

Hamburg Institute of International Economics (HWWA) (Ed.)

Article — Digitized Version

German prism

Intereconomics

*Suggested Citation:* Hamburg Institute of International Economics (HWWA) (Ed.) (1971) : German prism, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 06, Iss. 9, pp. 286-288, <https://doi.org/10.1007/BF02929121>

This Version is available at:

<https://hdl.handle.net/10419/138528>

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# GERMAN PRISM

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## **Relocated or Newly Estab- lished Indus- trial Plants**

According to a study on industrial locations, made by the Federal Ministry for Labour and Social Order, in the Federal Republic and West Berlin more than 1,500 industrial plants employing together 90,000 workers and employees were relocated or newly established in 1968 and 1969. Furthermore the study shows that the Land North-Rhein-Westphalia again registered most of the new establishments, followed at a considerable distance by Bavaria and Württemberg. The leading sector were the iron and metal processing industries and the clothing industry. On the other hand, during the same period about 1,000 industrial enterprises with about 74,000 workers and employees were closed down.

## **1970: Increase in the GDR's West Trade**

The share of OECD (excluding the Federal Republic of Germany: FRG) in the trade volume of the German Democratic Republic (GDR) climbed to 10.5 p.c. in 1970 (1969: 8.8 p.c.) and that of the FRG to 10.2 (10.0) p.c. Thus the FRG was the GDR's most important trade partner, second only to the USSR. The share of COMECON was 67.3 (68.6) p.c. and the USSR's share dropped below 40.0 p.c. According to GDR-statistics its foreign trade (including trade with the FRG) reached a volume of Valutamark (VM) 39.6 (34.8) bn (1 US-\$: VM 4.20). Trade between the two parts of Germany had a volume of VM 4.05 (3.5) bn and the FRG registered an active balance of VM 0.3 (0.4) bn. For 1971 the GDR's economic plan aims at a growth rate of foreign trade of 8 p.c. vis-à-vis 1970.

## **Housing: Higher Invest- ment, Smaller Volume**

In the past year the increase of investment in housing by 15.7 p.c. to a total of DM 36.3 bn was to a considerable part a consequence of rising prices. The number of finished apartments with 477,900 units dropped by 21,800 units below the previous year's level. This trend is only little influenced by the fact that the sum total includes also expenditure for

apartments under construction at the end of the year. They numbered 622,800 units and thus surpassed the previous year's corresponding level by 96,800 units. The share of public funds in financing housing declined from 8.6 p.c. to 7.6 p.c. Among the institutional investors the building societies increased their share to 34.3 p.c. With that they provided more than half of the capital (65.6 p.c.).

## **Incoming Orders: Intermediate Boom a Prema- ture Conclusion**

In June total incoming orders of industry were 2.0 p.c. above the level of May and 3 p.c. above the previous year's corresponding value. This includes a particularly conspicuous increase of new orders booked in the capital goods sector, i.e. of 8.1 p.c. as against May and 4.8 p.c. vis-à-vis the previous year. This development has been repeatedly interpreted as an extension of the intermediate boom in spring. But this conclusion is obviously a premature one. Domestic demand in nominal terms is slightly declining since March. Adjusted for price a distinct levelling is to be noticed. This is particularly valid also for demand for capital goods — in spite of dynamic impulses originating from vivid demand for durable consumer goods (cars and electrical appliances) that are statistically ascertained as capital goods. The stimulation of foreign business in capital goods according to VDMA (Association of German Engineering Companies) is to be traced back above all to a non-recurring extraordinarily high incoming order of the shipbuilding industry. The process of a slow cyclical decline of demand mainly in the capital goods sector is, however, continuing. This is also indicated by the reduction of orders in hand (3.1 months according to Ifo-Institute for Economic Research, Munich).

