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# Economic Commitment and Co-operation

Co-operation between German firms and the young African economies has so far yielded little in the way of positive experience. EEC is now in its tenth year, but it was only in 1963 that the Yaoundé Agreement brought African economies within the direct sphere of EEC's economic interest and that of the Federal Republic. So far, experience gleaned from this short period of co-operation between the African economies and the private sector of the German economy has been fairly inconclusive. There have been not inconsiderable initial problems of transition, which may not reoccur in the future to quite the same extent. This presents a not unattractive challenge for Germans to state their views about the practical effects of this co-operation, since the West German economy is not burdened with an African past.

## The Level and Development of Exports

The purpose of the Yaoundé Agreement was to advance social, economic and cultural progress in African countries. It is quite explicit about how this is to be done: co-operation between member states on a basis of absolute equality, based on the principles of the United Nations, extension of trade and international commerce and the industrialisation and diversification of the economies of the associate states. This Agreement is aimed at consolidating the economic equilibrium of the African states and at promoting not only their economic but also their political independence. There are no differences of opinion on this score. The Federal Republic takes account of this in various ways, for instance through its bi-lateral and multi-lateral financial commitments. The Federal Republic contributed 200 million units to EEC's first Development Fund, which disposed of 581 million accounting

units, i.e., 34.4 %; to the second Fund, which is still running, West Germany contributed 246 million units.

However, Germany's share of orders stands in inverse ratio to its contribution to the two Development Funds. Hitherto, German firms have received no more than 10 % of orders emanating from African states. Even admitting in principle the moral obligation to contribute to the economic and social betterment of the Yaoundé states, the difference between the funds contributed and the number of orders still poses a problem. This might easily have a negative influence upon the readiness of German entrepreneurs to invest their own capital, as opposed to investments financed by the Fund, in African states. This is quite evident from developments to date: at the end of 1965, of a total of DM 7,800 million invested privately abroad, only DM 366 million was invested in the associate states, compared with DM 1,272 million (14 %) of the total of German public development aid to African countries. The relation between purely commercial contacts and the amount of investment is also unsatisfactory. German investment in the African states is only one third of the amount of trade with these countries.

Trade between EEC countries and developing countries has, on the whole, grown much more slowly than has EEC's trade with industrial countries. Whilst EEC's imports from industrial countries increased by 90 % between 1958 and 1965, imports from developing countries rose only by 54 %. Over a comparable period, i.e. from 1959 to 1965, EEC imports from the Yaoundé states rose by only 34 %; a major part of these went to the Federal Republic. During the same period, Germany stepped up its imports from African countries by 82 % to DM 640 million. In comparison with total German im-

ports—DM 70,400 million in 1965—the share of the Yaoundé states still appears modest.

West Germany's foreign trade with developing countries over the last 10 years showed a deficit of about DM 15,000 million. Between 1958 and 1965, German trade with the Yaoundé states rose by 25 % for imports into Germany, whilst German exports increased only by 16 %, so that West Germany was continuing to make foreign exchange available to these countries. Admittedly, trade between West Germany and the African states can be extended only to a limited degree, provided there is no drastic change in the trade structure. The demand for raw materials rises more slowly than that for finished products. Moreover, with increasing industrialisation the relative proportion of raw materials diminishes. In vast areas synthetics are displacing the traditional raw materials, whilst producers of the latter have not been able to substitute for this loss of export trade.

This is not a case of "wicked capitalist practices", but of an inherent economic mechanism governed by the optimum combination of production factors. This lowers the demand for raw materials and also leads to raw materials being replaced by cheaper and often more efficient substitutes. The reasons for this are purely economic ones and not—as often thought in developing countries—ideological ones.

## Elimination of Unilateral Economic Structures

If the associate African states and Madagascar wish to extend their export trade with EEC, it is therefore in their interests to adapt their own economic structures to these new conditions and not to cling to out-dated and unilateral colonial attitudes. The main reason for the decision made on the 18th May, 1966, by the Council of As-

sociate States in Tananarive was to achieve financial and technical co-ordination between EEC and the Yaoundé states and diversification of the African economies.

It is proposed to achieve this by broadening the range of agricultural and industrial production, developing the mining industries, creating better industrial procession conditions and a continued improvement of services. At the same time it is intended to achieve improvements in the social structure and infrastructure.

These aims were clearly recognised and formulated but their realisation is fraught with difficulties. But, as a rule, the simplest factors for realising this association between the African states and the EEC are still lacking.

