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Importance of Trade for Development

Interview with Dr R. D. Lorenz-Meyer, Messrs. Arnold Otto Meyer, Hamburg

Dr Lorenz-Meyer, one speaks so much recently about foreign investments of industry but so little of trade engagements. What is the reason for this?

Well, gentlemen, you are making an excellent point there. As a matter of fact, practically everybody discussing German foreign investments seems to think only of industrial investments, whereas the substantial investment of German trading organisations abroad is often forgotten. One of the reasons for this is certainly a lack of information on the size of foreign investments by the trade. It is therefore extremely difficult to compare their magnitude with that of industrial investments. Besides, the figures shown in official statistics are unreliable and misleading. This again is due to a widespread uncertainty as to which amounts in any given case can be counted as foreign investment. To give you an example, if a trading organisation maintains affiliates abroad, these will normally have a limited amount of paid-up capital but sizeable and revolving credit facilities with

the German head office. If the statisticians include only the paid-up capital, this in my opinion does not fairly represent the amount of money actually invested.

Engagement In Developing Countries

What countries, then, are the crucial ones for German trade investments?

First of all the developing countries and among them mainly South America, but also the Far East and Africa. As far as I can see, there are less trade investments in industrial countries. The reason probably is that with the larger and more highly developed markets, industrial enterprises find it advantageous to set up their own manufacturing and distributing organisations or have their products marketed through highly specialized local sales organisations rather than through a German exporter.

Engagements in developing countries are in the main coupled with export business. In how

far is there also an interest in the securing of raw materials supply?

Subsidiaries of German trading organisations abroad play a most important rôle as purchasing offices for imports into Germany. In many cases German traders abroad can advise the suppliers as to the exact requirements of the German market. There are also examples that German trading organisations through their knowledge of marketing conditions in Germany and by well founded advice to foreign manufacturers have helped to create new business opportunities which were non-existent before.

Another point is the long-term securing of raw materials which has been a matter of discussion recently in view of certain activities in the Federal Ministry of Economic Affairs. This would include opening up of mines for minerals and metals as well as taking over of plantations for agricultural commodities. These obviously would be extremely sizeable and long-term investments which in my opinion most

German trading firms cannot easily afford after two lost wars.

Do the war experiences have still such a strong effect on the inclination to undergo investments. For you say that, as a result of the confiscation of German assets abroad, one proceeds with greater care today than would be the case without those experiences?

Yes, undoubtedly. After all you must not forget that for a trading firm like ours the loss of all assets abroad meant a very substantial capital loss. The compensation payments made have in no way been adequate. Accordingly, twice within a lifetime we have had to start again from scratch. Therefore, German traders have not only become a little more careful, but they also suffer from a comparative lack of financial substance.

An agreement for the protection of investments would in itself not make things easier for you?

In those countries where such an agreement exists, it is, of course, a great help. But the German Government has a tendency to have these agreements protect only those investments which were made after the conclusion of such an agreement. Obviously, this is not a great help for the prior investor. But even in the case of protected investments a certain scepticism is justified because, after all, nationalisation or straight expropriation are not the only risks. Discrimination may well be exercised in another, more subtle way. There are sufficient examples of investments that have become unprofitable because of paralyzing them the cold way.

Marketing of Goods Decisive

On which fields is the emphasis of your investments?

In my opinion we today live not in an age of production, but in an age of sales. Practically anybody today can produce, the challenge is in selling. Decisive is the marketing of the goods, and this begins with market observation and tracing of market chances and it goes from there all along the line right down to what we call after-sales-service. This means advising of customers, technical service, maintenance of work shops, etc. These are the factors where the bulk of our investments are made.

Could you in these fields build-up on connexions already existing?

Yes. After all, we have been in the business for 130 years now. We know our markets, and we have seized the earliest possible opportunity after the war to establish ourselves again and to take up the old connections as far as they still existed. In this way, we now again have a firm footing in these markets and have thus become an interesting partner for the German industry.

The markets where we are active are invariably more complex and more competitive. Not just everything on offer is being bought, but these markets are wide open to international competition. In order to sell there you have to be in a position to stand the pace of worldwide competition. Therefore, in our case it is simply a must to be present in these markets. As an exporter today you cannot just sit in Hamburg and wait until you get an inquiry with the request to find a supplier.

In what markets in particular is the competition so severe?

Generally speaking this applies to all developing countries with a stable economy.

Where exports and imports are more or less balanced, a more liberal import policy can be afforded.

German Managers Abroad

Have you any difficulties with the employment of German managers abroad?

