

Yeast Germany

By James A. Hart

CHICAGO — It comes as a surprise to most Americans that the United States has severely curtailed its trade with East Germany, one of the world's best markets. But it's a shock when they find that while Americans aren't trading with the East Germans, as a result of a cold war tactic, the West Germans, in whose behalf this cold war is waged, are trading furiously with their East German neighbors.

East Germany is a nation of 16.7 million customers, well-educated and enjoying a comparatively high standard of living. In 1977 (the last year for which statistics are available), its gross national product was \$4,940 per capita, higher than that in the United Kingdom. In fact, only five nations have both a higher per capita G.N.P. and more consumers than East Germany: the United States, Japan, West Germany, France and Canada.

East Germany is heavily dependent on foreign trade, since 20 percent of its G.N.P. is exported. In 1978, it conducted 29 percent of its foreign business with Western nations: a very respectable \$9.6 billion (again, the latest statistics). West Germany thoroughly dominates this Western trading: It grabbed \$4.4 billion of the total in 1978. France was a poor second with \$392 million and the United States was in eighth place with \$204 million.

On a global basis, America's trade volume has long been in first place. In 1978, that amounted to \$317 billion — well ahead of second-ranking West Germany, with \$250 billion.

We have allowed ourselves to be duped into fighting a no-win trade war against the East Germans by enacting unrealistic political and trading policies. West Germany doesn't consider its traffic with the East Germans "foreign trade." Instead, it is reported as "inter-German trade." There are no customs duties on goods moving between the two countries. East German goods coming into West Germany escape the value-added tax imposed on the imports of other nations. The two Germanys have an interest-free line of credit agreement — "swing credit" — that can be used to finance deficits in their trade.

The East Germans have had almost a continuous trade deficit and at the end of 1978 were enjoying an interest-free loan of \$400 million a year.

All this makes it easier for the East Germans to send their goods into West Germany and also pay for their imports.

No other Western nation has done as much to make trade easy with the East Germans. But other major capitalist countries at least grant the East Germans trading rights equal to other nations.

Only the United States has penalized trade with East Germany. We have restricted trade with the East Germans in an effort to force them to let their citizens emigrate freely.

The Export-Import Bank is prohibited from making loans to finance the purchase of United States goods. This puts American exporters at a serious disadvantage — because exporters of other major Western countries, competing with Americans for East German orders, can arrange such loans at favorable terms through their comparable government agencies.

In addition, East German exports to the United States are denied the "most-favored-nation" treatment with tariffs. A printing press from East Germany requires a 40 percent tariff to come into the United States, while the same machine from other nations would carry a 6 percent tariff.

To get around these restrictive measures many American firms use their foreign subsidiaries to conduct business with East Germany. The East German Ministry of International Trade reports that American subsidiary firms — based in West Germany, France, United Kingdom and others — accounted for \$740 million in trade with East Germany in 1978. If American firms had been able to handle that business directly, we would

have had \$944 million in trade in 1978, second only to the West Germans and well ahead of France.

West Germany has never condoned the East Germans' emigration policy. Quite the contrary. However, the Bonn Government has dispassionately weighed the advantages of trade with the East Germans against the disadvantages. They've always concluded, on balance, that trade was in their best interest.

It is estimated that trade with East Germany provides about 500,000 jobs in 4,500 West German firms.

Right after World War II, America could have been effective in withholding trade with the East Germans. But not today. The West Germans, and other exporters trading with East Germany, are grateful for our position. It makes it easier for them to tap this rich market. In trying to discipline the East Germans, America has worked itself into the ridiculous position of torpedoing its own exporters.

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