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## Trade Strategy towards the Third World

by Helga Steeg, Bonn \*

**It is of paramount importance to expand the trade of less developed countries (LDCs). The Federal Government of Germany, being fully aware of this vital need, has created a number of effective instruments designed specifically to promote imports from these countries. The policy underlying all these measures is one of progressively liberalising foreign trade by the removal of barriers obstructing that trade.**

As far as the LDCs outside Europe are concerned, the most important national market in the European Economic Community is the Federal Republic of Germany. Since 1962 imports from LDCs have doubled, reaching in 1972 a total value of DM 19.6 bn — a new record. During the same year German exports to LDCs represented a total value of DM 17 bn. This means that in 1972 the LDCs in their trade with the Federal Republic earned an overall foreign exchange surplus of DM 2.6 bn — the best annual result so far. Taking the period since 1962 as a whole, Germany's — structurally conditioned — unfavourable trade balance with the LDCs has resulted for the latter in the acquisition of DM 30 bn worth of hard currency. This is an important contribution towards realising a strategy of aid and trade.

### **Aid and Trade Strategy**

From the experiences made during the United Nations' first development decade and the first two years of the second decade one conclusion clearly emerges: Development aid by itself is incapable of raising living standards in LDCs. For that an expansion of their foreign trade is essential, if they are to be enabled to stave off starvation, cope with unemployment, improve their backward training facilities, alleviate their shortages of capital and foreign exchanges, reduce their indebtedness and solve the many technological and entrepreneurial problems they will have to face in developing their industries. LDCs must be more closely integrated into the world economy, if they are to share in the advantages to be derived from the international division of labour.

For it is largely through this international division of labour that the Western industrial countries have been able to achieve their remarkable progress in the fields of trade and technology. By carefully siting their industries in the best pos-

sible locations and progressively reducing production costs through selling their goods in ever larger quantities in markets which a policy of trade liberalisation had made increasingly accessible, the industrial countries have been able to make optimum use of all production factors. International trade creates jobs and through worldwide competition leads to greater efficiency all round; structural adjustments become inevitable — adjustments which can be made only by making use of the most advanced technology. International trade has always been, and still is, the motive power without which no national economy can achieve a strong and healthy growth.

### **Export-oriented Industrialisation**

The LDCs in the past shared in these advantages to only a limited extent. Their economic structures are for historical reasons predominantly raw-material oriented. World demand for most of these raw materials increases considerably more slowly than that for industrial goods, especially as primary products are exposed to competition from substitute materials, the production of which has been made possible through modern technological advances. One exception is crude oil. As a source of energy and basic raw material of the petro-chemical industry it is in constantly growing demand. Here, the buyers' market has turned into a sellers' market.

But, speaking generally, the LDCs can achieve substantial increases in their foreign trade only by stepping up their industrial exports, this being the only way open to them to obtain the foreign exchange they need to pay for the capital goods they must import. Besides, the markets of most LDCs are so narrow that their possibilities for stepping up their economic activities are extremely limited. Admittedly, there is scope for developing regional markets in Asia, Africa and Latin America — and Germany is doing what it can to support efforts in this direction —, but

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regional markets are no alternative to higher exports to the markets of the industrial countries with their great purchasing power, if the second development decade is to be a success. Only in the industrial countries is trade sufficiently liberalised to make access to their markets possible.

Fortunately, quite a number of LDCs have already achieved remarkable successes with an export-oriented policy of industrialisation. Brazil, Hong Kong, Israel, Korea, Mexico and Singapore have all been able to increase their exports of semi-finished and finished goods by up to 25 p.c. a year. In this way they managed to achieve in the years from 1968 to 1972 increases in their GNP by 8.4 p.c. These countries have above all exploited their particular advantage inherent in their location, while in all other LDCs insufficient attempts have as yet been made to put similar advantages to good use — the availability of an enormous reservoir of labour which could be employed at markedly lower wages than those payable to workers in industrial countries. In labour-intensive sectors of industry such as sports goods and toys, shoes and leathersgoods, textiles, garments, musical instruments, the woodworking industry and the sectors of food and drink production, the above-mentioned countries have already given convincing proof of their international competitiveness by gaining a firm foothold in the German market.

