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**Article**

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# The Role of German Merchant Houses

by Herbert Westerich, Hamburg \*

**With the changes in the political and economic structures of the developing countries and the progress of the technological development the tasks devolving upon the foreign merchant firms also underwent substantial changes. The article discusses their functions and problems in the external economic relations of West Germany, paying special regard to the relations with the South East Asian countries.**

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It is the object of *foreign* trade to organise the flow of merchandise between the national economies. As the *domestic* wholesale trade performs the basic function of linking production stages at some distance from the market with sales facilities in its vicinity, so the foreign trade spans the *geographical* distance between the markets of the world. By intensifying commercial relations in the international sphere the foreign trade serves the purpose of giving the individual national economies an opportunity to concentrate their productions in the fields in which they enjoy the much-praised benefit of a comparative cost advantage, with the result that a higher level of production and thus also of living can be reached in the whole world. A foreign trade performing its proper functions is thus seen to be an indispensable prerequisite of a positive evolution of the international division of labour.

The foreign trade *community*, that is the import and export merchant firms in their entirety, is subject to competition from the export departments of production enterprises, but the merchant houses with their foreign branches and agencies are always available as relay stations for the international exchange of goods where the markets for the sale of products or purchase of supplies are too narrow for industry to set up profitable foreign trade organisations of its own. Besides, the foreign trade community has encompassed many new functions strengthening its position even in the larger countries.

## Changing Functions of Foreign Trade

In its classical role as a mere importer and exporter the foreign merchant firm in former times served primarily as a reservoir for the supply and demand of all kinds of products for which there existed outlets or sources of supply outside its own country. Special importance attached to overseas bases of agricultural and mineral raw materials. They provided the manufacturing trades in the industrially advanced Europe with important

primary materials and European households with spices, fruits and luxuries which soon became necessities. The traders who pioneered the exchange of goods — raw materials for processed consumption goods — between the overseas countries and Europe gave access to these valuable resources, not only running great economic risks in doing so but often imperilling their personal safety.

With the changes in the political and economic structures of the developing countries and the progress of the general technological development the tasks devolving upon the foreign merchant firms also underwent substantial changes. The South East Asian area, and in particular the countries of the ASEAN group, which was formed in 1967 and comprises Thailand, Indonesia, Malaysia, Singapore and the Philippines, has developed a dynamics of its own and constantly gained in economic and political weight. This gain of weight is matched by efforts to "diversify" the external economic relations and domestic production of the area. This means that the countries in South East Asia, as in other regions, are no longer content to be merely raw material bases for the big industrial nations and see their development depend on the sharply fluctuating prices in the world commodity markets. They would rather process their raw materials themselves and for their own account and make sure of the larger and more stable export earnings which are indispensable for the further development of these countries by offering goods of higher value and greater diversity in the world market. To industrialise their economies and enlarge their infrastructures, however, investment goods, technical know-how and trained specialist personnel have to be imported.

## Trend towards Specialisation

This trend in the economic activities and policies of the overseas countries, including those in

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South East Asia, has left its mark on the categories of goods handled by the foreign merchant firms and extended their functions in the direction of increased marketing and technical services. While this need not have resulted in curtailing the variety of supplies originally offered by a trading establishment in the Far East, there is evidence of a tendency to select compatible goods from various related fields for the sales programme of a particular house. So there is some specialisation in certain sectors which — above all in the field of plant exports which are of special importance for the industrialisation of the developing economies — incidentally allows the planning, technical consultancy and supervision of the erection and operation of technical installations to be carried out by experts from the merchant house. Besides, trading firms which specialise in exporting investment goods to overseas countries maintain local workshops, and these do not only instal plant but see to its maintenance and necessary repairs. For this it is exceptionally important that adequate stocks of spares should be kept since it is essential to avoid prolonged production stoppages as would otherwise be inevitable.

Beside intensive consultancy and other services, export finance is of major importance in business contacts with overseas customers. It is one of the principal instruments of sales promotion. This also holds good for major projects for which finance can be secured through the credit resources open to the merchant houses and their wide-ranging contacts. The training of personnel in required skills is no insignificant factor either; for the most part such staff is recruited from the native population. Expert management personnel with the potential to occupy senior posts in administration and economic life is being trained internally and also on external staff training courses which may be held in the home countries of the trading establishments.

#### **Development of Processing Industries**

The activities of Hamburg merchant houses, e.g. in South East Asia where they have been active since the first half of the last century and some of them started, show that the "trading stage" often provided the impetus for industrial manufacturing and for the processing of raw materials in the country of origin. Trading establishments have, for instance, set up production facilities for the industrial preparation for export of feeding stuffs on a cooperative basis or as joint ventures with indigenous firms. These projects have resulted in a continuing increase in the exports of feeding stuffs. Similar industrial engagements by merchant houses have been noted in other sectors where they perform a useful service by con-

veying market information, entrepreneurial initiative and capital.

