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regards GNP through this clever combination of protectionist and free policies. Other advanced countries should not ignore that Japan is now very enthusiastic about its liberalisation policy. The schedule of liberalisation above mentioned is to be hastened, and thus the gap between economic development and traditional protectionism is going to be narrowed promptly. Therefore we are sure that the condemnation by other advanced countries of Japan's protectionism will weaken in one or two years.

On the contrary, the USA is going to be converted from the leader of free trade to a protectionist power due to price increases and the decline of its international competitiveness. The weakening

of the strong can be seen there. The USA, though weakening, is still the strongest economic power in the world. To pull down the flag of free trade must seriously influence the development of the world trade. And this development is accompanied by EEC's area protectionism. The adverse proceeding of international trade from free trade to protectionism seems to be unavoidable to a certain extent in contrast with Japan's recent favourable attitude toward liberalisation. American protectionism is particularly directed against Japan. However, if it is realised that World War II was caused by the dissolution of the world economy and the shrinkage of world trade owing to raising of tariffs, the expectation should be justified that protectionism will soon be checked.

Change in the German Foreign Trade Climate

by Dr Wiebke Jensen and Günter Großer, Hamburg

For several months now a growing number of signs have been pointing to a slackening in economic activity in the Federal Republic of Germany. Foreign trade has not remained unaffected by this change of climate. Since the beginning of the boom period at the end of 1967, the flow of foreign trade has increased considerably. In the first half of 1970, the nominal GNP, adjusted for seasonal variation, was roughly a third larger than what it had been during the second half of 1967, while in the same period exports of goods rose by 40 p.c. and commercial imports (government-imported goods excluded) by as much as 50 p.c. In terms of 1962 prices, the import increase amounted even to 54 p.c.; in other words, imports rose 2½ times as much as the GNP in real terms, which increased by "only" about 19 p.c.

Strong Growth of Commodity Imports

The GNP of 1970 is expected to exceed that of 1969 by 13 p.c. nominally or by 5.5 p.c. at constant prices. Commodity imports during January/September of this year rose by 14 p.c. (at constant prices) compared with the first nine months of 1969; they have thus been maintaining the strong growth rates of the last few years. It is

however true to say that already in the second quarter and particularly in the third quarter of 1970 the import expansion was to a large extent due to strong increases in the imports of fully finished products (about one third of total imports). On the other hand, foreign supplies of semi-finished products and goods for further processing showed, when seasonally adjusted, a considerable drop in the second quarter. This reflected the drying up of the flow of new orders since the beginning of the year as well as the fact that industrial production has practically ceased to grow. In the third quarter this type of imports actually declined. During the final phase of the preceding boom, in 1965 until the beginning of 1966, imports of fully finished goods had also continued to increase strongly, whereas imports of semi-finished goods and products for further processing had stagnated.

At constant prices, the import growth rate for the year should reach an average 12.0 p.c. Average import values, which reflect price trends, should on the whole show a recovery for the fourth quarter from the decline they registered early in summer. Their total for this year is nevertheless expected to be about 1.5 p.c. lower in DM terms than in 1969.

In the first nine months of 1970, foreign demand for German products did not increase at the same rate as in 1969. Orders received by industry from abroad exceeded sales to foreign customers by only a little over 5 p.c., whereas in 1969 the excess of new orders over sales had on average still been roughly 14 p.c. This excess was in real terms even smaller in 1970 than is evident from the figures because the price of new orders exceeded those of the deliveries effected at the same time. The seasonally adjusted growth rate of German commodity exports steadily declined during the first three quarters of the current year. Total exports for the period were nominally 9.8 p.c. higher than in the corresponding nine months of 1969. For the whole of 1970 the growth rate will again be about 10 p.c., particularly as the fourth quarter of 1969 recorded import values at a low figure because of the revaluation of the Mark. The average annual values of exports in 1970 will be about 1.5 p.c. higher in DM terms than in 1969.

The foreign trade surplus for 1970 will therefore again reach something in the neighbourhood of DM 16 bn or roughly the same amount as in 1969.

Less Insistent Foreign Demand

From an international point of view, Germany's export position has at first sight markedly deteriorated. For in 1970 world trade turnovers again increased by about 14 p.c.—a rate of growth almost as high as that achieved in the previous year. But neither Germany's export values nor its import values have kept pace with this rate of increase. A straight comparison is however impossible, for to ascertain the value of world trade national statistics must be converted into the same currency—usually into US-\$. If this is done to the German trade figures, the result, because of the revaluation of the Mark last autumn, shows for 1970 a more than average increase in German exports of about 17 p.c. This discrepancy simply reflects the arithmetical increase in prices of German goods in world markets, caused by the revaluation.

