

Schmidt, Karl

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## Dialogue with Latin America on economics

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## Dialogue with Latin America on Economics

The Latin American sub-continent is in the middle of rapid change. The two following contributions discuss some topical economic and political problems of individual republics of Latin America.

### No Fright because of Nationalist Trends

Interview with Karl Schmidt, Member of the Board of Deutsch-Südamerikanische Bank AG, Hamburg

*Herr Schmidt, you have stated that the Latin American business community does not show much understanding of the reasons why credits on foreign account have been restricted, and why the rates of interest payable on them have risen quite considerably, when at the same time some Soviet Bloc countries were granted loans at much more favourable terms. Could you explain to us what you have meant by this remark?*

This is not merely a matter of private opinion. There are, as a matter of fact, differences in the manner how credits are granted, and the underlying causes of them can only be learnt by analysing the political situation. But it is hard to be-

lieve that the victims of such "discrimination" could be expected to show much understanding for it, especially if they feel that they suffer from higher rates of interest than others. And this is the case in the Latin American Republics, even though they welcome on principle, for example, the German Federal Government's efforts to place its relations with the Soviet Bloc on a more normal foundation.

#### High International Rates of Interest

*For reasons of the trade cycle, hardly anybody in western industrialised countries expects a forthcoming decline of the interest level, which is now so high. Is it conceivable that high*

*rates of interest for credits applicable within the industrialised countries would act as a strong brake on the economic development of the Third World?*

Taken by themselves, current high interest rates within the industrialised countries have no adverse effect on economic developments in the countries of Latin America. Interest levels (in local currency) in the Latin American countries, after all, are without exception much higher than the cost of credit for ourselves. Indirectly, it is true, there is an adverse effect through the higher prices for investment goods delivered to Latin America, by which higher credit costs are passed on to the purchaser. The existing gap between expenditure on capital

goods and the income from raw material exports, which are used for paying for imports, will grow wider. To close or at least narrow this gap is a task for the governments of industrialised countries, which must be given high priority.

There was a time when, for example, Brazil was able to buy a tractor for the equivalent of ten bags of coffee. This equivalent has grown to a current value of about 40 bags of coffee. The growing adversity of the terms of trade moving against the developing countries, through import prices of investment goods rising relatively to export prices for commodities, increases their shortage of convertible currency, which is the basic difficulty. The usual rates of interest obtaining in Latin America are often of the order of 15 p.c. and more.

#### **Subsidising the Supply of Investment Goods**

*Would it be a feasible proposition to subsidise the supply of investment goods to developing countries from the national budgets of industrialised countries, in order to counteract the harmful effect of rising prices of investment goods?*

This would require all industrialised nations subsidising their deliveries to the same extent. I do not believe that agreement could be reached on a unified method for doing so. Besides, subsidising the export of investment goods is no practicable substitute for what the countries of the Third World have always been demanding: raising, or at least stabilising, at a reasonable level the prices of the world market for raw materials.

*Do you think the Federal German Government ought to pass special measures for promoting exports to Latin America*

*and/or for increasing the outflow of direct investments there?*

It is not only the Federal Republic but all the industrialised countries which ought to give more support to building up the economies of developing countries. On the other hand, I do not think additional measures of the German Federal authorities are needed for increasing German exports and direct investments. It would be more advisable for the Federal Government to show more active understanding of the concern shown by developing countries about their raw material exports, and of their requirements in this field, and it should naturally avoid measures which make German exports more difficult and/or more expensive, e.g. by further revaluing the DM currency.

#### **Some Countries Prone to Nationalism**

*The export and investment activities of German companies in Latin America are frequently made more difficult in some countries by exaggerated nationalist policies. Does this trend cause you to worry?*

There is indeed a measure of political and economic nationalism which may affect the efforts to broaden and deepen economic cooperation. However, I do not think this trend too alarming, and I do not worry unduly about its setting up insurmountable obstacles to German investment activities.

It is always possible that Latin American nationalism compels foreign investors to accept local partners when forming local associate companies of their concerns, or that they have to be content with acquiring only a minority interest in such companies, thus preventing the creation of wholly foreign-owned subsidiaries. Investors should also study national economic development plans and avoid to

give the impression that, by a massive injection of their capital in key industries, they try to influence local national policies through their sheer economic power. On the other hand, it is generally in the national interest of host countries when foreign investors build up new manufactures, which may in the future start to earn foreign currency.

Incidentally, it would be misguided to feel anxiety about the strength of the nationalist trend in economic affairs. Even pointedly nationalist Latin American personalities and groups do not ignore the fact that their own countries' economic strength is frequently not sufficient, so that aid from industrialised countries has always been indispensable, and will remain so for a long time to come, making co-operation between partners generally unavoidable.

#### **Future Investment Chances**

*In spite of political uncertainties, do you believe that German companies will continue to be prepared to invest in Latin America as much as or even more than in the past?*

Yes, of course, for the large German corporations cannot afford today to let the manufacturing concerns stagnate, which they have set up in South America. Beyond such considerations, and independently of local political developments, naturally, only as long as the foundations of democracy are not totally destroyed, or military juntas pursue fairly reasonable policies, the prospects for future economic expansion in Latin America can only be described as favourable—much more favourable than in many other developing countries. Latin America is rich in natural resources, which form a broad basis for the economic advance and fruitful development of its diverse countries.