When foreign capital and technical know-how are wanted for setting up a processing industry, the merchant firms often play an intermediary role between the local planning authorities and interested industrial firms abroad. Their knowledge of the countries and their direct contacts with those looking for capital, on the one hand, and potential investors, on the other, enable them to render useful assistance in bringing about effectual negotiations. They offer, besides, well-established channels of distribution for the future marketing of the products and help these countries to gain a place in the world markets. Instances are not lacking in which branches of Hamburg merchant firms were entrusted with the distribution in certain countries or regions of the products of the young indigenous industry of their host country. In such cases it was realised that the marketing of merchandise is as important as its production.

#### **Trade Discrimination**

On the other hand, it cannot be denied that the foreign merchant firms are not always given their due by the competent authorities although they can and do perform important economic and development functions in the developing countries. In some of these economic policy is often concentrated too exclusively on the production angle while the marketing of the products and the ancillary service functions receive less attention. It sometimes looks as if commerce is regarded as a parasitic element with a bogus claim to a place in the flow of goods from producer to consumer which merely adds to their cost. This view does not do justice to the genuine importance of the foreign merchant firm in the international division of labour. It finds expression, for example, in the fact that much greater concessions are generally offered for foreign *industrial* investments than for trading establishments. Not only have the latter often to fend for themselves but they may even be impeded in their activities or be completely or partly excluded from engaging in them. Regulations concerning participation of nationals of the countries concerned in commercial enterprises may in certain circumstances leave wide scope for foreign capital in important industries whereas in the trading sectors foreigners are often forbidden to possess majority holdings and the tendency is towards letting the foreign trade pass altogether into native hands or to the state.

In view of the progressive industrial development and intensification of external economic relations in the developing countries of South East Asia, as likewise the differentiation of the investment climate, the Hamburg merchant houses are faced

with tasks extending beyond the ambit of ordinary trading activities. Flexible adjustment to the demands for perfect service, specialised knowledge and an accurate understanding of the situation in the international markets however have made the well-reputed houses of Hamburg indispensable partners of the Third World. Their right to play a part in the further progress of the economic development of these countries is assured beyond the immediate future.

#### Cooperation with Local Partners

These findings were confirmed on a journey which took an economic delegation of representatives of the Senate of Hamburg and the Hamburg business world in February of last year to South East Asia. In face of an undercurrent of more or less marked hostility to trade in general and that in foreign hands in particular the merchant firms which have succeeded in undertaking quasi-in-

dustrial functions and furthermore entered into cooperation with native firms or recruited local partners have done best in holding their position. They are playing an important role in the efforts to maintain and strengthen traditional ties between South East Asia and Hamburg through well-proved trade channels, the more so because they can make an essential contribution to the advancement of the regional "diversification" which most states of South East Asia desire for their foreign trade. In pursuit of this diversification of their external economic relations the industrial potential of the Federal Republic of Germany as a supplier of investment goods and technical know-how and the market which it offers for South East Asian goods should be of sufficient interest to warrant intensifying the trade exchanges to the advantage of both sides. The port of Hamburg and its industry, and the merchant houses in the city to no less a degree, are willing to play their part.

## Exporting to the Federal Republic of Germany

by Dr Klaus Boeck, Hamburg \*

**Among industrialised countries, the Federal Republic is certainly one of the largest markets able to absorb vast quantities of products from the LDCs of South East Asia. However, to open up this sales outlet with its formidable future, it will be necessary to operate an all-embracing marketing strategy.**

During 1968–72, South East Asian LDCs<sup>1</sup> were able to register an average growth of their export trade by about 15 p.c. annually. This was approximately in line with average growth rates of overall world export trade. However, this, comparatively favourable, result loses much of its glamour as soon as one abstracts the two city states of Hong Kong and Singapore. Leaving them out of the calculation, exports of South East Asian LDCs have risen by an average annual rate of 10 p.c. only<sup>2</sup>. This means that they are in a worse position than all LDCs of the whole world taken together.

This development contains a threat, since exports are an important force supporting economic growth of any national economy. In the case of LDCs, this truth is more absolute than in that of

industrialised countries, for the dependence of LDCs on exports seems to be more stringent than that of highly developed industrialised nations.

The need of LDCs for an export income is great, for there is hardly any other way for paying for their imports, which they cannot do without for their economic development. Moreover, their home markets and the purchasing power of the local populations are frequently so small that foreign markets offer the only chance to sustain employment for the growing potential of LDCs' labour forces. Also from the point of view of the individual business enterprise the opening up of additional sales outlets abroad is an important basis for any efficient development policy, because industries that have been newly set up can reach their optimal rate of profitability only in the presence of sufficiently wide markets, which alone permit of cost degression resulting from utilising technologically determined minimum capacities.

A future chance for exports can, for the time being, be found by LDCs mainly in industrialised coun-

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<sup>1</sup> In the context of this article, the following countries are counted as South East Asian: Burma, Brunei, Hong Kong, Indonesia, the Khmer Republic, Laos, Macao, Malaysia, the Philippines, Singapore, South Vietnam, and Thailand.

<sup>2</sup> Calculated as the geometrical mean, as in: International Financial Statistics, Vol. XXVII, March 1974, No. 3, p. 38.