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INTERVIEW

German Views on UNCTAD II

Interview with Dr H.-F. Schulz, Federal Ministry of Economics, Bonn

Something about the immense importance of UNCTAD II can be inferred from the hypothetical assumption that the joint attempt of 132 nations to build a "world without poverty, misery, and despair" might founder, and from sober consideration of the effects of such an event. Numerous representatives of developing countries, in their introductory addresses to the Conference, have stressed the indispensable need for bridging the gap which separates the world into the two camps of the affluent and the poor, lest economic backwardness cause again and again major conflicts. We have discussed some aspects of UNCTAD II with Dr Schulz, the deputy acting head of the German delegation, shortly before he left Germany for New Delhi.*

QUESTION: The Second UN Conference on Trade and Development has been recently convened to New Delhi, its main task being the promotion of more trade between less developed and industrial countries. In the longer term, how would you describe the chief tasks of the present Conference?

ANSWER: We do not believe that the Conference should be called upon to provide short-term nostrums for all and sundry ailments of the world's economy, as asked for under the Algiers Charter. Its main ways of becoming useful

can only be longer-term efforts to dismantle basic obstacles that prevent the advance of developing countries towards overcoming their backwardness. In other words, the Conference, in the main, should apply itself to convincing the developing countries that they have to learn first about the realities of development processes themselves, which lead to changes in the structures of production, income distribution, and social stratification. Furthermore, it will be indispensable to wean developing countries from their aversion against private investment activities, for in the long run, only

private investments will cause sufficient capital and technical knowhow to enter these countries, to lift them to a level of development comparable with that of industrialised countries.

In the longer view, it does not seem as necessary for the Conference to make another supreme effort towards levelling down the remaining obstacles in the ways of world trade, since these have now become comparatively unimportant, as it does for teaching them what there is to know about export marketing, so that they do not limit their export efforts to shipping more of their products to countries in whose markets they have already gained a foothold but utilise the entire gamut of selling chances open to them in the markets of all industrial countries.

QUESTION: We are sure, this is a field where industrial nations can give effective development aid. But there must also be a contribution which developing countries themselves could make, before all else, to bringing out all the possibilities of their export activities, and to opening-up of new trade outlets?

HEINZ-FRIEDRICH SCHULZ

was born in 1909. At the universities of Berlin and Jena, he read Law and State Administration. He worked as a civil servant in the Ministry of Economics of the German Reich, and from 1951 has been again a civil servant in the Federal Ministry of Economics. His main fields of work have been trade policies, currency controls, and foreign trade fairs. Dr Schulz is believed to have been the progenitor of the German Foreign Trade Act (AWG, or Außenwirtschaftsgesetz), and at present he is the head of the Department of International Economic Cooperation within the Federal Ministry of Economics. During February and March, Dr Schulz will be the deputy acting head of the German delegation to the Second UNCTAD meeting at New Delhi.

* The interview was arranged by Dietrich Kebschull and Friedhelm Schlüter.

ANSWER: We—and almost certainly most Western countries—believe that developing countries must, in any case, rid themselves of their hostility against foreign investors sinking capital into businesses on their territories. They often believe that such investment activities mean interference with their newly-won sovereignty in the interest of some sort of neo-colonialism. Countries which have been able to lay the spectres of such prejudices, as for example the African Ivory Coast, provide some of the most brilliant instances of a burgeoning development economy.

Increasing private investment volumes can only be expected if developing countries are prepared—and this is absolutely indispensable—to offer investors sufficient legal protection for their investments, guarantees for the inviolability of their property and for permitting the transfer home of profit remittances. Many developing countries have already shown themselves prepared to sign agreements on the protection of foreign investments but there are still too many others, especially in South America, where the difficulty of obtaining such protection is great, because the prevailing ideology is deep mistrust against all foreign capital.

Furthermore, developing countries will be hampered in their progress unless they make determined attempts to evolve an indigenous class of private businessmen and entrepreneurs. This means that they must also facilitate more capital accumulation within their own frontiers. It is a well-known fact that especially South American capital flees its native countries in a steady torrent flowing, for example, to Europe, whilst the industrial nations of the world, at the same time, have to feed an equally steady flow of their own capital in the opposite direction, to enter the same countries which export their own funds. What is required is that developing countries must learn to trust in their own economies and their reliability.

There are developing countries whose exports to this day consist of commodities in proportions of up to 80 per cent, and whose output is mainly composed of merely one or two dominant products. Such countries must make an endeavour to break the chains of one-sided dependence, possibly by diversification in the horizontal, by increasing the number of individual raw materials or industrial crops the economy will bring forth, or by expanding processing and manufacture in the vertical, through the integration of basic production with treatment plants and the making of semi-finished articles. However, diversification and integration can be undertaken by developing countries only with assistance given them by industrial nations.

