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*Federal Republic of Germany*

## Basic Foreign Trade Characteristics

by Dr Hubertus Adebahr, Berlin \*

In 1969 the external commerce of the Federal Republic of Germany totalled DM 211.5 bn, i.e. nearly 36 p.c. of the GNP of DM 592.1 bn in the same year. If the "invisible trade", the services, are included—which is perfectly reasonable—the rate rises to about 46 p.c.

### Increasing Foreign Trade Integration ...

Nothing can better demonstrate the extent to which the German economy is orientated towards foreign trade than these percentages. The separate figures for imports and exports show that goods and services exported—DM 143.1 bn—absorbed over 24 p.c., or nearly one-quarter, of the GNP, while the goods and services imported from abroad—DM 128.3 bn—equalled nearly 22 p.c. of GNP. The state of affairs reflected by these up-to-date figures—a large foreign trade involvement combined with a surplus on current account—is characteristic of the Federal Republic. Since 1951 the trade account has never been in deficit and the current account only once, in 1965, when a heavy deficit in the services sector coincided with a sharp contraction of the trade surplus. The current account surplus of DM 15.6 bn in 1969 and as much as DM 20.5 bn in the preceding year means that the amount of goods sent abroad by the Federal Republic exceeded that received from abroad by 2.6 and 3.1 p.c. respectively of GNP. Considering the extent of foreign trade integration, the rising trend, especially in the exchange of goods, is remarkable. While exports of goods accounted for 12.4 p.c. of GNP

in 1952, they had by 1969 risen to 19.2 p.c.<sup>1</sup>, and a very similar trend can be recorded for imports.

### ... the Subject of Much Discussion

No wonder then that these distinctive basic features of German foreign trade have given rise to much thought and dispute and still do so. As regards the close and still advancing foreign trade integration, a wide range of different views is being held, from outright condemnation on the ground that it creates a dangerous dependence on foreign countries which would have devastating consequences in times of crisis or war to unqualified commendation and the plea that unhampered foreign commerce promotes international division of labour, improves the allocation of resources and thus makes for greater productivity and prosperity.

Without entering into the details of this discussion, it can be said that the dispute is about aims. The greater the extent of international division of labour, the greater becomes automatically the potential economic risk from boycotts and similar acts by foreign trade partners. This argument is however largely invalidated by two points:

□ As the international division of labour advances, all participants become more dependent on foreign trade, so that it also becomes increasingly difficult and detrimental for all to boycott individual countries or groups of countries. This argument is admittedly weakened by the great differences in foreign trade propensity between the various States.

□ Given the existing political constellation in the world as seen from the Federal Republic, actual crises or confrontations which could

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<sup>1</sup> The figures were extracted or calculated from: Statistische Beilage zu den Monatsberichten der Deutschen Bundesbank, Reihe 4, Saisonbereinigte Wirtschaftszahlen, No. 2, Febr. 1970, p. 1.—Wirtschaft und Statistik 1970, No. 1, p. 27—Statistisches Jahrbuch für die Bundesrepublik Deutschland 1968, Stuttgart and Mainz, pp. 275, 494.

jeopardise its existence appear at present and for the foreseeable future possible only, if at all, between the blocs of alliance. The economic scope of the western alliance is however wide enough to ensure adequate supplies of imported commodities in case of an emergency even if foreign trade were to be confined to the allies.

### Stock-piling of Important Raw Materials

Consideration has nevertheless been given for years by authoritative political circles to the question whether certain emergency stocks of important raw materials were desirable. The delay in answering this question is probably connected with the practical and political difficulties which would have to be expected in any event. This is especially true as regards the range of goods to be stored, for the views of Government and interested parties (producers, importers) are sharply divided. If the private interests had their way, a very wide range of commodities would be included. Proof of the necessity, or even desirability, of stock-piling would probably be very difficult in each individual case as would also be proof to the contrary. It is understood that 19 commodities in the categories of iron and steel, non-ferrous metals, textiles, natural rubber, chemicals, wood pulp, paper, and stones and earths have been earmarked for stock-piling by the Government. Criteria for the selection of commodities are dependence on imports, opportunities for substitution, vulnerability of the sources of supply, and „importance to the national economy“. The stock-piles are to cover domestic requirements for three months. The contribution of the State is to take the form of a subsidy for stocks to be kept by the enterprises, through an interest subsidy for the provision of capital and a lump sum for the cost of storage. How far the additional public expenditure involved can be justified by what is ultimately an uncertain result in terms of security is a predominantly political question.

### Effect on Economic Activity ...

The chronic surplus of the German balance of trade may, as far as the goods side is concerned, be interpreted as the surrender, almost without a return, of part of the domestic social product—in the past two years as much as 2.5 or 3 p.c.—to foreign countries; for the claims on foreign countries acquired in the form of accumulating currency reserves are no more than drafts on an uncertain future. It is hardly possible to contest this interpretation but nevertheless it is lopsided! For the German export trade has in the

past proved an important determining factor for the general economic development. Its influence on the course of economic activity was impressively confirmed as recently as during the 1966/67 recession when the foreign demand, reflected by a large export surplus, was the only factor of significance to sustain business activity. Had it been absent—perhaps because the German economy was less involved in foreign trade—the economic setback would certainly have been aggravated. As economic growth is always lost by a recession, avoidance or moderation of economic downturns lessens the loss of potential growth. The relevance of a trade balance in surplus to a policy of growth is thus corroborated.

