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Article — Digitized Version

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Intereconomics

Suggested Citation: Diekmann, Achim (1971) : Leading export-position endangered, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 06, Iss. 2, pp. 49-52,
<https://doi.org/10.1007/BF02926069>

This Version is available at:

<https://hdl.handle.net/10419/138444>

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Leading Export-position Endangered

by Achim Diekmann, Frankfurt *

Through fifteen years, German automobile industry has maintained its uncontested lead among motor trade exporters of the world. In 1970, German motor manufacturers have sold about 2 mn motor vehicles, more than half of their inland production, in foreign countries. Together with the exports of car and lorry trailers, coachwork, and parts, their exports reached an overall value of DM 17,300 mn, nearly 18 p.c. of the entire export of German manufacturing industry. These exports secure employment at present for almost 750,000 persons.

Leading Position

German automotive exports owe their leading position, in the main, to the creation of an efficient sales and service organisation, which started early in the fifties and was continued in a deliberately planned manner in practically all the West European and many overseas countries. The high quality maintained by the German service organisation has helped to shape the image of German automotive industry abroad at least as strongly as the quality of its products. The advance of Germany's products into world markets was, at the same time, facilitated by a moderate policy on prices and, in the fifties, by a largely defensive sales strategy of both British and French car makers.

Development Stages of German Motor Exports

After the last war, German motor exports developed in two clearly distinguishable stages: the first of these lasted approximately from 1949 to 1959, when the industry gradually built up its worldwide sales organisation. Export growth, at the same time, was highly remarkable in every respect. And simultaneously, regional distribution of these exports underwent a gradual change, reflecting the turn of German manufacturers from

the European markets, which they naturally were concentrating upon first, to the outlets they could find overseas. Early in the fifties, about 75 p.c. of all vehicles sent abroad ended up in European markets, but in 1959, German motor manufacturers marketed almost 60 p.c. of their exports outside Europe, and half of these overseas deliveries were for the United States. In spreading their risks widely, they thus managed to set up a well-balanced export structure.

During the second stage, growth of German vehicle exports slowed down. Among the causes of this change were the growing transfer of production to foreign markets and the gradual disappearance of the relative cheapness of German production, whose costs had been relatively lower than those of its competitors during the fifties. Already in 1961, German motor vehicles manufactured outside the Federal Republic totalled more than 100,000, and now this figure has reached more than 500,000, which means that every fifth German vehicle sold abroad is also made there. This shift of emphasis, naturally, puts the brake on the expansion of exports of finished vehicles. From the early sixties, the mounting pressure of rising costs in Germany added to the forces holding back German export growth. The trend of production costs has not ceased to go up since then, and the revaluation of the West German currency in 1961 also largely abolished the superior cheapness of German products, relative to the prices of foreign products which were now pressing progressively for access to world markets. Fortunately, the powerful upsurge of demand for new cars both in Europe and in the US helped to overcome relatively quickly the threat of stagnating exports, but the downward trend of export growth rates continued. For the first time, some of the vehicles sent abroad remained unsold in 1966. Growing inventories forced German vehicle builders to cut down on deliveries in 1967. This was the first occasion on which German automotive exports

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have actually declined after the war. Admittedly, the ground lost was largely regained in 1968 and 1969, but the trend towards a flattening-out of export levels had by then become unmistakable. Another DM revaluation, coincident with further massive increases in costs, should, without doubt, be a serious handicap for future growth.

There were, however, no relevant changes in the geographical distribution of German car exports during the last four years. During the first half of the sixties, European markets became temporarily more important, but now about 50 p.c. of all exports go to European countries, almost 40 p.c. to North America, and 10 p.c. to all other overseas countries.

Determinants of Future Export Volumes

Export volumes which may be possible in the future, and their geographical distribution, will be dependent on three factors:

- ☐ the speed of market growth in the various outlets;
- ☐ the share of such markets which German automotive industry can secure and maintain;
- ☐ the extent to which manufacture of German vehicles will be transferred to foreign production plants.

We shall try to discuss the chances of German automotive exports under these headings.