QUESTION: In Algiers, the delegations of developing countries have attempted to act as a caucus, by agreeing on their tactics and motions previous to the conference. Industrial nations, represented in Paris in the OECD, also came to a similar agreement, which means that there are now "fronts", or "camps", moving against each other. Does this not imply the risk that the main characteristic of the New Delhi Conference will simply be a confrontation, and not a process of give-and-take in negotiation?

ANSWER: There is a vast difference between what the "Group of 77" agreed upon at its own conference, and the results of OECD consultations undertaken by the industrial nations, and this is a difference in kind: The Algiers conference resulted in the so-called Algiers Charter, a collection of maximum demands, dubbed their "programme of action" by the developing countries, upon which these countries were able to agree. On the stage of New Delhi, individual developing countries will have to show whether they intend to insist on their maximum demands, as outlined in Algiers, or whether more moderate forces may prevail.

On the other hand, the only thing the industrial countries did in Paris was to agree on the extent

as to which preferential tariffs may be granted to developing countries, and in this they succeeded in achieving agreement about certain principles and important details. They also agreed on permanent and regular consultations to be held on the attitudes to be taken by the several industrial countries within OECD and DAC (Development Aid Council). But nobody could state with a semblance of truth that the same industrial countries have already committed themselves firmly on what they will offer and accept at New Delhi—on the contrary, they are essentially free in their decisions.

There is, of course, always the risk of a deep cleavage between attitudes and opinions, but whether such fundamental differences will stabilise themselves depends primarily on whether developing and industrial countries use the first stage of Conference for showing willingness to deviate from their preconceived notions sufficiently for making viable compromises possible. The danger of Conference degenerating into a confrontation is always present if and when both sides insist on their announced demands and conditions unyieldingly.

QUESTION: As you have already pointed out, most developing countries depend for their livelihood on exporting a small number of commodities, and on income from their export which is subject to violent fluctuations. Can an international price policy, in your view, do anything, and if so, how much in order to increase the developing countries' export income?

ANSWER: Export revenue is always made up of two components: price levels, and the quantities exported. Firstly, the relations between supply and demand are so different in the different commodity markets that it is virtually impossible to organise successful international price policy for all the commodities, but we believe, secondly, that it is more important, in this context, to improve export proceeds than to raise prices. We in the Federal Republic, for this

reason, are at least equally interested in expanding demand volumes as in obtaining advantageous prices. To take one example: Germany is able to import bananas at relatively cheap prices, and such low prices, taken by themselves, might have been unfavourable for the banana growers among the developing countries. However, precisely these low prices have enabled sales volumes to boom, and banana-growing developing countries were thus put in the position to achieve by far the largest growth of their income from the German market.

QUESTION: Are there also cases in which successful international raw material policies affecting one single market only do provide pointers to future developments?

ANSWER: There is indeed such an instance: the international coffee agreement which was negotiated more than five years ago. Its signature has led to an overall increase of export revenue for the community of coffee-growing countries of about \$ 600 million. This agreement was based, at the outset, upon a compromise between an endeavour to raise sales volumes at the same time with achieving reasonable unit prices. But whether the signatories will prolong this agreement for another five years is at present the subject of extremely difficult negotiations.

Of a similar degree of difficulty have been talks aiming at hammering out a world cocoa agreement, and they have not yet arrived at their successful conclusion, in spite of negotiators achieving the settlement of important parts of a future pact. The gaps between different local interests have still remained unbridgeable.

In the world sugar markets, too, efforts are being made for coming to an international accord, and a tin agreement is already in force. An international wheat agreement is to come into operation within the next few months.

QUESTION: How do you assess the chances of the plan to enable the developing countries to carry out their economic development

plans by making available supplementary credits to them in cases when their export revenues suddenly decline unexpectedly and not through these countries' own fault?

ANSWER: Such a plan is impracticable without previously working out sufficiently precise, long-term estimates of export revenues, because these estimates, under the plan, are to be the basis for an automatic flow of supplementary credits. To produce such estimates, however, is enormously difficult. Being based on methods of forward estimating of uncertain reliability, this plan is virtually useless, except as an academic and highly theoretical exercise. That is the reason why the Federal Republic of Germany advocates a more pragmatic approach, which would do without a precise plan, and deal with individual cases on their merits. But the Federal Republic is prepared to discuss the proposed plan at the Conference.

QUESTION: Negotiations about tariff preferences for developing countries are one of the chief subjects on the agenda of the Conference. What do you think of the chances of such preferences yielding practical results on a broad front?

ANSWER: Both developing countries and industrial member nations of OECD have thought deep and long about the proposed structure of a system of preferential tariffs. OECD members have arrived at agreeing about certain principles which, under the terms of agreement so far achieved, are to be submitted to the judgment of the developing countries at New Delhi in one or another form. The industrial nations, furthermore, are fully prepared to enter into talks with developing countries about the details of such a system, but industrial countries are not prepared to conclude a formal accord with developing countries about the granting of preferences. What the industrial countries are willing to do, is to issue autonomous preferences to developing countries, from time to time, and entirely at their own discretion,

and not under the terms of formal agreement. For every such grant, the country granting a preference must make application to GATT for obtaining a "waiver", i. e. exceptional permission to contravene the most-favoured-nation clause embodied in Article I of the General Agreement on Tariffs and Trade (GATT).

