

20 Dec '58

WEST GERMANY'S ECONOMIC INTEREST IN FREE ASIA

Bonn's growing economic interest in the non-Communist countries of South Asia and the Far East is reflected in Vice Chancellor Erhard's trip through the area from 3 October to 8 November. Erhard has a new plan for expanding German markets in

ernment fund to guarantee private investors against the risks of currency exchange fluctuations and political instability.

Asian Trade

Although the non-Communist countries of the Far East and South Asia account for only 7 percent of Bonn's trade, exports to that area increased 32 percent from \$551,000,000 in 1956 to \$730,600,000 in 1957. Over the same period, exports to the Western European area increased only about 13 percent. German exports to Japan almost doubled in 1957 and exports to India increased 36 percent. In contrast, German exports to France rose by only 15 percent and exports to the Netherlands--Bonn's leading market--increased only 12 percent. Prior to Erhard's departure, Bonn's leading foreign trade journal characterized German trade with Europe as "stagnating" as a result of the recent economic slowdown and attributed the increases in total German foreign trade primarily to expanded trading with "the developing countries."



ERHARD

underdeveloped areas which would increase West Germany's expenditures for technical assistance but would emphasize the promotion of private investments abroad, mainly through establishment of a \$420,000,000 gov-

Bonn's increasing exports to free Asia, however, have not

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been compensated by an increase in imports. Because of exchange shortages in this area, West Germany is becoming a large creditor for this area as well as for Europe. One of Erhard's purposes was to investigate means by which "the developing countries" could increase exports to Bonn.

Erhard's Trip

Erhard's five-week journey, which followed his attendance as Bonn's principal representative at the New Delhi meeting of the International Monetary Fund, took him to Burma, Thailand, South Vietnam, South Korea, Japan, and Pakistan, as well as India. While describing his trip as a "fact-finding" mission, he frequently pointed out that Bonn would consider grants in aid only in exceptional cases. He recommended that private foreign investment be sought to improve the quality of raw material exports. This would stimulate a demand for these materials in the industrialized countries.

Erhard repeatedly stressed that the developing countries

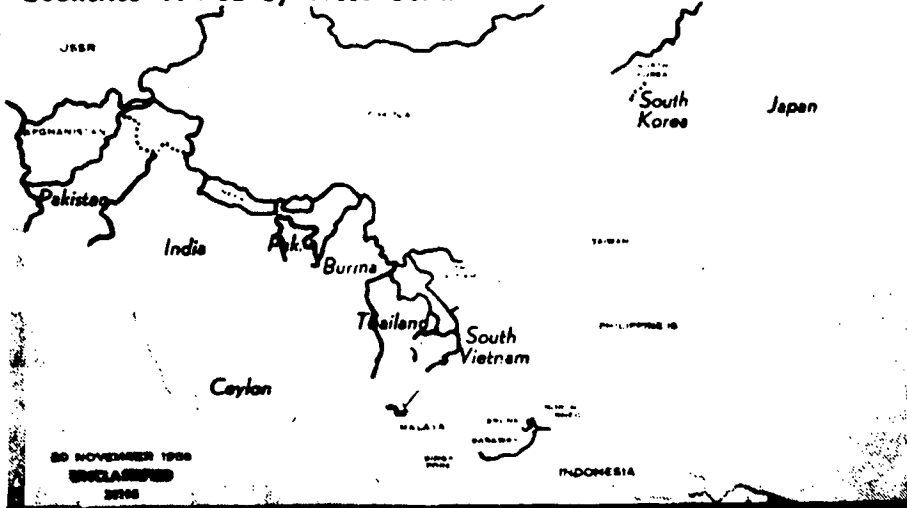
in Asia could not expect investments by private German firms without some assurances that German experts could exercise managerial control. He openly criticized restrictions against foreign investors holding more than half of the capital of their corporations. In connection with protection of foreign investments, Erhard pointed to confiscated German assets which are still frozen. He has been under pressure from many German investors to settle this question before they will consider expanding overseas investments. In India and Burma, Erhard received assurances that German assets would be returned.