On the other hand, one must not ignore the experience of the last two years when during a constantly accelerating inflationary boom the foreign trade surplus showed no noticeable tendency to decline, the "Screening Law" of November 1968 notwithstanding, because economic activity abroad expanded likewise. The surplus thus contributed to the "overheating" of the economy and is thus partly responsible for the negative consequences, especially the growing danger of a substantial economic setback.

### ... and Growth

Another important growth stimulant, especially in the fifties, was that foreign demand made up for lacking domestic demand. To put it differently, the fast economic growth would have been impossible if the producers had not been compelled by the initial tightness of their domestic market to look for outlets on foreign markets<sup>2</sup> and if they had not captured positions in these markets. This certainly also explains to some extent the pattern of distribution of German production over the various categories of goods which favours the export trade: When rebuilding, German industry was forced to adapt itself to the wishes of the foreign customer. From this followed undoubtedly further stimuli for growth most important among which were probably:

- ☐ the long-term shift in production towards producer and investment goods,
- ☐ mass production and manufacture in long series with consequent benefit to productivity, often made possible only by the size of the foreign market,

<sup>2</sup> See also Helmut Hesse: Strukturwandlungen im Außenhandel der Bundesrepublik. In: Heinz König (ed.): Wandlungen der Wirtschaftsstruktur in der BRD. Schriften des Vereins für Sozialpolitik, New Sequence, vol. 26. Berlin 1962, p. 270.

□ utilisation of the rationalisation potential and increased research and development efforts necessitated by international competition<sup>3</sup>.

#### Trade Distribution by Categories of Goods

The foreign trade distribution by categories of goods is marked by a preponderance of industrial products both in imports (79.0 p.c. in 1969) and exports (96.5 p.c.). Foodstuffs accounted for no more than 19.8 p.c. of imports and 3.2 p.c. of exports. Among industrial goods finished products occupy a remarkably strong position; in 1969 they amounted to 47.4 p.c. of all imports and 85.8 p.c. of exports. Taking a longer view, their share in imports almost quadrupled between 1952 and 1968 (when it rose from 13.2 to 47.4 p.c.) while the proportion of all other categories declined or stagnated, and their share of exports rose by 10 points (from 75.1 to 85.8 p.c.) compared with insignificant proportional changes in all other groups. As regards the latter, the large relative decline of raw materials in foreign trade commands attention. It fell continuously over the 1952-68 period, from 34.8 to 15.8 p.c. of imports and from 7.6 to 3.6 p.c. of exports<sup>4</sup>. The foreign trade in semi-finished products also showed a downward trend, a slight one in the case of imports and more marked in exports.

#### Trade Distribution by Countries

The analysis of German foreign trade by countries also shows a remarkable distribution. In

imports as in exports the industrial countries of the West are by far the most important trading partners of the Federal Republic, accounting in 1969 for 78.5 and 82.9 p.c., respectively. Inside this group the EEC partners are clearly dominant, with 43.3 p.c. of all imports and 39.8 p.c. of exports. The large group of developing countries, in contrast, account for only 17.3 p.c. of imports and 12.4 p.c. of exports. The eastern bloc countries also hold an unimportant position, contributing 4.0 p.c. of imports and taking 4.5 p.c. of exports. A long-term review shows the present geographical distribution to be essentially the outcome of a large and continuous expansion of trade with the EEC countries coinciding with stagnation or contraction as regards the other groups of countries. The downward trend is most marked for the group of developing countries. Over the 1958-69 period the EEC countries raised their share of German foreign trade from 25.6 to 43.3 p.c. of imports and from 27.3 to 39.8 p.c. of exports. The EFTA share simultaneously contracted from 25.6 to 15.5 p.c. of imports and from 27.5 to 22.5 p.c. of exports. The proportional figures for the USA and Canada indicate a downward trend in imports and a slight rise in exports. The eastern bloc share was between 4 and 5 p.c. of German imports and exports throughout the 1958-69 period. The share of the developing countries contracted from 24.5 to 17.3 p.c. of imports and from 21.7 to 12.4 p.c. of exports<sup>5</sup>.

#### Changes in the Direction of Trade...

The statistics for the Federal Republic thus confirm and extend a trend observed in world trade

<sup>3</sup> See Wolfgang Michalski: Aussenhandel, Träger des wirtschaftlichen Wachstums. WIRTSCHAFTSDIENST, 50th year (1970), No. 1, p. 12.

<sup>4</sup> The figures on the distribution of trade by goods were calculated or extracted from: Statistisches Jahrbuch für die BRD 1968. Stuttgart 1968, p. 278, and Wirtschaft und Statistik 1970, No. 2, p. 85.

<sup>5</sup> For figures on the distribution of trade by countries see: Mitteilungen für den Aussenhandel der Berliner Bank 1961, No. 2, p. 5; 1963, No. 2, p. 4; 1966, No. 2, p. 5; 1970, No. 2, p. 5.



