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Economic Relations with East Asia

While in 1975 the Federal Republic's total exports, in consequence of the international recession, shrank by 4 p.c., its exports to East Asia showed with 12 p.c. a far more significant decline. We asked Dr Hans Leibkutsch, Chairman of the East Asia Association (Ostasiatischer Verein: OAV), questions concerning — among other aspects of the Federal Republic's and the EC's trade relations with East Asia — the causes for this adverse development.

IE: Dr Leibkutsch, what importance attaches to the countries of East Asia as economic partners of the European Community and the Federal Republic of Germany?

LEIBKUTSCH: The countries of South, South-east and East Asia are certainly of greater importance as economic partners of the European Community as well as the Federal Republic of Germany than appears from a glance at the foreign trade statistics. In 1975 for instance the German trade with the countries covered by the OAV (from India to Japan, from Mongolia to Indonesia) accounted for no more than about 5 p.c. of the entire German foreign trade; the share of these same countries of South, South-east and East Asia in the total external trade of the EC in the first nine months of 1975 was even smaller — about 4.4 p.c.

It seems to me however that the foreign trade with and within the EC should be disregarded in this context so as to obtain a more accurate picture of the economic importance of the outlined region both for the Federal Republic of Germany and for the EC. If this is done, its share rises to 9.3 and 8.6 p.c. respectively. Even these figures do not tell the whole story. An analysis by

categories of goods would show, besides, that for a large number of imports the countries of South, South-east and East Asia are by far the most important suppliers of the world market; mention may be made of such important raw materials as natural rubber, tin, tropical woods, palm-oil, copra, spices, tea, silk, etc., and also of manufactures like textiles and clothing, pocket computers and transistor radios, tinned asparagus and mushrooms. The picture on the export side would be similar.

Moreover, many firms in the EC states, including German firms, are maintaining in the region manufacturing plants either as subsidiaries or through joint enterprises with local partners.

In this way they are playing a part in the big Japanese market just as in the markets of the developing countries in the region, making use of the cost advantages, especially in regard to the factor labour, for their world market-orientated production.

Finally, the financial centres of Tokyo and Singapore have an importance for the European and German economies which must not be underrated.

Whatever the importance of the region as an economic part-

ner may be at present, it will undoubtedly be even greater in future. Western Europe, and the Federal Republic as well, would be well advised to adapt their foreign and foreign economic policies to this prospect today already — and so would individual firms. For this region, with its immense and in part exceedingly industrious population and its wealth of raw materials, has a dynamic potential which should not be underestimated. It is certainly no coincidence that several of the developing countries in this region are among the most dynamic economies in the world.

IE: The German exports to East Asia last year declined much more than the total exports of the Federal Republic. To what causes do you attribute this development?

LEIBKUTSCH: The German exports to Japan — which fell in 1975 by DM 893 mn or 27.5 p.c. compared with the preceding year — account for more than three-quarters of the decline of German exports to East Asia. The simple explanation is that Japan was also hit hard by the world-wide recession. The exports of investment goods and productive equipment suffered most. Moreover, the deterioration of Japan's economic situa-

tion had an indirect adverse effect on the German export trade with the whole of East Asia because Japan is, next to the USA, by far the most important customer for this region and last year reduced its imports — both of consumer goods and of raw materials — from the other countries there quite considerably. The natural consequence in most countries of the region was that the foreign exchange situation worsened and firms were less willing to invest, so that the demand fell off, especially for German investment goods and productive equipment. Consumer goods are being exported by the Federal Republic on a very modest scale only to East Asia (apart from Japan).

IE: The external indebtedness of the non-oil exporting developing countries has again come to the fore of late in the discussion about development policy. To what extent does this problem affect the developing countries in East Asia?

LEIBKUTSCH: With the exception of Indonesia and tiny Brunei, all developing countries in South, South-east and East Asia have been directly hit by the enormous oil price increases of the last few years to such an extent that their foreign exchange position — in most countries already under a strain — has become even more precarious. There are also the indirect repercussions, for instance the increased cost of fertilizers derived from petrochemicals which are urgently needed for agriculture. In 1974 countries like South Korea, the Philippines, Thailand, India, Sri Lanka and Bangladesh have had to spend on crude oil and oil products no less than 15–20 p.c. of the foreign currency on which they could draw to pay for imports; the import prices had about trebled compared with 1973. Needless to say, these monies

are no longer available for financing the general development process. Advances in industrialization will add to the energy requirements.

The example of North Korea shows that socialist countries without oil sources of their own have also been hit hard by the oil price explosion; the external debt of this country poses an extremely grave problem.

IE: Do you see a need for further liberalization of the import regime of the European Community in relation to the developing countries, and what form could it take?

LEIBKUTSCH: The large external indebtedness of many developing countries makes it in my view inevitable that they are given the chance to increase their foreign exchange earnings through exports. The European Community is the greatest participant in world trade by far and therefore bears a special responsibility which extends to the solution of the foreign exchange problem facing the developing countries.

For this reason alone must the European Community definitely liberalize its import regime further.

The EC has certainly not been idle in the past. On the contrary, significant concessions have been made to the large majority of developing countries in the framework of the system of generalized tariff preferences. A crucial drawback of the system as it operates is however that countries which are particularly strong suppliers of certain industrial manufactures regularly come up against the upper limit of their ceiling early in the year and thereafter have to surmount the normal tariff barrier. This fact of course detracts from the value of the preferential tariff system exactly for those countries which could profit from it.

For this reason I enter a plea to replace the principle of duty exemption for limited quantities by preferential tariffs which would have to be offered for unlimited quantities. This is the only way in which, to give an example, the sales plan for a new plant project in a developing country could be put on a sound basis.

Another import alleviation should be provided under the EC's export self-restraint agreements with a number of developing countries, including a number in East Asia in particular, in the context of the world textile agreement: the global items should be done away with and the sub-headings should not be so detailed that the inflexibility of the agreements prevents the supplying countries from coping with, say, a change of fashion within the overall quota limit even though the merchandise may be available.

It should be mentioned that the EC's policy in the agricultural sector has markedly protectionist traits and needs liberalizing, too.

IE: In what other ways could the EC and the Federal Republic help to satisfy the financing requirements of the developing countries?

LEIBKUTSCH: Owing not least of all to the Lomé Convention the EC's Community development policy is essentially focused on the developing countries in Africa. There is little left in the circumstances for significant financial help to other developing countries. However, because this is the case, the Federal Republic should not try to concentrate in its capital aid as well on Africa. It should counter this regional bias of the EC instead of adding to it and, for instance, increase rather than reduce the volume of capital aid to developing countries in Asia.