In comparing developments over the last ten years in the automotive market in North America, in Europe and in all other overseas markets (excluding Japan), we find a marked shift in their relative importance: North American markets are gradually losing in weight. Both in Europe and in non-North American overseas markets (excluding Japan), the numbers of newly registered motor vehicles have approximately doubled between 1960 and 1969, but new registrations in the US and in Canada at the same time grew by barely 50 p.c. If this development continues, automotive sales in Europe will surpass those in North America by the middle seventies, at the latest. And the gap between other overseas markets and North American sales outlets will have further narrowed by 1975. This shift will be of increasing importance for German automotive exports, as time goes on.

European Markets

In viewing first the European market, we find that German motor manufacturers are in a relatively strong position there. Almost every third vehicle

sold in Europe over the past ten years was of German provenance. Assuming that total European motor vehicle sales will rise, over the next five years, to about 11 mn units, German vehicle makers, provided they manage to maintain their existing markets shares, may be able to sell a total of 3.8 mn vehicles in Europe, and certainly no more than half of this total within the Federal Republic. On this showing, this leads to the purely arithmetic conclusion that German vehicle sales in all the other European countries would grow currently 1.1 to then 1.9 mn units annually, or by almost 73 p.c. However, this does not mean that all the "German" cars and commercial vehicles sold in other European countries must necessarily come from production plants on German soil. Already in 1969, there were Belgian, Spanish and Portuguese makers of German cars, owned and operated by German automotive manufacturers, which produced much more than 300,000 vehicles, of which 120,000 were supplied to the Federal Republic, a small number was exported to countries overseas, and an estimated 150,000 sold in non-German European markets. If not for other reasons, the desirable spreading of risks will lead to further decentralisation of manufacture within Europe. There also are other advantages in non-German locations: from the middle sixties, German production plants have been suffering from a disproportionate growth of their labour costs, which will without doubt help to speed up the exodus from Germany.

It is exceptionally difficult to make firm predictions about European developments under these conditions, but it is certain that the existing trend towards growing German deliveries of finished vehicles, but also of trailers and parts, to European countries will continue, especially as an effect of the gradual merging of markets between European countries with an automotive industry.

North American Markets

There is hardly less importance, compared with Europe, for the German automotive industry in North American outlets. Every fifth passenger car produced in the Federal Republic is currently being sold in either the US or Canada. In 1970 alone, 774,000 German cars representing a value of more than DM 4 bn were shipped to the two countries. German car makers may claim the merit that it was they who first opened up the North American market for imported cars. Their service organisation showed a degree of reliability unprecedented for North America, thus setting new yardsticks for the dependability of foreign vehicles. The willingness to adopt the smaller foreign cars as the second and third vehicles

owned by a single family, besides the big first cars supplied by US industry, is significantly growing in American motorists. It is not only that the purchase and maintenance costs of imported cars are lower, they are also much more handy and mobile in urban traffic jams—qualities which increase their importance progressively in the American and Canadian conurbations, where traffic densities are still rising.

As from the beginning, German-made cars have always maintained first place among the cars imported to the North American area. Apart from a passing decline in 1962, German vehicles' market shares in North America have consistently expanded over the last ten years. Yet it cannot be gainsaid that also the inroads of Japanese car makers have greatly increased there over the last five years. It is difficult to say whether Japanese successes have affected the North American sales record of German cars, but in the long run, it is certain that the two countries with the largest car output in the world after the United States will move towards a direct confrontation both in the North American and in numerous other export markets. As the Japanese home market has a restricted absorptive capacity, the export drive of the Japanese will certainly grow in intensity. But the German manufacturers will do their best to hold their position against the Japanese, which they have gradually built up in the US and in Canada. The decisive influence in this struggle will be that of the trend of production costs in the two countries. If the cost advantages of Japanese manufacturers, relative to their European competitors, increase, a shrinking German share in North American markets can hardly be avoided in the long run.

German car makers look with less apprehension at the attempts of American motor manufacturers to market their own "small cars", which—by European standards—can only be described as larger medium-sized vehicles. Though American makers intend these small cars to be a tool for calling a halt to the growing inroads of European small cars, the newcomers will probably share the fate of the earlier "compact cars", which cut into the market of the big and relatively unmanageable standard size cars of American vintage, rather than into that of the Europeans.