#### **Criticism of EEC Policy**

Recently some tough criticism of the practical aspects of this association has been made in certain African states. This is directed mainly against European reluctance—or what looks to these states like reluctance—to import satisfactory quantities of African goods and also against the apparent inability on the part of Europeans to appreciate African economic, social and political interests. It must be borne in mind, however, that when the Customs Union comes into force on 1st July, 1968, the associate states will be able to export to EEC without tariff or quota restrictions. By contrast, the Yaoundé states will be allowed to retain their autonomous tariffs and quota restrictions. This is justified by their need for security and protection but nevertheless constitutes a disadvantage for the EEC member states. At present, two thirds of the revenue of the Yaoundé states currently derives from customs duties so that even a gradual reduction of customs barriers would entail serious fiscal, structural and political problems which could not be entertained, even having regard to EEC interests.

The most heated discussion centres on the principle of guaranteed markets for domestic goods

demanding by the Yaoundé states, but so far rejected by EEC countries. This applies, above all, to the export of coffee, tea and tobacco. France has so far absorbed the major proportion of African exports because of its traditional ties with that area. But during the last 6 years France's share in the Yaoundé states' exports to Europe has fallen from 53 per cent to 48 per cent, whereas the corresponding share of exports has risen from 60 per cent (in 1959) to 68 per cent (in 1965). The opposite is true of relations between West Germany and the 18 states and this has led to a relatively rising curve of imports compared with only minor increases in exports. Forgetting for the moment this—by no means unfavourable—development in the foreign trade of both economies, the Yaoundé states should not overlook the fact that their exports to West Germany consist primarily of consumer goods which are subject to relatively high rates of duty. In 1966, total German revenue from taxation was DM 64,800 million and of this DM 4,900 million derived from duties on tobacco and more than DM 1,000 million from those on coffee and tea.

Where foreign trade is on a worldwide basis, sales guarantees for individual countries are not to be recommended as an efficient instrument. On the contrary, the members of an economic community should adapt to present and future market requirements. The comparative cost advantages enjoyed by the Yaoundé countries and the ample supply of goods for which there is an actual or potential demand in industrialised countries calls for aggressive marketing methods.

#### **Promising Joint Projects**

In comparison with France, Belgium and Italy, the Federal Republic has only a limited amount of experience of relations with African states but, nevertheless, German industry has recently undertaken a series of interesting experiments, in the course of which a considerable number of joint projects were developed, utilising

experiences made by other industrial nations. The aim of such projects was to provide African countries with productive equipment tailor-made to the requirements of a particular country. Thus the "Euram-Fish" establishment in Geneva, which is supported by German and other firms, delivers complete installations for catching and processing fish, both for domestic consumption and for export. Euram-Fish aims at the maximum exploitation of existing fish stock and a rational conversion of the catch by creating a production chain beginning with the delivery of the vessels and leading, via the installation of freezing-units, to the organisation of ready markets by associated importers. Such projects are profitable for both partners, as can be seen from the fact that of a total tonnage of 571,000 caught in 1964 by the associate states, only an infinitesimal amount reached a further stage of production.

A further important factor in the future development of African countries lies in the systematic opening up of their mineral resources. Since the economic potential is often unknown, extensive local research is often necessary before production can begin. It is in the interests of the developing countries to consult independent agencies which have no personal interest in the exploitation. Of a total of 48 reports submitted recently by Fried. Krupp, for instance, only 6 led to deliveries from that firm.

In this context, there arises a further question which has been sadly neglected in recent years. A developing country generally finds itself at the very lowest rung of industrial development. Its population is neither mentally nor psychically equipped to deal with the technical, social and economic problems which arise with industrialisation. Nevertheless, both public and private development aid has often behaved in the past as if the foundations had already been laid for industrial development. The most modern installations—even by European stand-

ards—were set up in utterly unprepared surroundings. The European experts and technicians responsible for their efficient operation lived their own life, having no contact with the indigenous population, for whom such installations represented a leap over several centuries. The inevitable complications which followed have often discredited both the manufacturers of such plant and operating technicians. Such difficulties could have been avoided if prior industrial studies had investigated local social structures and infrastructures and if teams of experts had been more carefully selected and briefed for their task. Industrial countries should, in their own interests, beware of perpetuating the shortcomings of their own social history in the new African states. German development aid appears to have realised the significance of such problems of recent years.

The small scale upon which German industry has participated hitherto in projects in African associate states is also connected with the way funds have been distributed by Development Funds. So far, the main emphasis of the Funds' development aid has been upon improving infrastructures and modernising agriculture. The current second Fund allots only 10 % to industrial projects and 15 % to studies, compared with 75 % to construction and infrastructure projects. Half the latter was allocated to projects with a value of less than DM 8 million. It is obvious that in such cases local firms, or firms well-acquainted with the African mentality, particularly those from former mother-countries, have a distinct advantage. Whilst it would not do to exaggerate the number of cases where German firms were deliberately and effectively excluded, such cases are by no means unknown. Clearly, the Council was not unaware of this, as can be seen from its decision of 6th June, 1967, relating to "The improvement of competitive conditions in projects financed by the European Development Fund".

