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Trade Opportunities with the East

Interview with Dr Johann B. Schöllhorn, State Secretary in the Federal Ministry of Economics and Finance, about the future trade chances between the Federal Republic and the socialist countries of Europe.

Dr Schöllhorn, a year has passed since the Treaties of Moscow and Warsaw were signed. Would it be correct to speak of an appreciable improvement in the atmosphere between the Federal Republic and the socialist states of Europe?

It can, I think, hardly be denied that the signing of the Treaties of Moscow and Warsaw has had a positive effect on the atmosphere between the Federal Republic of Germany and the countries of eastern Europe. To turn at once to the economic relations with these countries, which form part of my sphere of duties, I am convinced that although the contents of these treaties are primarily of a political nature, a normalisation of our political relationship with eastern Europe will impart fresh impulses to the extension of economic cooperation which is our aim.

Have new commercial agreements reflecting this improvement of atmosphere been concluded with the countries of

eastern Europe in the past twelve months?

Conclusion of new Trade Agreements

The Federal Government began already before the end of 1969 to negotiate with countries of eastern Europe about the conclusion of long-term trade and cooperation agreements. The agreements which have since been reached with Romania, Poland, Hungary, the CSSR and Bulgaria have put our economic relations with these countries on a new basis. A first round of negotiations with the Soviet Union has likewise taken place, and I hope that we shall soon be able to conclude an agreement with the Soviet Union as well.

To what extent has West Berlin received consideration in these agreements?

It is of course our aim to see the unity of the economic and monetary area embedded in the trade and cooperation agreements. With the socialist states with which agreements were

achieved we have found a satisfactory solution to this problem. With regard to the Soviet Union a solution has so far eluded us, and this is one of the reasons why we have as yet been unable to reach a conclusion of these negotiations. The four-power agreement however is opening very favourable prospects in this respect.

In what categories of German goods are the socialist countries chiefly interested?

Investment goods, especially machinery and equipment of a high technical standard, are of the greatest interest to eastern buyers. The investment goods sector accounts for more than two thirds of all eastern purchases from the Federal Republic. I would like to add however that we should greatly welcome an improvement of this somewhat lop-sided composition of our goods exports through larger purchases of consumer goods by the countries of eastern Europe. And I also believe that, as the standard of living continues to rise, the absorptive

capacity of these markets and the demand for German consumer goods will increase.

Do you discern in the new Five Year Plan of the Soviet Union any indication of larger purchases of German consumer goods in the future?

I think, yes. We have talked a great deal about this wish to diversify our export trade with the Soviet Union; we did so when the German delegation under Minister Schiller paid a visit to Moscow.

The Problem of Bilateral Trade Deficits

In the past it has been particularly difficult for some of the states of eastern Europe to counterbalance their trade deficits with the Federal Republic. What can the Federal Republic do to facilitate the placing of contracts for goods from eastern Europe and thus counteract the problem of the bilateral deficits?

The Federal Government has been endeavouring for years to remove as far as possible the import restrictions on goods from eastern Europe which still exist. Today about 81 p.c. of all industrial items according to the statistical classification are already exempt from quantitative restrictions. In the long-term agreements which I mentioned we promised to continue this policy of liberalisation. We have, it is true, reserved the right of maintaining the quota system for a longer period in certain sectors which need protecting. That has in part to do with the efforts to unify the trade policy in the European Community. In the course of these efforts a hard core of goods for which some restrictions must be maintained will no doubt remain.

But let us not overlook that with liberalisation at its present level additional liberalisation measures are of limited impor-

tance only for the desired expansion of eastern deliveries to the Federal Republic of Germany. Decisive will be to what extent our eastern trade partners will succeed in adjusting to the conditions prevailing in our market, in having adequate supply capacities to draw upon at the right moment, in cultivating the market, in building up an adequate servicing system, etc. Until now these countries have found it rather difficult to make successful use of the well-known and well-proven marketing methods of the western world. This has to do, let us say so clearly, with the differences between the economic systems. But I feel certain that such difficulties of adaptation need not be insuperable.

Trade Expansion and Ratification

Do you believe that the pending ratification of the eastern treaties by the Bundestag will be followed by a substantial expansion of the volume of trade?

It is difficult, I believe, to interpret this very important political event in terms of import and export growth. On the other hand, I am convinced that any improvement in our political relationship with eastern Europe will indirectly exercise a positive influence on our economic relations. I would however deprecate expectations of spectacular developments in the economic sphere. Although political understanding and peace are basic conditions for an extension of economic relations, economic life is ruled by laws of its own. The desired expansion of goods exchanges with eastern Europe is, as I said before, subject to certain limits due not only to the differences between the economic systems, but in particular to the composition of our eastern trade. To bring about a long-term improvement in our relations is

however the declared object of the German side as well as our eastern trade partners.