It is one of the most important tasks of the international community to support the LDCs in their efforts to establish export-oriented industries and to improve their chances of gaining access to foreign markets through a further liberalisation of world trade.

### **EC System of Preferences**

The Federal Government, fully realising the importance of such a policy, has taken far-reaching steps on its own, while supporting supplementary actions by the Economic Community, with a view to making the large purchasing power of the German market accessible to the products of the LDCs, particularly those of the semi-finished and finished kind. Of the 7,141 tariff positions referring to industrial goods 6,857, i.e. 96 p.c. have already been fully liberalised. On May 9, 1973, the Federal Government decided to take yet further trade measures which should be helpful to the LDCs, although their purpose was primarily to stabilise prices at home. Together with the tariff preferences which the EC has been granting since July 1, 1971, a further dimension has been added to the policy of aid through trade, particularly as other industrial countries have since been following the example set by the EC. Contrary to the principle of most-favoured nations treatment laid down in GATT LDCs are now by and large

able to export their industrial semi-finished and finished goods duty free. Moreover, import duties on a number of farm products have been lowered. This gave the developing countries measurable competitive advantage over their rivals from the industrial countries. During the first eighteen months of this regime, Germany has been importing from the developing countries duty-free goods to the total value of DM 1.1 bn. Improvements in the preferential tariff system of the EC, and particularly the inclusion of processed farm produce are at present under discussion.

Not only the majority of the LDCs, but also the above-mentioned countries exporting semi-finished and finished goods are still not in a position, despite financial and trade political aid, to make full use of the chances now open to them in foreign markets. Being newcomers in the world trade, their products are still frequently inferior to those of their competitors in the Western states and the Socialist countries. They may not be up to standard as far as quality and design are concerned, they may be insufficiently adaptable to changes in consumer habits, their range may not offer a wide enough choice, deliveries may not be satisfactory or the after-sale services may not be up to expectations. Besides, manufacturers in Africa, Asia and Latin America suffer from an additional handicap — the great distances that separate them from their potential markets in the industrial countries.

The Federal Government of Germany, within the general framework of its policy of promoting trade on the lines of a free-market economy, has therefore created further instruments, specially designed to help LDCs to overcome the difficulties described above.

### **Information and Contacts**

One effective way of helping LDCs to increase their exports to Germany is to provide the German economy with relevant information about what the LDCs are capable of supplying and to make available to would-be exporters in the LDCs all the data they require about the German market. For this dual purpose a Government Agency has been set up with a view to making the market situation as clear as possible. It functions in addition to the traditionally good relations which exist in any case between the German business world and their overseas partners. The Agency's name and address is: Bundesstelle für Außenhandelsinformation (BfA), Cologne, Blaubach 13. BfA bases itself on the experiences gathered since the fifties, when the Federal Republic successfully carried out its export strategy designed to recapture the export markets which had been lost after the war. BfA has a network of own representatives working in most LDCs

who supply headquarters with information about what their particular country is capable of supplying. The data thus obtained are then further processed in the Organisation's Central Office and passed on weekly to interested German firms. There have been many cases in which, in addition to the information supplied, business contacts have been initiated between German firms and manufacturers in LDCs of new products which had hitherto not yet been exported.

BfA also publishes market analyses of interest to specific export branches in individual LDCs. Special booklets in English, Spanish and French give a general view of all aspects of the German market of interest to exporters abroad. These are distributed by BfA's own representatives, but they are also obtainable free of charge at the German Embassies or from the Organisation's headquarters in Cologne. Certain foreign firms anxious to establish business contacts receive these publications direct. For the LDCs BfA is the central point at which would-be exporters to Germany obtain their initial information on the problems they will be facing when trying to gain a foothold in the German market. BfA also participates in multilaterally undertaken export promotion measures, working in especially close liaison with the "International Trade Centre of UNCTAD and GATT" as well as with UNIDO.

