Report from Bonn by George Gregory and Rainer Apel

Recovery for West Germany?

Exports are leading the way to a modest uptick, the most recent economic surveys conclude.

Both West German and American bank economists have begun to talk of an economic "decoupling" between Germany and the United States—a term first used by this journal in a June 1980 comparison of the two economies. While the United States is headed for even worse economic results than in the September-January period, the most recent "Monthly Business Report" of Germany's leading business daily, the *Frankfurter Allgemeine Zeitung,* is entitled, "A Breath of Optimism."

The German newspaper writes, "Bad news items are tumbling over themselves. But the tone of the economy no longer represents an entirely dark picture. For some time the announcements from companies have been a shade more optimistic. Of course, no one would yet talk about an upswing. Almost 2 million unemployed at the end of January, a hardly diminished wave of insolvencies, a high count of non-performing loans—all this warns against excessive hopes.

"But," *FAZ* continues, almost all economic observers are convinced that the deepest point of the recession has been got past. The turn is in sight. The negative impulse which the economy received from the second powerful increase in oil prices is spent. . . . The increase in new orders shows clearly that the impulse this time will come from investment. . . . Export business shows quite the opposite of a pessimistic tone; in the past year, it was the backbone of the economy, and export levels have not fallen back, but remained at the previously reached high level."

In December, foreign orders stood at 21.6 percent above their year-earlier level, while total orders were 9.5 percent above their previous year's level, or about 4 percent higher in real terms. These are not spectacular results, and promise no early reduction in Germany's worst unemployment levels since the war; yet there is clearly a direction opposite to America's.

One German bank official said, "We have our backs to the wall, and the only way out is to increase investment, and maintain our international competitiveness. A surprising revival of investment is taking in the heavy machinery sector, electronics, and also in auto—where the Japanese have given us a bit of breathing room."

The "true export-led recovery," as one New York bank economist qualifies it, is surprising given the overall contraction of world trade, and especially the economic difficulties of countries with whom Germany trades heavily, e.g. France (13 percent of German exports), Belgium (8 percent of German exports), and the United States (6 percent of German exports), as well as the economic difficulties of the Third World. Part of the answer lies in the way present international market conditions have favored Germany's underlying strong industrial position: while the mark is clearly undervalued, due to high U.S. interest rates, the collapse of oil and commodity prices have meant that an expensive dollar does not mean higher import prices, as Chase Manhattan's "International Finance" newsletter pointed out Feb. 12. The result has been more room for maneuver and lower German interest rates.

However, to maintain the export drive and the investment to back it up, Germany must expand certain of its markets to compensate for attrition in others. The obvious place to look is the Soviet Union. Surprisingly, the Soviets ran a DM 1.6 billion *surplus* in trade with Germany last year, due to higher energy shipments, against a DM 426 million surplus the year previous. The German deficit with Comecon as a whole was DM 297 million, the first since 1965.

That clearly leaves room for additional German exports; indeed, the $600 million trade credit Austria granted to Moscow last month was motivated by Vienna's desire to correct its trade deficit with the Soviets. As the natural-gas pipeline begins shipment in the middle of this decade, the Russians will earn $10 to $15 billion per year in additional foreign exchange, according to Chase Manhattan Bank estimates, a great deal of which will be spent in Western Europe.

According to a senior Soviet economic official, "The Soviet Union is prepared to offer West Germany an immediate tripling of trade volume" from the present $6 billion annual level of German exports to the U.S.S.R. The pipeline earnings indicate that there would be few financial obstacles.