its exchange of goods with the Federal Republic strongly in the past years. In the first nine months of 1969, German imports reached a volume of DM 250 mn (corresponding period in 1968: DM 192 mn). The Ivory Coast's main exports to the Federal Republic are cocoa, coffee and tropical wood. German exports to the Ivory Coast amounted during the first nine months of 1969 to DM 70 mn (corresponding period in 1968: DM 58 mn). These figures reflect the strong economic growth of the Ivory Coast in the past years.

Apart from the countries which have been discussed in detail in this study, German imports from Algeria (DM 556 mn), Zambia (DM 396 mn), Liberia (DM 283 mn), Congo Kinshasa (DM 186 mn), Sudan (DM 180 mn), Ghana (DM 131 mn) and Morocco (DM 160 mn) played a special role in 1968. German imports from Algeria mainly consisted of crude oil, from Zambia almost exclusively of copper, from Liberia of iron ore, from Sudan of cotton, from Ghana of cocoa and tropical wood and from Morocco of tropical and subtropical fruits.

As far as buyers of German products in 1968 are concerned the United Arab Republic (DM 264 mn), Algeria (DM 182 mn), Morocco (DM 171 mn), Congo Kinshasa (DM 121 mn), Ghana (DM 107 mn) and Kenya (DM 105 mn) require special mentioning. In this case the most important German export goods were machinery, motor vehicles, products

of the electrical industry, the chemical industry as well as optical and precision instruments.

In the past three years German foreign trade with Rhodesia has almost stopped completely. This is due to the mandatory sanctions of the UN-Security Council which the Federal Republic—although it is no member of the United Nations—has always supported.

EEC-Association of African States

When an appraisal is made of the German exchange of goods with Africa it is to be taken into consideration that there are special trade relations between the Federal Republic and a great number of African states offering the respective African states special advantages, in particular in respect of tariffs going beyond the most-favoured-nation clause as provided in GATT. In this connexion the Convention of Yaoundé requires special mentioning. It became effective on 1st June, 1964, and renewed in 1969, and created a special form of association between the six member countries of the European Economic Community and the 18 associated African states and Madagascar. The central element of the Convention of Yaoundé is the creation of 18 free trade areas pursuant to article XXIV of GATT between the European Economic Community and each of the 18 associated African states and Madagascar (AASM).

Assuming that the Convention of Yaoundé has contributed to an accelerated growth of German foreign trade with the AASM, the efficiency of the trade policy part of the Convention of Yaoundé is, however, to be regarded with reserve. This is due to the fact that the granting of 0-tariffs by the European Economic Community for products originating from the AASM might hardly be of importance as far as industrial products are concerned, since the AASM only export these products to a small extent. As far as tropical products are concerned which are the main exports of the AASM it is to be taken into consideration that the

external tariff of the EEC was suspended for tropical wood, tea and oil seeds (groundnuts and palm oil kernels), was reduced in the past years in the case of coffee from 17 p.c. to 7 p.c. and in the case of cocoa from 9 p.c. to 4 p.c. and that the Federal Republic has a duty-free quota for bananas by which practically the whole German demand for bananas amounting to more than 600,000 tons per year can be met by duty-free imports from Latin America.

In addition to that, association agreements were signed between the EEC and the three East African states Kenya, Uganda and Tanzania on the lines of the Yaoundé agreement. The association agreements which were concluded between the EEC and Morocco and Tunisia are noteworthy in that they facilitate the import of agricultural products subject to EEC market regulations into the EEC.

Export Credit Guarantees

Kind and volume of German exports to the African countries are largely determined by the possibilities to finance these exports. These depend on the willingness of the Federal Republic to guarantee credits for the financing of export transactions with African countries. The Hermes Export Credit Insurance Company (Hermes Exportkreditversicherungs AG) as a mandatory of the Federal Government covers political and economic risks in the case of supplier credits and tied financial credits, with the German supplier himself having to bear a risk between 15 and 25 p.c. Experience made so far with this instrument has shown that its application requires not only the consideration of aspects of export promotion as well as of the economic and political risks but also aspects of development policy. The African countries have only a limited capacity of raising and transferring funds. If they take up too large a volume of government guaranteed supplier credits with short to medium-term periods as well as market rates of interest the limit of their borrowing capacity is soon reached. As far as the taking-up of supplier credits by the African countries is concerned a reserved attitude therefore seems to be indicated. In their own interest they should restrict this kind of financing to projects which will earn sufficient money to meet operating costs plus debt service liabilities.

In several African countries the excessive recourse to supplier credits has led to serious debt service problems. This applies especially to Ghana which up to February, 1966—overthrow of the N'Khruma regime—had run into debts amounting to approximately \$ 500 mn which were mainly accounted for by short to medium-term government guaranteed supplier credits. In multilateral

rescheduling agreements of December 1966 and October 1968, Ghana's Western creditor countries agreed that 80 p.c. of all Ghanaian liabilities from government guaranteed supplier credits with a period of 1—12 years which fell due or will fall due between 1st June, 1966, and 30th June, 1972, will be discharged in the period between 1971 and 1981.

Effects of the DM-Revaluation

Changes of parities or measures of a similar effect are of decisive importance for foreign trade. By the Law safeguarding economic development against external influences which became effective on 1st November, 1968, a tax in the order of 4 p.c. was levied on exports and a bonus of 4 p.c. was granted in the case of imports. As far as the field of the exchange of goods is concerned the effect of that law is therefore similar to a revaluation by 4 p.c. Although the competitive position of German exporters had thus deteriorated in comparison with other important supplier countries of Africa such as France, United Kingdom, United States and Japan, this measure had no adverse effects on German foreign trade with Africa.

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As of 27th October, 1969, the Federal Government revalued the Deutsche Mark by 9.3 p.c. (former parity: DM 1 = US Cents 25; new parity: DM 1 = US Cents 27.3224), after it had already on 29th September, 1969, released the Federal Bank from its obligation to intervene on the foreign exchange spot market and had thus temporarily changed over to a flexible rate of exchange. At the same time the Law safeguarding economic development against external influences of October, 1968, which in the field of the exchange of goods acted as a revaluation by 4 p.c., was repealed. In 1970, this revaluation will probably affect German foreign trade more strongly, especially since the time of the change of parity coincides with a domestic pressure of costs resulting from considerable wage increases. The German revaluation will have a special effect on German exports to the African countries of the CFA zone, since these countries followed the devaluation of the French Franc by 12.5 p.c. on 8th August, 1969.

Without a strong and lasting increase of the export earnings of the African countries there will be no solution of the problem of underdevelopment of this continent, since kind and volume of African imports largely depend on export earnings. A further source of financing for imports apart from export earnings are the development aid contributions of the industrialised countries. There is a close connexion between Africa's foreign trade and development aid to African countries.

It may well be assumed that in the years to come the African countries will participate in reasonable measure in the growth of the German foreign trade although new conditions were created by the revaluation of the Deutsche Mark and the devaluation of the French Franc in the CFA. Apart from that the Federal Republic will intensify its efforts to improve the foreign trade structure of African countries by financing, within the framework of bilateral capital assistance, above all projects which have the effect of substituting imports or promoting exports.

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