### **Participation in German Trade Fairs**

As intermediaries between exporters from LDCs and potential German, European and overseas buyers the 85 German specialised and general trade fairs fulfil a very useful function. The Federal Government helps exhibitors from LDCs financially to show their products at these fairs. Not only does the Government pay part of their material expenses, particularly those involving the outlay of foreign exchange; it also places at their disposal the services of German experts whose job it is to advise exhibitors from LDCs, particularly in matters concerning business transactions. These grants in aid to cover part of the exhibitors' costs — totalling to date DM 4 mn — can also be linked to different kinds of export promotion. It is for instance possible for a would-be exporter in an LDC intending to exhibit at such a fair to ask the resident representative of BfA to help him with his expert advice, or investigate the chances of selling certain products on the German market.

One of the most important among these fairs is the overseas fair which is held under the slogan "Partners of Progress". This year it will take place for the eleventh time in Berlin — from September 21 to 25. Last year 484 firms from 52 developing countries — Latin American, Asian and African — exhibited at this fair, while another 394

firms and organisations were represented. "Partners of Progress", being organised by Ausstellungs-Messe-Kongress-GmbH, Berlin, and state-financed, gives the most comprehensive view in Europe of what the Third World is able to supply. It serves many LDCs as a testing place and also as a starting point from which to tackle the German and other European markets; it is also a suitable place to gather the necessary experience for future showings at one or the other of the numerous specialised fairs.

Business done at the 1972 fair is estimated to have totalled some DM 150 mn, with particularly brisk sales in hardware and household goods, electrical equipment, textiles, garments, shoes, leathers, carpets, toys, arts and craft products, and furniture. This year, the organisers of the Fair in conjunction with the Bundesverband des Deutschen Groß- und Außenhandels (Federal Association of German Wholesalers and Foreign Traders) are to hold special conferences for the following product groups: timber, Turkish towel-ling and precious stones. At these conferences German importers will be exchanging views with overseas exhibitors about problems concerning the possibilities of exchanging goods and of other forms of cooperation. Price, transport and marketing problems will be discussed as well as product quality. In this connection special attention will be given to the question of what overseas manufacturers should do to meet the special needs and tastes of the European consumer.

### **Aid to Promote Exports**

The Federal Government uses some of the funds allocated for development aid to promote the setting up of export industries. The amounts promised for this purpose to date total DM 1.4 bn. Private investments, too, can make valuable contributions to the realisation of such schemes. They introduce into LDCs not only capital but also know-how which makes it easier to mobilise domestic resources. It is an indisputable fact that LDCs with a favourable investment climate have been able to make considerable progress in their endeavours to sell their manufactures on the world markets.

As far as technical aid is concerned, designed to help increase exports, Germany has so far spent DM 225 mn. This type of expenditure ranged from the training of experts in foreign trade to the development of products and finally to marketing.

From among the multitude of projects we should like to pick out one — the programme designed to raise German imports from India. Within the framework of an intergovernmental agreement, which ran from 1967 to 1971, help was given in

the following spheres: market research; the establishment of contacts; advice on technical and managerial aspects of running a business; help to Indian exporters wishing to take part in trade fairs and exhibitions as well as the training of Indian export experts. As a preliminary step, India's export potential in general and its chances to sell its products in Western Europe, and especially on the German market, were thoroughly examined. The German experts, in carrying out this examination and advising the relevant Indian business and export organisations, adopted an entirely neutral position.

As a result of this programme — the first of its kind to be jointly carried out by an industrial and a developing country — India was able to increase its exports of "non-traditional goods". An essential pre-condition for achieving still better results in the future is that the Indian export industry becomes yet more ready than in the past to explore sales chances in the European markets and to exploit them to the full. The German and Indian Governments are at present negotiating a new export promotion programme so that the promising results already achieved so far can be exceeded in the future.

#### **German Industry's Own Efforts**

In an economic system such as the German, the buying habits of the industrial processing industry and the consumer have an essential influence on the assortment of goods on offer. New products reach the market in a steady stream, while traditional goods become less important. This dynamism constantly opens up new chances for the exporting countries to exploit. Because of the highly specialised nature of the German economy the channels through which products reach the consumer are diverse and subject to constant change. It is nowadays the exception rather than the rule that a producer can offer his goods direct to the ultimate consumer. This makes marketing ever more complicated for exporters, especially those in LDCs. This is why they need good contacts with the German trade and German industry; these contacts are the key to a successful export policy.

