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## Development Policy in the Conflict of Opinions

We asked the Federal Minister for Economic Cooperation, Dr Erhard Eppler, and the Speaker of the Opposition on Development Policy, Walther Leisler Kiep, five questions on development assistance.

*Public and private development aid by the Federal Republic in 1970 amounted to only 0.79 p.c. of the GNP and was thus lower than in the preceding year. Is this trend to be attributed to adverse economic circumstances or to faulty planning by the Federal Republic?*

**Dr Eppler:** The net flow of public and private resources in fact declined from 1.33 p.c. of GNP in 1969 to 0.79 p.c. in 1970. Direct investments, however, rose by DM 173 mn in this period. This means that the kind of private contributions which is most important for the developing countries has reached a new record. The strong fall of the private contributions as a whole is mainly due to the fact that portfolio investments were down by almost DM 2.2 bn. This was primarily a result of the high rate of interest prevailing in the Federal Republic of Germany. It should be observed that the revaluation of the DM, while hurting the export of goods, did not affect the export of capital.

Within the scope of official development assistance—which altogether fell from 0.39 p.c. (1969) to 0.33 p.c.—, two important components went up in

1970. The funds for technical assistance which consist of non-repayable grants were increased by DM 55 mn. At the same time, our contributions to multilateral development assistance rose by almost the same amount, about DM 54 mn. The total outlay for technical assistance in 1970 was about DM 918 mn, for the multilateral contributions about DM 525 mn.

The fall of official development assistance in 1970 to DM 2,239 mn which means a decline by DM 95 mn as against the previous year was caused by the fact that part of the capital aid funds appropriated for 1970 (DM 208 mn) could not be expended because commitment authorisations were fixed too low in the sixties by the then government. It is not possible to make predictions about the outflow of the capital aid funds appropriated, because payments for projects sometimes spread over periods of up to 8 years. It is not the planning of the Federal Government which is responsible for this but that of the developing countries concerned.

**Leisler Kiep:** The Federal Government attributes this decline, which is in sharp contrast to the

forecasts made in the Government Statement of October 28, 1969, and repeated in the Cabinet proposal of February 11, 1971, to the allegedly exceptional situation in 1970 for which it adduces three reasons:

- ☐ the rise of the GNP by a nominal 12.4 p.c.;
- ☐ the decline in private contributions by DM 3.5 bn;
- ☐ the incomplete use made of the funds earmarked for bilateral capital aid under the ministry's plan No. 23.

Upon closer examination however none of these arguments is seen to be valid. This applies first of all to the rise of the GNP by a nominal 12.4 p.c. Already in 1969 a growth rate of 11.6 p.c. had been recorded, and this did not prevent the Federal Republic of Germany from surpassing the one per cent target by a substantial margin; the actual figure that year was 1.33 p.c.

The DM 3.5 bn decline in private contributions should have caused as little surprise. Anybody endowed with some economic common sense could have foreseen this trend following the DM-revaluation by the Federal Government; for the curbing of

the German export volume and the dampening effect of the large surpluses on the German balance of trade were two of the declared aims of the revaluation. Unusual was therefore not the decline of private contributions in 1970 but the unprecedentedly high level of German private contributions in 1969 which was due to the well-known external economic situation in that year.

That the funds earmarked for bilateral capital aid were not fully drawn offers no plausible explanation either. The Federal Government is indeed open to criticism on the ground that its estimate of these foreseeable cash disbursements, which are of course determined by the forward commitments authorised in preceding years, was too high.

The main problem in regard to the attainment of the one per cent target appears to derive from the connection, which the Federal Government apparently did not appreciate, between its economic and stabilisation policies. The one per cent recommendation of the Second World Trade Conference linked the German development target to nominal growth. High nominal growth rates such as result from an economic policy which pays little attention to stability, in conjunction with the economic uncertainty diffused generally by the Federal Government, are bound to lead to a falling-off of the contributions in terms of GNP. Besides, the purchasing power of the developing countries is being considerably curtailed by depreciating money values and rising prices.

### Public Development Aid

*The Federal Government has receded further from the objective that public development aid should amount to 0.7 p.c. of GNP. How far must accomplishment of this aim be left to the distant future?*

**Dr Eppler:** I do not know of anyone who would have said that this target would be attained in the near future. The Federal Government has, in its Policy Statement of October 1970, declared that it accepts the 0.7 p.c. target of the United Nations in principle. It has reaffirmed this position in the concept of development assistance adopted by the Federal Cabinet on February 11, 1971. It has intentionally abstained from naming a date for the attainment of this goal. Mentioning a date might have aroused expectations which perhaps could not be fulfilled afterwards.