For all that, German exports do not seem to have kept quite in step with the expansion in world trade at least as far as quantity is concerned. From this it may be inferred that it has not been possible to pass "the cost of revaluation" fully onto the foreign buyer. On the other hand, German firms with their resources fully stretched may well have welcomed a certain damping down of foreign demand, and the revaluation of the DM would thus have achieved one important result for the national economy.

An examination of the international economic circumstances in which the German export trade is likely to have to operate in the coming year can proceed from the following facts: the effects of such special factors as the devaluation of the French franc and the revaluation of the DM, which both occurred in 1969, have by now worn off; "normal" influences like the development of foreign demand, deviations in economic trends between the Federal Republic and foreign countries as well as the relative competitive position between various countries will again assert themselves.

In 1971 total demand by Western industrial countries will in all probability increase as strongly as it did in 1970 (plus 8–9 p.c.). But within this general trend certain differentiations are beginning to become apparent—differentiations which are of considerable importance for world trade. In the past twelve months, the GNP in terms of money in the United States rose by a mere 5 p.c. because of the recession. In the coming year, however, America's GNP may be expected to rise by 7 p.c. Western Europe, on the other hand, has to reckon with a slowing down of its annual expansion from 11 to 9 p.c., with nearly all West-European countries sharing in this development to a greater or lesser extent.

As far as world trade is concerned, Western Europe—in contrast to its contribution to the "world social product"—counts for much more than the United States with its commercially very much weaker international ties. Moreover, it must not be forgotten that with the resources of Western Europe less fully stretched, the slower pace at which total demand expands will more than proportionally affect imports after they had soared out of all proportion in 1969 and 1970. If economic trends in the other Western countries and the situation in the developing world are taken into consideration, the conclusion is that as far as world trade as a whole is concerned, the rate of expansion will decline from about 14 p.c. this year to somewhere between 9 and 10 p.c. in 1971.

Slower Growth of Exports in 1971

This prospect is not essentially affected if adjusted to the specific conditions prevailing in the Federal Republic. If one measures for instance the rate of growth of the nominal GNP in the other industrial countries of Western Europe weighted by their share in Germany's foreign trade, (in 1969 they took no less than 69 p.c. of Germany's exports), one arrives at the conclusion that the rate of expansion in over-all foreign demand is likely to decrease from

10 p.c. in 1970 to 9 p.c. in 1971. In assessing the effects of this change, one must bear in mind that imports will probably react to it more than proportionate.

On the other hand, internationally there are also certain tendencies which point to a strengthening of the relative position of German exporters in the world market. There is for one thing the fact that the discrepancy in economic trends between Germany and the other countries is becoming less pronounced. For whereas the boom had previously made greater claims on the resources of the Federal Republic than on those of most other countries, a change in the situation may soon be expected now that demand is growing at a slower pace in Germany as well. Besides, the deliberate weakening through revaluation of Germany's competitive position was a once-only factor. In the coming year, the internal tendency for prices to rise, measured by the so-called price index of the GNP, should be not more—but also not less—pronounced in the Federal Republic than in the other industrial countries.

Increase of Exports Expected for the Second Half of 1971

German exports will therefore on the whole grow less in 1971 than they did in 1970. As 96 p.c. of the Federal Republic's exports consist of industrial goods, the present state of export order books already provides a certain clue to the likely export trend in the first six months of 1971. Since last spring, orders in hand have decreased slightly, but exporting firms and particularly those selling capital goods abroad, which account for more than 50 p.c. of total exports, still have enough unfilled orders to keep them busy during the first half of the new year. It can therefore be assumed that exports which up to now have still been increasing slightly will continue to do so in the coming six months.

Differentiated Import Trends

However, the second half of 1971 may already witness some revival of foreign demand from Western Europe which Germany will be in a better position to satisfy as by then home demand should have slackened, and less pressure from the home side should make firms devote more attention to their foreign customers. It is therefore probable that exports will rise more strongly in the second than in the first half of 1971. On an annual average, a nominal growth rate of 8 p.c. may be expected as compared with 1970. In the course of 1971, average export values will probably rise more slowly, though their annual

mean increase should not be less than in 1970, when it was 1.5 p.c.

The real growth of the Federal Republic's GNP should slow down in the coming year to roughly 4 p.c. The rate of increase of industrial production particularly responsive to cyclical trends which in 1970 still amounted to about 8 p.c. will even be reduced to about half. The slowing down will be reflected especially in the demand for foreign primary products. Stocking up to any appreciable extent is not to be expected, and purchases of raw materials, semi-finished products and goods requiring further processing are unlikely to exceed the requirements of current production. The one exception should be finished goods which account for roughly one third of total German imports. Imports of this category of goods are expected to continue to rise strongly in 1971. Total commodity imports should in terms of real values increase by approximately 8.5 p.c. over the year. Average values of most commodity groups will continue to rise, to about 1 p.c. above the 1970 level. The above assumptions would appear to entitle one to expect for the Federal Republic a foreign trade surplus for 1971 amounting to roughly DM 15 bn.

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