This is a very good question. Unfortunately, it is our experience that working permits for German personnel are being granted more and more reluctantly. There is a growing tendency in many countries to restrict expatriate labour. This, of course, causes serious problems, especially for our kind of business. We are therefore faced with the necessity of training local labour, at least for the so-called middle management. In our company we even have an executive trainee program, which includes bringing particularly talented and highly qualified employees to Germany from overseas and having them trained in the German industry. The results so far have been very encouraging, but we still maintain our point of view that by the very nature of our business it is essential that we have Germans on our staff overseas.

German trading firms have increasingly become engaged also in other branches of business in developing countries. They carry out repairs, they assemble and they produce or manufacture something. What do you think are the reasons for this?

Well, market conditions today are such that one does not merely show the flag and is in business. As I said, it is imperative to give good customer service and this in itself includes the necessity of having maintenance and repair work shops. From there it is only a gradual step to the assembling of parts

which are imported in a knocked down condition.

Do you see this in the light of the developing countries' restrictive import policy?

Yes, but this comes on top of it. In many developing countries the import of finished articles is restricted so that you have to assemble them locally. Motor cars are a good example. Some countries only allow the import of knocked down sets and at the same time give certain time limits up to which a certain percentage of the components has to be taken from local manufacture.

Cooperation between Trade and Industry

What significance do you attach to the motive of trading firms establishing their own branches abroad only in order to be in a position to counter-effect the often-mentioned tendency towards industry's direct export?

I firmly believe that in the long run only those exporters will be accepted as partners by the industry who have something to offer. The exporter's function cannot be limited to the mere knowledge of one or two buyers, but he must be in a position to systematically explore and exploit a market for a given product—a market which especially in the developing countries more often than not is too small to make it profitable for any producer to establish himself there. In cases where exporters have concentrated on such intensive covering of a market—either by product or by country—I would say that the German industry is now markedly less inclined towards direct exporting than a couple of years ago. Instead I notice a growing tendency to co-operate closely with the export trade, always provided the

trader is really "at home" in a given market. Obviously, the exporter must serve a function in order to be an interesting business partner for industry. This is particularly so in markets where he maintains his own branch offices and hence is in a position to provide full market coverage for a wide line of products. As a rule, a trader carrying a full line of supplementary products from various manufacturers can give a better coverage of a market than any single fabricator.

Does this apply to industry generally or do you think that cooperation with a trading firm can be considered only by companies of a certain size?

This does apply generally. From own experience I would say that particularly large companies which are often referred to as industrial giants and which have a highly refined internal costing budget, have found it preferable to cooperate with exporters, particularly as far as their business with developing countries is concerned. These large industrial organisations mostly confine their own activities to one representative office for an entire region or continent which gives technical advice to the exporter's sales force in every single market. On the other hand we also see that relatively small industrialists take advantage of the cooperation with the export trade in cases where the manufacturer is specialized on a certain product which the exporter can handle together with complementary products of other manufacturers. Also for highly sophisticated products which require skilled and well equipped after-sales-service many manufacturers find that it pays to cooperate with a trading organisation with technical service facilities rather than to set up a work shop of their own.

Politicians from developing countries canvass foremostly for direct investments from the manufacturing sector. How do you assess the contribution of trade subsidiaries and branch offices towards the economic development of these countries?

Contribution of Trade to Development

Now you are touching a very interesting phenomenon. I venture to say that there is a world-wide bias against the trader. This seems to stem from the wrong idea that the trader generally does not fulfil a genuine function, with the result that as a go-between he causes higher prices for goods and services which, as it were, are available anyway. To me it is often a shocking surprise to realize how the function of marketing is under-estimated even by people who should know better.

When discussing the subject of investments in developing countries we experienced time and again that only the aspects of production are envisaged whereas investments of the trade are not even thought of. This is a general pattern, not only with politicians from developing countries but also with the overwhelming majority of politicians in this country. Besides the serious misjudgement of the functions of trade, there are, of course, other factors, too. For instance, one of the foremost aspects for any politician from the developing countries is the creation of employment for his people. But many people seem to forget that trading organisations also employ many people, and—what is more important—the managerial skills to which these employees are trained are probably more important to the country's overall development than the purely manual skills which are involved in many of

the so-called industrial investments.

But apart from this partial aspect, the contribution of trade establishments towards the development countries' growth cannot be assessed high enough. This is true not only for the selling to, but also for the buying from developing countries. There are numerous instances where the way for exports to Germany was paved by German trading organisations who have thus helped the respective countries to improve their balance of payments.

So that, then, the trade can rightly claim to fall into line with the worldwide call for "aid by trade"?