In its Policy Statement, the Federal Government said it would endeavour to attain the Pearson target by increasing its development assistance by 11 p.c. every year. It has increased its commitments—these alone are important as they determine cash appropriations—by 11 p.c. in 1970 and again in 1971. The difficulty is—in the Federal Republic of Germany just as in other industrial countries—that the nominal growth rate of GNP was much larger than envisaged.

**Leisler Klep:** In the Government Statement of October 1969 the Federal Chancellor adopted the quantitative targets of the Pearson report, i.e., that the Federal Republic will "facilitate net disbursements to the amount of 0.7 p.c. of GNP by 1975 or soon afterwards but certainly no later than 1980" (Quoted from the German version of the Pearson report, p. 180).

When the strategy document of the United Nations was passed, the USA, Great Britain, Japan, Italy and other nations rejected this target in the light of a realistic assessment of their financial capabilities, although some of these countries contribute more to development aid than the Federal Republic. The commitment to the 0.7 p.c. target however is precarious because

with the annual increase rated at 11 p.c. while the GNP growth rate in the last two years was more than 11 p.c. the envisaged expenditure will not even maintain the current ratio of contributions let alone ensure progress towards the declared target; besides, one hears from the Federal Ministries of Economics and Finance of cuts being contemplated. So as to reach the target by the end of 1980, gross outflows would have to rise at a rate of 15.4 p.c. annually from 1972 or 17.7 p.c. from 1975 onwards; and this calculation was based on a 7.1 p.c. annual growth rate for the economy as a whole, a figure to which only three of the last ten years failed to come up. In absolute figures, the budget of the Federal Minister for Economic Cooperation would have to rise from currently DM 2.2 bn to DM 7 bn.

Such promises made without solid financial planning must have a disconcerting effect on the developing countries and committed groups in the Federal Republic. The CDU/CSU advocates a steady increase in economic aid contributions within the compass of our economic and financial abilities. It is however fatal to the credibility abroad of the Federal Republic of Germany if announcements and promises are made for the sake of short-term political gain for which no financial safeguards have been arranged.

### Aid by Trade

*According to the conventional view the industrialised countries should not only grant public and private development aid but give aid by trade as well. It is however in the commercial sector in particular that the industrialised countries have scarcely begun to grant concessions to the developing countries. What is your view of the future opportunities in this field?*

**Dr Eppler:** Aid by Trade is a very important sector of development assistance policy. The developing countries must be enabled to earn the foreign exchange they need for the building of their economy from increased exports.

The Strategy of the United Nations for the Second Development Decade called for: the creation of better access for the developing countries to the world markets and an increase of the exports of semi-manufactures and manufactures. The annual increase of developing countries' exports should be at least 7 p.c. The Federal Government has explicitly stated its support of these targets.

From July 1, 1971, the EEC countries have granted tariff preferences to the developing countries with regard to all commodities of the industrial sector and a large list of agricultural products. These preferences which in effect mean exceptions from custom duties, will be valid for ten years. The Federal Government has been very active in the work done to achieve this important step. It is now up to the developing countries to make the best possible use of the new opportunities by increasing their export efforts.

In addition the Federal Government continues its endeavours to facilitate the construction of production plants in developing countries and to improve the marketing by granting capital aid, by encouraging private investments and by providing technical assistance.

**Leisler Kiep:** There is a wide measure of agreement that self-sustaining economic growth in the developing countries can be promoted by an improved division of labour in the world economy and their closer integration with world commerce. The CDU/CSU welcomes the intention of the Federal Government to carry

on the liberal policy of its predecessors in the external economic sphere. It takes a positive attitude to the grant of tariff preferences and improved export consultation for developing countries. It has however emphasised in the Bundestag debate on April 28, 1971, that such measures alone cannot solve the problems confronting a long-term development policy. Greater participation in world-wide competition by the developing countries presupposes clear ideas about the aim of the division of labour in the world economy which the Federal Government so far seems to lack.

In the context of Professor Tinbergen's proposals arises the fundamental question of what is the best system for the division of labour in the world economy. The concept which originated in the nineteenth century, that the agricultural and raw material producing territories should group themselves around a large industrial zone does not conform with reality or the requirements of the situation. The policy of the present Federal Government, on the other hand, seems to rely on the orthodox foreign trade theory of Ricardo with its so-called "comparative cost advantages", which does not seem to be sufficiently realistic to serve as the basis of a development policy. Account must be taken in the discussion of structural considerations which extend beyond those involved in the structural policy in the developing countries.

Closer integration of the developing countries with the world economy requires:

- ☐ the creation of appropriate preconditions in the developing countries;
- ☐ the removal of obstacles to inter-State trade;
- ☐ preparations in good time for amicable adaptation to the struc-

tural changes to be expected in the industrial countries and the fair distribution of the burdens ensuing from them.