The Erhard Plan

Prior to his departure, Erhard indicated the broad outline of a new German economic policy toward the developing areas. He will apparently use the high-level discussions which he held during the trip as the basis for formulating the details of the "Erhard Plan" for presentation to the legislature.

The plan is consistent with Erhard's economic philosophy of

Countries Visited by West German Vice Chancellor Erhard



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encouraging private initiative placing government in a secondary but effective supporting role. As a first step Bonn would extend the government-sponsored insurance guarantee on export credits to include guarantees against political risks on private investments abroad. Acting through the Hermes Credit Insurance Corporation, Bonn's guarantee would apply to over 80 percent of the value of the transaction.

Erhard indicated that the government would establish a \$420,000,000 fund for these guarantees. The fund would probably be raised by floating a loan on the German market at an attractive interest rate.

Under the plan Bonn would also consider government-to-government financial aid, although Erhard prefers to consider only loans and no outright gifts. The pattern for this program has been established in India and more recently in Greece.

During Erhard's stay in New Delhi, he confirmed Bonn's intention of granting India a \$100,000,000 development loan, repayable starting in 1964. During Greek Prime Minister Karamanlis' visit to Bonn, Athens was granted \$71,600,000 in economic aid, including a direct loan of \$47,000,000. Bonn will also continue its bilateral programs of technical assistance grants, which to date total \$23,000,000, in addition to contributions to the UN Technical Assistance Fund. Immediately after his return to Bonn, Erhard called for an increase in Bonn's budget for technical assistance from \$12,000,000 to \$48,000,000.

Under the Erhard plan, the primary emphasis in government aid will continue to be on multilateral financing through international or regional institutions. To date Bonn has contributed or committed about three billion dollars to international organizations for foreign economic assistance, compared with about \$800,000,000 in economic assistance outside of these organizations.

Although German industry has been seeking government guarantees of foreign investment for some time, the Erhard plan has aroused no enthusiasm in busi-

WEST GERMAN TRADE WITH ASIA
(MILLION DOLLARS)

UNCLASSIFIED	1956		1957	
	EXPORTS	IMPORTS	EXPORTS	IMPORTS
Afghanistan	8.4	3.7	4.4	7.8
Burma	14.5	3.7	15.2	4.6
Ceylon	8.0	12.6	9.2	12.1
Nationalist China	6.8	3.2	8.0	2.9
Communist China	37.1	53.2	47.6	41.2
India	195.4	45.1	268.4	60.1
Indonesia	68.3	77.7	73.9	79.7
Japan	61.9	28.6	111.7	54.4
Cambodia	1.7	1.0	2.3	.9
Laos	.7	--	1.3	--
South Vietnam	9.5	.8	17.0	2.0
Malaya/Singapore	30.0	63.2	30.1	52.7
Pakistan	29.6	28.7	39.4	31.4
Philippines	19.5	45.4	27.3	51.7
Thailand	21.8	7.2	27.4	8.6
South Korea	13.7	1.5	16.2	.9
Other	24.5	21.6	31.2	22.0
TOTAL	551.4	397.2	730.6	433.0

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ness circles. Economic observers have pointed out that private German capital for foreign investment is limited by the financial burdens resulting from World War II, such as the London Debt Agreement and the restitution to Nazi victims, as well as by the burden of German rearmament.

Political Implications

West Germany's political ambitions in Asia are relatively

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modest. Erhard's trip was primarily oriented toward strengthening economic ties in the area. Bonn officials regard the Far East as an area too remote for exerting a decisive influence on the main German political problems, such as unification. Bonn's intention is to build up a reserve of good will in the area by expanding investments and technical aid while at the same time securing considerable economic advantage in terms of increased trade. German officials feel it is in Bonn's interest to maintain good relations with non-European countries, looking toward

the day when there might be an international commission on the German problem.

In the context of the cold war, however, Bonn now seems more inclined to play an active role in competing with Soviet bloc countries in the less developed areas. Erhard has publicly stressed that Europe has a vital interest in demonstrating to these areas that development of a "liberal" economic system offers a more attractive way of raising the standard of living than the totalitarian methods of the Communist bloc, particularly Communist China. (CONFIDENTIAL)