Yes, indeed, very much so. And this is not only true for the buying side, but also for the selling to the developing coun-

tries. Because selling today does not mean to dump surplus materials into receptive markets that will take anything on offer. Today we have a buyer's market world-wide, and the responsible trader has to strive hard to give the buyer what he wants, when he wants it, and at a competitive price, and provide for the necessary advice and technical service. This is not only true in the case of highly sophisticated machinery, but for practically all products. A good example in this respect is such a bulk commodity like fertilizers. You can certainly well imagine that in many developing countries the concept of manuring has to be brought to the farmers—who are sticking to their centuries old ways of production—with a considerable amount of advisory and introductory work. People have to be brought to relinquish their

medieval traditions and instead adopt 20th century production methods, which is an immense task. Invariably the official quarters in the developing countries render very active assistance in this respect, but on the practical side they have to rely on the assistance and co-operation of the suppliers of fertilizers. Here again is a challenging task for the trader who must not only be fully familiar with the properties of the products he offers, but who also has an excellent opportunity of serving as an information link between the manufacturer and the final end user and vice-versa. His intimate knowledge of climate and conditions in the developing countries as well as of the mentality of the people will usually help him in feeding back extremely valuable information to his supplier who in turn is enabled to adopt his

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products to the specific requirements of the particular market.

No Rewards for Aid by Trade

Is this assistance given by trade to the developing countries somehow rewarded materially by the Federal German Ministry of Economic Cooperation?

I personally do not know of any single case. Incidentally, I am under the impression that information and cooperation between official circles concerned with development aid on the one side and the people who are actually dealing with developing countries on the other side still leave very much to be wanted. Either side goes its own ways without too much apprehension of what the other side is doing. Many governmental bodies are so convinced of the superiority of their kind of approach that they have little regard for the practical experience of the trade. On the other hand also some traders are apparently more interested in their own short-term profit than in the longer-term aspects of political and economic cooperation between Germany and the developing countries. The resulting lack of cooperation leaves a wealth of available information untapped and leads to unnecessary waste of efforts, time, and money.

What is your opinion of the facilities for the promotion of investments in developing countries that presently exist in the Federal Republic of Germany?

The history of creating these facilities in itself is a good example for the point I am trying to make that Government circles in Germany are rather reluctant to give trading organisations the same amount of protection that they willingly concede to manufacturing operations. You will probably re-

member that under the first German tax law allowing certain incentives for investments in developing countries only investments in fixed assets were eligible for consideration. This practically precluded trading organisations from taking any advantage of these incentives, as the bulk of the trading investments are in stocks and in credits extended to buyers as well as to suppliers as far as imports into Germany are concerned.

What do you think of the plans to establish an import-insurance specially for the trade, equivalent to the "Hermes"-policy?

These plans certainly deserve a great deal of attention. The difficulty lies in the fact that it is practically impossible for the import trade to give a quantitative analysis of how much additional business might result from the introduction of such an import credit insurance. However, the fact remains that for a number of commodities a very large proportion of total German imports is channelled through traders in third countries where comparable import credit facilities are available.

Necessary State-Measures

What measures would you consider most important in order to create intensified investment activities?

In the first place fiscal measures are necessary which allow the trader to better balance the risks in his overseas investments. I already touched the fact that German companies engaged in international trade have suffered severe losses as a result of the two world wars. In order to again build up substance it is necessary to improve their capital structure. In the first line this should be own capital and hence the re-

quest for fiscal measures which should allow the trader to build up adequate reserves in view of the heavy risks he faces in his international commitments. It should be remembered in this context that the trade has less possibilities of building up capital reserves by depreciation, as compared to industry. Secondly, also the programs to make long-term credits available to the trade should be pursued further. These programs could be rendered much more effective if the authorities would handle the question of securities a little more liberally. There is hardly an incentive if these long-term moneys are made available only for a fraction of the actual overseas investment, while nevertheless full coverage is required by securities available within Germany. In other words, if you have to pledge your assets within Germany for these loans in addition to the compulsory insurance of your overseas investment, this is no longer a very interesting proposition.

Finally, a closer cooperation and coordination of all institutions for the promotion of investments in developing countries would be helpful and necessary.

Today, there are too many Ministries and Government agencies involved. The Finance Ministry, the Ministry of Economic Affairs, the Ministry of Economic Cooperation and even the Foreign Office all have a hand in this, and in addition there is the Bank for Reconstruction, the Hermes-Insurance Co., the state sponsored German Development Co. and a host of other institutions and associations who are active in this field. This makes the issue extremely complex, and a better coordination of the already existing facilities would certainly help the potential investor to a great extent.