## **Mannesmann Obtained Higher Turnover in 1970**

Dr Egon Overbeck, Member of the Board of Managers, stated in his address to the general meeting of Mannesmann AG the newest figures. For 1969 Mannesmann AG showed sales to outside partners to the amount of DM 5.1 bn, for 1970 this figure was DM 7.4 bn. The foundries and pipe mills contributed DM 3.2 bn and machinery and plant construction DM 1.1 bn to this

total external turnover of DM 7.4 bn. Compared with this the external turnover of the chemical and plastics-processing sectors obtained an only very moderate external turnover of DM 62 mn. The sector trade and shipping business is, however, of major importance showing a total of DM 3.0 bn, of which DM 2.0 bn were obtained with products of other manufacturers.

Fortunately incoming orders recovered again from April 1971 on, after during the first months of the year the steel-pipe market had been weaker due to the sluggish business trend. Above all the sectors machinery and plant construction as well as trade and shipping business could increase their sales. The external turnover of all Mannesmann companies at home and abroad amounted to DM 3.5 bn in the first half of 1971.

### **Family Incomes Quadrupled since 1950**

The disposable incomes of an average family in the Federal Republic (four-persons household with a medium income of the householder) has doubled every ten years since 1950.

In that year the monthly net income averaged about DM 300, rose to DM 675 until 1960 and last year amounted to DM 1,221. Of these incomes 93.0 p.c. were spent on private consumption in 1950, in 1960 this figure was 91.0 p.c. and in 1970 only 85.0 p.c. still. First 7.0 p.c., later 9.0 p.c. and now 15.0 p.c. of the average incomes could be used for saving purposes and property formation.

While in 1950 the standard household still spent 46.0 p.c. of its total expenditure on food, in 1960 and 1970 this percentage dropped to 38.0 and 30.0 p.c., respectively. The sums available for flexible consumption (e.g. car, personal hygiene, health, entertainment, education, jewellery) are of particular interest. This share in total consumption increased from 24.0 p.c. in 1950 to 38.5 p.c. in 1970.

### **Smaller Growth of Power Con- sumption in the 1st Half of 1971**

Power consumption in the Federal Republic of Germany expanded by only 2.0 p.c. in the first half of 1971 as compared with the first six months of 1970.

According to calculations

of BP Benzin and Petroleum AG—taking into consideration the data so far available—power consumption increased from 168.9 mn tons of hard coal units (SKE) to 172.3 mn tons of SKE.

Two factors should have been responsible for this comparatively lower growth rate: the business trend and the temperature. Due to the close connection between economic growth and power consumption the declining boom justified the anticipation of a lower growth rate of power consumption, too. Moreover, in the first half of 1970 the average temperature was below the long-term average while in the first six months of 1971 it hardly deviated from this value. Therefore in the first half of 1971 the demand for power for heating purposes was smaller.

### **Distinct Decline in the Iron, Sheet and Metal Industry**

In the first half of 1971 the business trend in the iron, sheet and metal processing industry distinctly weakened although a pronounced differentiation could be noticed between the individual sectors. Measured by the total volume of orders, incoming orders declined slightly in the first half of the year, so orders in hand were reduced in many enterprises. The Association of the Iron, Sheet and Metal Processing Industry (EBM) taking into consideration cost and price increases is now talking about a stagnating production in this branch, which today comprises 3,399 enterprises with approx. 392,000 workers and employees. So far prices of most EBM-products have remained stable, only in a few sectors price adjustments were the reaction on highly increased costs. In May EBM-producer prices in domestic trade surpassed the previous year's level by 6.7 p.c. At the same time export prices were a good 6.0 p.c. above last year's level.

### **Property Formation Differing According to Professions**

Property formation of the index households continued to rise in the first quarter of 1971 as compared with the previous year's corresponding period. However, the development is different for the individual types of households. The monthly property formation of two-persons households of pensioners and recipients of social security payments according to newest data of the Federal Statistical Office have risen at the surprising rate of 78.0 p.c. to DM 56.30. Four-persons households with a medium income also obtained the comparatively high growth rate of 41.5 p.c. to DM 179.38. On the other hand, in the case of four-persons households of public officials and employees with a higher income the growth rate of property formation with 9.0 p.c. to DM 379.04 was below level.