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for many years. It is marked by a growing preponderance of the trade between industrial countries and in finished industrial goods. The reasons of this trend have been stated more than once<sup>6</sup>. Mention should be made in particular of the greater demand elasticity of high-grade industrial consumer goods (electro-technical, precision and optical equipment) in the face of rising incomes compared with such traditional consumer goods as textiles and, more particularly, food. As the western industrial countries show the greatest gains in incomes, on one hand, and possess the most favourable structure of production from this point of view, on the other, they stand to profit most in foreign trade from this tendency. That means that they are each other's best customers and suppliers. The increasing diversification and compartmentalisation of the range of finished industrial products on offer contributes to this tendency. It operates in favour of increased exchanges of finished goods between the industrial countries, which explains the relative decline of the trade in semi-finished products.

The strong advance of investment goods inside this group is due to the growing complexity everywhere of the processes of production, due partly to the need for mass production methods and partly to the trend towards more complicated and technical consumer goods. Rapid technical progress is conducive to early obsolescence of machinery and plant and thus provides an additional stimulus for the trade in investment goods.

#### ... Also Caused by the Common Market

That despite the exceptional expansion of the mineral oil trade international raw material exchanges<sup>7</sup> have fallen far behind, relatively, is a reflection of the relative lagging of raw material-intensive industries, like the textile industry for instance, compared with types of production with a smaller raw material content or independent from imported raw materials, of the effect of raw material-saving processes<sup>8</sup>, of the advance of synthetic raw materials and of the repercussions of the world-wide agrarian protectionism<sup>9</sup>.

Another important factor determining the structure of German foreign trade, and also world trade, is the creation of the EEC which has undeniably caused a diversion of trade<sup>10</sup>. As the example of the Federal Republic shows, its result has been to divert traditional trade currents between outside countries and members of the preference area to the inside of the preference area, a fact which in the practical case of the EEC is reflected by a large percentage increase in goods exchanges inside the Community while the share of outsiders in total EEC foreign trade has increased only slightly or not at all<sup>11</sup>. It should however be pointed out that the relative increase in the internal trade of the EEC does not by any means result entirely from trade diversion but is in no small measure due to the specific distribution by commodities and countries of the foreign commerce of the partner countries.

#### Export Surpluses not Entirely due to Price Advantages

All the factors and tendencies mentioned here have had a favourable effect on German foreign trade. The export-positive structure of production achieved soon after the war in adaptation to the requirements of foreign buyers made it possible to open up foreign markets and at an early stage caused a relatively close integration with the vigorously expanding industrial countries, creating a favourable starting point for continuous adjustment to changing foreign demands. The creation of the EEC helped to strengthen the position of the Federal Republic in the internal Community market by impairing the competitive power of important commercial rivals such as the USA and Great Britain.

No single cause explains the chronic export surpluses of the Federal Republic by itself. They are certainly not due solely to relative price advantages<sup>12</sup>. Quality, service, delivery terms, etc., as well as prices, are among the causes of the competitive gains scored. Besides, the structure of foreign trade, its distribution by commodities and countries, plays, as suggested, an important part in determining the development of a country's exports<sup>13</sup>.

<sup>6</sup> Cf., e.g., Kurt Rothschild: Langfristige Verschiebungen der Warenstruktur im Welthandel. In: Fritz Neumark (ed.): Strukturwandlungen einer wachsenden Wirtschaft. Schriften des Vereins für Socialpolitik, New Sequence, vol. 30/1. Berlin 1964, p. 350 sequ.—Helmut Hesse: Strukturwandlungen im Welthandel 1950-1960/61. Tübingen 1967, p. 54 et sequ.

<sup>7</sup> Cf. Helmut Hesse, Strukturwandlungen im Welthandel, *Ibid.*, p. 76 et sequ.

<sup>8</sup> Cf., e.g., Helmut Hesse, Strukturwandlungen im Welthandel, *Ibid.*, p. 89. He reports on retarding effects of technical advances on electricity consumption.

<sup>9</sup> Cf. Helmut Hesse, Strukturwandlungen im Aussenhandel der BRD, *Ibid.*, p. 257 sequ.—Kurt Rothschild, *Ibid.*, p. 356.

<sup>10</sup> Cf. E. Poser: Wirkungen internationaler Präferenzsysteme. Berlin 1963.

<sup>11</sup> Klaus Henkner: Der Einfluß der Regional- und Warenstruktur auf die Exportentwicklung der Bundesrepublik. Vierteljahrshefte zur Wirtschaftsforschung, 1968, p. 312.

<sup>12</sup> Cf. Helmut Hesse: Bestimmungsfaktoren für unterschiedliches Exportwachstum, WIRTSCHAFTSDIENST, 48th year (1968), No. 2, p. 81 sequ.

<sup>13</sup> Cf. Dieter Schwackendiek: Die Trennung der Struktur von den Konkurrenzeffekten in der Begründung des unterschiedlichen Exportwachstums einzelner Länder. Tübingen 1967. P. 7 sequ., 105 sequ., 112 sequ.