Beside the extension of trade, German industry is greatly interested in closer cooperation with the East, e.g. in the field of large-scale projects. What view do you take of the prospects for this?

Considerable interest in co-operation on the enterprise-to-enterprise level can be perceived in the most diverse fields, both on the German and in particular also on the east European side. This is true of large-scale projects, whether in one of the partner countries or in third markets, as much as of other forms of collaboration.

Experience shows that the difficulties which arise as a result of the differences between the economic systems when such cooperation contracts are carried out can be overcome by pragmatic solutions. I am therefore inclined to think that the prospects for the further developments of this form of economic collaboration are good.

Competitive Positions in Large-scale Projects

One gets the impression however that in regard to large-scale projects the Federal Republic has not in the past fared as well as other western countries—e.g. France, Italy and to some extent Great Britain—and that this is still the case today.

I should not say so, generally speaking. It may, no doubt, be true of individual cases, partly because the EEC lacks a minimum of harmonisation for export credit facilities. Some of our neighbours have, in consequence, a competitive advantage. But if we look at the balance of payments—and large-scale projects are after all reflected on trade account and on

capital account—we see that German industry has maintained, and even managed to extend, its position.

But is it not a fact that in the case of the biggest schemes, such as the Togliatti project or the Kama project for instance, German industry has considerable difficulties in matching the competition from other countries?

Credit Harmonisation

I admit that one or other of our competitors is getting better service from a paternal Government, e.g. as regards credit facilities. But I also believe that we are pursuing a policy which is correct. We advise partners in such projects to approach the market; the reason is that one cannot claim to be in favour of free competition while demanding special terms from the state for each individual project.

So the Federal Government is not willing to orient its policy to enabling German industry to offer as favourable terms, approximately, as our European neighbours do?

Yes, it is. But not by promoting a competitive race. The example of the state subsidies paid to shipbuilders all over the world shows how senseless such rivalry can be. No country derives an advantage, and yet a burden, in some cases a substantial one, is placed on the budgets of these shipbuilding nations. That is a very clear demonstration of the absurdity of a subsidy race. If the terms were harmonised, the competition would be the same, but the burden on taxpayers in the various countries would be lessened by hundreds of millions altogether.

We therefore advocate a harmonisation of the general export credit terms in the European Community. As we proceed to-

wards the achievement of economic and monetary union we shall make progress in this like other fields.

Will not German industry meanwhile suffer from lack of competitive strength owing to a bias in economic policy?

I would not say so, in general. Too much stress must not be laid on interest rates as a competitive factor. There are quite a number of other elements, such as technical quality, time of delivery, other contract terms, servicing. In short, it is the whole range of conditions which determines whether a contract is placed with one firm or another. And German industry has considerable advantages to offer in these fields.

Development Aid Cooperation

Let us turn to the opportunities for cooperation in the sphere of development policy. What means of cooperation with eastern Europe present themselves in the sphere of development policy?

There is, above all, a possibility of cooperation in regard to capital aid. East European firms may participate in any projects which are being financed by German capital aid unless they are tied to supplies from the Federal Republic. In the case of tied projects they may act as sub-contractors for German firms.

I am quite aware however that partners in eastern Europe are facing an information problem as they must know not only for what projects capital aid is being granted, but also which German firms are tendering and being awarded contracts. We are trying to show to our East European partners in which ways this information problem can be overcome.

May the foundation of the German - Romanian Consulting

Company, "Rodeco", be regarded as a model of inter-State cooperation in this field?

I would not go so far as to call the envisaged formation of "Rodeco"—it has not yet been set up—a model of cooperation with eastern Europe in the field of development aid because "Rodeco" is to deal only with a limited sector, namely that of consultancy. But we are hopeful that in carrying out this project we shall gain experience which can perhaps be applied in other sectors as well.

Differences between the Monetary Systems

Do the differences between the monetary systems greatly hamper the development of economic relations?

The differences between the monetary systems—or, put differently, the lack of convertibility of the eastern currencies—are among the obstacles in the way of a rapid expansion of East-West trade in the foreseeable future. I believe one must be realistic and appreciate that a solution of this problem can be expected only in the long term. It is however to be welcomed that increasing interest in greater multilateralisation of their western trade is to be observed in various countries of eastern Europe today. In this context special reference deserves to be made to the accession, or negotiations for accession, to GATT by some eastern countries.

We continue to watch with interest the tendencies, which to some extent exist, to achieve a certain measure of convertibility between the individual eastern currencies. The West should certainly draw from them the conclusion that we should not rashly jeopardise the state of convertibility which we have reached, something which some people would apparently be willing to do.