QUESTION: There are already certain developing countries now which enjoy preferential tariff treatment. What do such countries say to the granting of general preferences to all less developed countries? Will they welcome such a step, or might they demand special and additional preferences, so that the old differentials in their favour will be maintained—as far as you may be able to predict?

ANSWER: You are touching here one of the most difficult questions connected with the granting of tariff preferences, for neither all the industrialised nor all the developing countries have hitherto come to an agreement about what should be done in the future with existing regional preferences and their counterparts—preferential treatment granted by developing countries to certain industrial nations. I cannot see that an overall agreement on this question between industrial and developing countries will be worked out at the New Delhi Conference.

However, this problem is closely connected with the Jaunde Agreement, and about its renewal, member countries of the EEC will have to start talks during the current year. They will certainly also have to clear up, during these negotiations, the problem of regional preferences and counterpart preferences.

QUESTION: But anyway, we are certain that dealing with preferences will also be one of the main items of deliberation at the New Delhi Conference. Are preference systems, in their present form, or in any other shape to be developed in the future, at all suitable instruments for integrating developing countries more closely into world trade?

ANSWER: Granting tariff preferences is not an all-powerful nostrum or a panacea. Preferences lead to certain advantages enjoyed by developing countries, but in themselves, these will not be sufficient to open up for them completely the markets in industrial countries. To arrive at this target, less developed countries must be aided by further measures for promoting trade.

QUESTION: Can you name German institutions which, in the context of development aid, will produce such further-reaching trade promotion?

ANSWER: Among the federal authorities working in this field is the "Bundesstelle für Aussenhandel" (BfA) (Federal Foreign Trade Agency), based on Cologne. One of the BfA-Departments maintains constant liaison with GATT's Geneva Trade Centre. One of its tasks is to supply a stream of information to developing countries on German import regulations, and on available selling outlets in Germany. BfA will also reply to individual enquiries. Then there are regional "Vereine" (Clubs or Associations) for Wholesale and Foreign Trade in the individual Lands, and the Federal Association of German Wholesale and Foreign Trade (Bundesverband des Deutschen Gross- und Aussenhandels), all of which assist the exporting activities of developing countries.

From Technical Aid Funds, developing countries are also given grants-in-aid as contributions to the cost of running trade fairs, or to the staging of seminars for training export specialists, which is also intended to make less de-

veloped countries better fitted to engage in exports. These agencies and associations thus greatly reinforce trade promotion through foreign trade policy.

QUESTION: Would it also be possible to increase the German sales of products from developing countries by giving import traders State support from development aid funds for opening up new markets more forcefully? Could such importers not be protected against most of their risks in obtaining foreign imports, by credit guarantees?

ANSWER: This idea is very interesting, but State guarantees for credits to finance imports from developing countries would almost certainly result in importers importing more than previously, and with less of their customary caution, from developing countries. I believe this would not mean doing developing countries a true favour by granting such credits, because it cannot be expected that disciplined deliveries will be improved by such methods. We can improve the required discipline only by demonstrating to developing countries clearly that their exports will shrink if they violate the conditions on which they have agreed with a German importer.

QUESTION: You have mentioned BfA and the Federal Association of German Wholesale and Foreign Trade as bodies engaged in meritorious efforts for promoting the foreign trade of developing countries. Do you believe that setting up a German National Trade Centre would give even stronger support to the developing countries' exports?

ANSWER: At the present juncture, I have no idea of the possible form and tasks of such a national trade centre. BfA, about which I have already spoken, on the other hand, is nothing but a trade centre, cooperating on the same level, as mentioned before, with GATT's Trade Centre, and it has already introduced a number of support measures for improving the sale of products of developing countries in German markets. In addition to BfA feeding information to exporting firms in developing countries, the Federal Government, already eighteen months or two years ago, has asked its embassies and diplomatic missions abroad to pursue with particular attention the task of facilitating the export of their host countries' products to the Federal Republic.

QUESTION: What do you think of a Joint GATT and UNCTAD Trade Centre for promoting foreign trade of the developing countries, and its possibilities?

ANSWER: We welcome this proposal and will extend all possible support to it, as we believe that such a merger will lead to the mobilisation of ampler funds. If such a Joint Trade Centre can be placed under truly expert leadership and also manages to retain the services of the experienced staff which has so far worked for the old Trade Centre, the new centre will certainly do much towards greatly enlarging the scope of GATT's trade promotion and to underpin it solidly, by training new entrepreneurs and trade experts.



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