The German business community has a multitude of trade links with LDCs. The traditional import trade, the wholesalers, the large retailers who import direct, such as the big department stores, the central buying organisations of the co-operatives and those industries that buy their supplies direct — these are the LDCs' main customers. In all these spheres there are specialists whose job it is to see that the goods from LDCs reach the ultimate consumer by the best possible route. Mention must also be made of the thirty or so independent offices which have been set up in Germany by LDCs in Africa, Asia and Latin America.

To make it easier still for the LDCs to gain access to the German market, the Bundesverband des Deutschen Gross- und Aussenhandels in Bonn, Kaiser-Friedrich-Strasse, has established a Contact Centre. This office, which has the financial support of the Federal Government, has been set up to promote imports from LDCs. There offers from suppliers are collected and direct contacts arranged between suppliers and potential German buyers. The main emphasis is laid on semi-finished and finished products. More than 3,000 German firms specialising in foreign trade are members of the Contact Centre. A similar system of centralised cooperation with LDCs is in process of being set up by the Deutscher Industrie- und Handelstag — the umbrella organisation of the German Chambers of Industry and Commerce.

#### **Import Promotion by the EC**

In addition to the German measures to stimulate imports from LDCs the same problem has also been discussed within the EC. These discussions have now entered a new stage with the decision — which still requires approval by the Ministerial Council — to set up an organisation for the promotion of exports from the LDCs to the countries of the European Community. It was primarily the Federal Government which, encouraged by its own national experience in this field, had been urging the Community, which in this sphere has the power to act, to try a new approach. The main idea is to help the LDCs to make the best possible use of tariff preferences granted them by the European Community. In addition, the various

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national import promotion measures are to be coordinated with a view to making it easier for the LDCs to gain access to the whole of the West European market.

### Multilateral Agreements

As part of its economic policy, the Federal Government of Germany will continue in future in its endeavours to integrate the LDCs progressively into the international division of labour. But the efforts of the LDCs to increase their exports and the German measures to encourage imports from these countries can ultimately be successful only within the framework of a stable trading and currency system. This order has of late been threatened by a world currency system which is becoming increasingly brittle. To ward off the dangers inherent in this situation, all countries interested in world trade are seeking, via the International Monetary Fund, to bring the Bretton Woods Agreement into line with the changes in the relative importance of the various factors governing world trade and international payments. The Group of Twenty, within which industrial and developing countries work together as equal partners, is at present engaged in elaborating a new concept.

In the field of world trade, it is hoped that the forthcoming multilateral trade negotiations to be held under the auspices of GATT will give a fresh impetus to international trade in the direction of further liberalisation. It is the declared intention of the initiators of this new round of GATT, the EC, the USA and Japan, to make these negotiations really comprehensive so that they may lead to an expansion and further liberalisation of world trade and thus be instrumental in raising the living standards of the peoples of the world. These high aims can be realised however only if the negotiations result in concrete measures which will enable developing countries to expand their trade. One first step in this direction is the decision taken by the members of GATT on the initiative of the EC to admit LDCs to the forthcoming negotiations as full and equal partners, even if they are not parties to GATT.

### EC's Responsibilities

The EC as the largest trading partner in the world must live up to its responsibility to see the international trade relations develop harmoniously and in the direction of greater freedom. In the German view, the Community should take the stand that industrial countries should not expect from the LDCs any concessions in return for favours granted, at least no concessions which impede those countries' own development or are incompatible with their financial or trade needs. Moreover, tariff preferences granted to LDCs should be further improved and extended. Non-tariff obstacles to trade – import quotas among them – should be dismantled with greater speed in the case of products which are exported by the LDCs. In the German opinion, concessions which LDCs make to each other need not be granted also to industrial countries. Finally, all negotiated concessions should in advance be put into operation in favour of LDCs.

Special measures of this kind and others will help the LDCs to go on expanding their trade, especially with the industrial countries of the Western world. Already today their trade with the Western industrial countries brings them 70 p.c. of their export earnings, and that trade is growing at the annual rate of 7.5 p.c. This rising trend should become more pronounced still because Western Europe, Japan and the USA are in the middle of a rising trade cycle and this cyclical upturn is expected to continue into 1974. The Government of the Federal Republic of Germany will go on supporting the LDCs' own efforts, while doing its best to ensure that the large purchasing power of the German market remains an important source of foreign currency for our partners overseas.

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