### Country-related Aid Programmes

*Under the Federal Government's new concept for its development policy the individual object-related measures are to be replaced by programme-related measures. How much more "efficient" will this make the development aid?*

**Dr Eppler:** Also in the future there will certainly be individual measures, but no more isolated projects. Our new concept of development assistance policy enables us to make a more adequate and hence "more efficient" use of the scarce funds at our disposal. Our measures will be made to fit into the overall economic and social development of the recipient country concerned. This new approach is known as "country-related aid programmes". Moreover, these programmes are to be better coordinated internationally. The suggestions we have made at the Heidelberg Conference in June 1970 have meanwhile resulted in decisions of the Development Assistance Committee in Paris. The advantages of aid programmes for individual developing countries are obvious:

- ☐ The numerous isolated individual projects can be organised in consistent programmes with clear priorities.
- ☐ The individualities and the different starting situations of the developing countries may be better taken into account.
- ☐ The efforts of the developing countries, the international organisations and the industrial countries will be better coordinated.

The organisational prerequisites for the preparation of such programmes have been created.

**Leisler Kiep:** Efficient development aid must aim at finding projects, processes and objectives which enable the individual economies as a whole to join the current of self-generating growth and progress. In its choice of promotional instruments development policy must use our human and material resources in a carefully integrated form. The creation of an efficient agriculture in particular is capable of countering the desertion of the countryside now taking place on an increasing scale and of laying the foundation for an adequate food supply. Besides, a flourishing agriculture stimulates the demand for consumer goods which in turn helps commerce, crafts and manufacture to develop their own productive activities. A development policy directed towards successful achievement—and no longer poured out as from a watering can to give “assistance as needed”—which is to result in self-supporting economic growth must however start out from the creation of the necessary technical and organisational prerequisites in the donor country. Only a fully operational apparatus is capable of accomplishing the tremendous tasks of such far-reaching importance for peace in the world. The Federal Ministry for Economic Cooperation in its present form and with its present competencies is not capable of it. The unwillingness of the Federal Government to carry out the necessary reforms is all the more deplorable because development policy presents a challenge with all the features of a real charge for the future which cannot be squeezed into an archaic administrative set-up.

### **Relations with Chile**

*What are in your view the consequences for German development aid of the “Chile incident”?*

**Dr Eppler:** Following the diplomatic recognition of the German Democratic Republic by Chile, the Federal Government has decided on April 22 not to break off the diplomatic relations of the Federal Republic of Germany with Chile nor to terminate development assistance for Chile. The Hallstein Doctrine of former governments is not applied. This is in keeping with our concept of development assistance policy according to which development policy is not an instrument of short-term foreign policy interests.

The Federal Government is reviewing the whole of its bilateral relations to Chile. It must be made sure, among other things, that development assistance can be extended without disturbances. Although in view of its efforts to normalise its relations to the GDR, the Federal Government feels that the recognition of the GDR by Chile was an unsuitable step at the stage, it is interested in maintaining its relations with Chile which on the whole are good. The Chilean Government has repeatedly intimated to the Federal Republic of Germany that it is anxious to maintain a good relationship. I feel this helps to make it possible for us to speak about development policy in that country also in the future.

**Leisler Kiep:** The Brandt/Scheel Government makes an intensification or reduction of development aid contributions conditional upon the “progress of the intra-German negotiations” which it does not want to be disrupted by political steps. It thus substitutes the Scheel doctrine for the previously practised Hallstein doctrine according to which recognition of the German Democratic Republic by third States was considered an unfriendly act to which the Federal Government reacted as the case required. As long as the

Hallstein doctrine prevailed, governments willing to grant such recognition were at all times clearly aware of the consequences of such a step and able to take them into account when taking their political decision. Now that the Federal Government in accordance with the Scheel doctrine sets a time limit to its objection, it exerts an immediate influence on the decisions of another country without knowing in its own mind what attitude it will take towards these countries if and when the intra-German dialogue ends in failure. State Secretary Mörsch of the Foreign Office refused to answer a parliamentary question on the subject on the ground that it was hypothetical. How long the Federal Government can by this practice restrain other Governments from recognising the GDR if they are willing to grant it recognition is shown by the example of Chile.

There is however another effect of the Scheel doctrine which is of more far-reaching consequence for the countries concerned and their economic development. By urging States which are willing to grant recognition to suspend their decision, the Federal Government drags them directly into the East-West conflict. If they comply with the wishes of the Federal Government, the developing countries risk encumbering their relations not only with East Berlin but with all eastern socialist countries; if they decide in favour of recognising the GDR, the Federal Government threatens consequences for its development contributions. Whatever decision is taken helps the developing country least of all. The Scheel doctrine is thus shown to be a most problematic criterion for the granting of development aid and is no improvement as compared with the Hallstein-doctrine.