#### **The Future Commitment of German Private Enterprise**

If, by investment, we understand technical and economic activity in the sense of establishing branches or acquiring participations, then the scope in African countries is indeed limited. The reasons for this are well-known: political insecurity, economic and financial risks, lack of knowledge of specific economic and political factors, lack of qualified manpower, transport and market problems, lack of expert management well-versed in regional conditions, etc. This is why both "investors" and the countries where "investments" are made place greater emphasis upon investments of a co-operative nature. It might therefore be preferable to speak of "commitment" rather than "investment".

The present value of German capital investment in developing countries stands at about DM 400 million. Africa takes third place—after Europe and the USA—in German commitments abroad. We may assume an annual rise in the financial commitment in African states of the order of about DM 12 million. Of total foreign trade with the Yaoundé countries to the tune of DM 1,200 million, one third is concerned with capital investment. Seen through African eyes, however, the absolute figure for such investment is not a satisfactory one. Before considering how to increase such commitments, it would be well to examine the causes of the German economy's past reluctance and how far these could be eliminated in the future.

Hitherto, the reasons for which German investors have been reluctant to invest in the Yaoundé states have been traditional ones. Ties between the former French and Belgian colonies and their mother-countries have been so strong that it would have been in the interests of neither to cut this "umbilical cord". For decades, African economies have been directed at supplying the needs of those countries to which they exported raw materials and food-stuffs.

For these and other reasons, German entrepreneurs were ill-acquainted with the mentality and customs of the now associated African states; this is particularly true of the large number of medium and small-sized German firms, for whom any commitment in the Yaoundé states would have entailed unpredictable—because unknown—risks.

Moreover, commitments undertaken by German private enterprise have had to be grafted on to the economic structures of associate states, so that they had to become almost an integral part of long-term structural development. So far the picture was not very clear here. Those sectors of the German economy which might be most interested in investment—the chemical and automotive industries, construction firms and the investment industry—would have found only a very limited scope for investment under the present framework of the Yaoundé states. Mainly those industries were concerned, which also in the Federal Republic consist of a multitude of medium and small enterprises, for which a commitment abroad would entail the above-mentioned risks.

There are numerous other reasons why access to the associated states has been made more difficult for German firms in the past. In certain cases, projects for establishing cement works, the organisation of river shipping, prospection for and exploitation of minerals and many similar projects have met with resistance from established firms and those protected by the former mother-country. Frequently, invitations to tender for projects supported by governments or by the Development Fund were issued with a particular supplier in mind, so that the German competitor never stood a chance. A large part of these initial difficulties of association have now been overcome. The decision of the Council, mentioned above, should be a further step forward. It is certainly satisfactory that instances of practical co-operation between German firms and those in other EEC countries

have recently increased, so that German firms will find it easier to decide to undertake commitments in African countries.

Thus, in future, we may expect greater commitments by German industry in developing countries. Investment in highly industrialised countries grows constantly more costly and the investment coefficient is rising progressively. In these circumstances, German firms would do well to inform themselves about opportunities for profitable investment in developing countries.

#### **Co-operation between EEC Member States**

It is indispensable for German private industry which is interested in future commitments to have a knowledge of long-term economic plans in Africa. The private sector of German industry will have to be guided, in the first place, by considerations of profitability and growth prospects; but

it will certainly not be able to ignore the necessity of insuring against political risks.

In the long run, it will not be helpful to the economies of the associate states and Madagascar nor to private German firms to enter into commitments where there is no long-term reciprocal arrangement. The aim of all investment or other activity undertaken by German firms should therefore be to promote the export capacity of African states, even when there is no guaranteed market. The main target of co-operation between the German economy and the African states should be to open up the German market to African exports.

So that both sides shall gain a proper understanding of co-operation, many more African managers and technicians should be trained in German firms and institutes. It would appear even more important that training centres be established in the African states themselves,

financed by private industry. German industry can help here with its wide and fruitful experience.

German consultancy groups should play an increasing role, in future, in medium-term structural planning in the African states. In future German industry will have to concentrate increasingly upon those projects which have the greatest significance for the African economy and there will have to be a reassessment of priorities. The diversification which was one of the aims of the Yaoundé Agreement should be achieved in two ways: by the elimination of unilateral economic structures and the termination of strings connected with foreign trade.

By pooling their technical and economic know-how, it should be possible, in future, for EEC countries to plan more joint projects and to promote co-operation between firms in the various member countries.

*Professor Dr Karl-Heinz Sohn, Essen*

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