It may be assumed that the North American market will grow only slightly over the coming five years. If German car manufacturers maintain their present market shares in the US and in Canada, annual German car exports to this area may then hover between 800,000 and 900,000 units. Naturally, fluctuations in the general business climate,

of which the North American market is particularly susceptible, will lead to variations in this result, from year to year, and even from month to month, so that the above-mentioned figures can only be used as a working average for the five years under discussion. In the late seventies, however, it is not impossible that supplies of German cars to the North American market will be progressively effected from overseas manufacturing capacities, which will have been built up until then, notably in Latin America, by German motor manufacturers. The Mexican production plant set up by Volkswagen is already exporting spare parts for the famous "beetles" to the North American market.

Increased Local Manufacture Overseas

From the foregoing emerges the conclusion that the scope for expanding further German deliveries to the European and North American markets for cars will be limited in coming years. The question then is what may be the chances of German automotive exports to other overseas markets,

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**Dr. Alfred Hüthig
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as they will expand much more rapidly in the seventies than those of traditional motorisation in Europe and North America. During the past ten years, it must be admitted, German car exports to these areas have been marking time. During the fifties, these exports had vigorously expanded in the cases of Latin America, Africa, Asia, and Australia, but since then growth has petered out—mainly because of increased local manufacture in the most important countries of these regions. Already during the fifties, the major part of the cars sold there had been exported “ckd” (completely knocked down) and reassembled in the consumer countries.

All these countries, whose economies had in the past been exclusively dependent on agriculture, are pushing industrialisation and try to reduce their dependence on deliveries from other industrialised countries. This had moved German motor manufacturers already toward the end of the fifties to increase the so-called “local content” of their manufactures gradually in the most important consumer countries, which means the proportion of locally produced parts used in the construction of their vehicles, thus transferring a growing part of the value created by car production to the countries concerned, which had the natural effect of reducing German vehicle exports to these destinations.

Declining Importance of Direct Export

Leaving aside, for a moment, North America and Japan, overseas export chances will thus develop as follows:

□ Countries which have made most progress in changing their economic structures—which are at the same time the most important car export markets—have already set up their own automotive industries. Among them are Brazil, Argentina, Mexico, South Africa, India, Australia.

□ In some other countries, car assembly plants are fully on the way of being transformed into fully-fledged national motor manufacturing units, and this process will probably reach its goal during the seventies—e.g. in Peru, Chile, Venezuela, Colombia, Iran, Malaysia, and Morocco.

□ There are again some more countries where smallish assembly plants are already operative. Though the conditions for mounting complete production units are lacking, the size of the market being insufficient, their governments try to induce manufacturing countries to agree to transforming their assembly plants into production works, through their trade and taxation policies.

All this means that the number of markets open for automotive exports is on the decline. Whether

growing demand in the remaining countries will be sufficient for making up for the loss in export markets elsewhere—where local production is or will be starting up—may well be doubted. Business ties between the German motor manufacturers and consumer countries overseas will therefore be dominated progressively in the coming ten years by the export of knowhow, growing financial engagements, and the training of skilled foreign staff. Direct car exports will conversely decline, relatively spoken.

Japan and Eastern Europe

Two markets have so far been neglected in our discussion, though they are of great importance: Japan and Eastern Europe. In spite of the Japanese automotive industry's efficiency and high output, which was built up in a few years and has already shown its mettle in many export markets, the Japanese government keeps its market tightly protected against possible inroads of European competition. Even though existing obstacles to import are to be dismantled soon, this will not do away with the great difficulties for non-Japanese producers for entering this market by direct exports. Instead, it will be much easier to plump for cooperation with the Japanese makers of motor cars. There will, in the foreseeable future, be only very limited shipments of finished vehicles to this area.

In respect of East European markets, the high hopes roused by recent political events have little likelihood of fulfilment. True, the future significance of these markets may become vast in the end, but the chances for increasing annual exports of about 64,000 vehicles in 1969 (of which 8,500 from Germany) are very modest—because the capacity of Comecon states to pay for such shipments by exports of their own is bound to remain meagre. It is not future growth of motor exports but aid in setting up Eastern European motor manufacture which will dominate the scene also here.

Reviewing the various trends of export deliveries to various outlets, the seventies will be a decade of a further flattening of the German export curve for motor cars. During this period, automotive export volumes will be mainly determined by the capacities of the European and North American markets, as in the past. But of high importance, which must not be underrated, will be, apart from direct export, the “invisible” export of patent rights and knowhow. German motor manufacturers will, in this way, make an important contribution to industrialisation of other countries and to raising the standard of living of their population.