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☐ US registered ships may in future carry Chinese products between non-communist ports, and US owned but foreign-registered ships may ply their trade also on routes calling on Chinese mainland ports;

☐ In addition, President Nixon foresaw the possibility to permit direct imports into the US of Chinese goods, but before this will be possible, a "positive list" of non-strategic goods must be compiled and published, to cover permissible direct exports to China.

On June 11, President Nixon published the new regulations covering imports from, and exports, to China<sup>10</sup>. Trade goods of US origin which may be freely exported to China are broken down into 47 non-strategic groups, mainly products of farming, forestry, and fishing; tobacco; fertilisers and certain chemicals; textiles; electrical appliances and equipment; certain types of electronic equipment; motor vehicles and spare parts for them. At the time, US markets have been thrown open generally to imports from China, but subject to federal controls.

The reasons for this attempt of the US to resume closer relations with China may be deemed to be mainly the following ones:

☐ On purely pragmatic grounds, it is assumed that the two powers, after having lived in mutual isolation for 22 years, should attempt to draw nearer to each other;

☐ to continue the policy of "keeping China in quarantine" might under present conditions in the world, lead to the US becoming isolated itself;

☐ the export industries of the US have started to see more positive aspects in the trade with China.

The Government in Peking presumably believes that better relations with the US might ease China's entry into UNO. It may also be assumed that Chinese communists foresee that US recognition of their regime will form part and parcel of a general shifting of the balance of power in the Far East, which they welcome, especially regarding Taiwan and Japan, whose influence in South East Asia is likely to grow if the Nixon Doctrine is realised. The Chinese will likewise be interested in scotching any possibility of the US and the USSR cooperating closely. And finally, it may be expected that Red China does not want to be excluded from a general settlement if and when the war in Indo-China will be terminated.

### No Guarantee of Success

It is extremely difficult to forecast future developments in US-Chinese political relations.

<sup>10</sup> See *Frankfurter Allgemeine*, No. 133, June 12, 1971.

Equally difficult is any safe prediction as to what influence Washington's economic measures will have on the expansion of the China trade of the US, the more so as the change in the relations between China and the US is mainly of a political nature, whilst trade policies will initially play only a subordinate part.

Any look at China's foreign trade figures, however, will make it clear that the violent quarrel between the USSR and China, which broke out in the early 'sixties, has caused a shift in Chinese trade relations towards western countries (see Table 1), though the People's Republic of China, relative to its sheer geographical vastness, its enormous population, and the size of its internal trade, carries on a foreign trade of negligible proportions.

The further China's economy progresses, the stronger will be the likelihood that, similar to East European states, the Peking Government will realise that foreign trade induces economic growth, and will use this potency. Provided that political conditions remain stable, the share of non-communist states in China's foreign trade will continue to rise. This assumption seems justified, because the USSR is currently deemed to be the People's Republic of China's most dangerous opponent, and because the West will have a much larger capacity to produce and supply the goods required by Peking.

### Future Prospects of US-Chinese Trend

By request of the Committee for American-Chinese Trade, Professor Dernberger has developed forecasts about trade trends up to 1980 likely to prevail in US-Chinese relations. Assuming favourable conditions, he expects annual Chinese imports from the US to the equivalent of US \$ 650 mn, and Chinese exports to the US of \$ 250 mn. Presumably, Red China will export mainly farm produce and import principally industrial equipment, machinery, and mineral raw materials. Provided commercial exchanges between the US and Red China develop as predicted, trade relations between the Chinese People's Republic and other western countries cannot fail to be affected, especially in regard to transit trade through third-party countries, which will then go the direct way<sup>11</sup>.

But even the most optimistic assessment cannot hold out a prospect of large-scale US trade with Red China for the near future, nor will it be possible, in view of the possible volume of such transactions, to derive sizeable advantages for the US balance of payments from such trade.

<sup>11</sup> For details, see *The Journal of Commerce*, New York, No. 22,390, March 1, 1971; *The Wall Street Journal*, New York, No. 48, March 11, 1971.