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the preference scheme will facilitate further advances in future.

The general tariff preferences will tend gradually to reduce the importance of existing regional preferences. In conjunction with the second Yaoundé Convention, the associated African states have been given an option to remove the reversed preferences which they conceded to the European Communities. This will improve the prospects for a solution of a problem which has long encumbered the relations between the European Communities and the USA.

The Federal Republic of Germany has been persistent in its advocacy of general tariff preferences ever since 1964. The Federal Minister for Eco-

nomics Affairs and Finance, Professor Schiller, supported the proposal for the grant of tariff preferences explicitly at the second United Nations Conference on Trade and Development in 1968. The policy declaration of the Federal Government of October 28, 1969, stressed the importance of tariff preferences as an instrument for promoting the exports of the developing countries. The policy of the Federal Government has contributed to the opening of a new phase of international cooperation in trade policy by the European Communities. Even though the tariff preferences are not a solution for all the problems of the developing countries, they are a sound basis for more progress in the second United Nations development decade from 1971 to 1980.

Critical Notes on German Development Strategy

by Karl Fasbender, Hamburg

The United Nations' first development decade has not come up to expectations in its results: neither did developing countries succeed in achieving a minimum growth rate of 5 p.c. of their GNP, nor did industrialised nations use for aid the equivalent of 1 p.c. of their GNP. U Thant called this decade a decade of frustration.

The start of the second decade afforded an opportunity to the nations and international organisations taking part in development aid for thinking over once more their development aid strategy. This was also the case in the Federal Republic of Germany, whose net aid, during the period 1960-70 totalled DM 44.2 bn (DM 5.1 bn in 1970 alone). Of this total, aid from public funds amounted to DM 22.5 bn (1970: 2.7 bn) and private aid to DM 21.7 bn (2.4 bn)¹. This means that the Federal Republic has become one of the most important donors of aid to the Third World although, it must be admitted, Germany has not developed a general concept of its development policy in the past. In February, 1971, the Federal Government has overcome this lack of overall planning by publishing a general concept for the new decade, which has just started². This does not only list the principles, the intended objectives, and

the priorities for future development policies but also overall financial planning and the description of its main organisational instruments.

Principles and Aims

The Federal Government gives broad support to the objectives set out in the Document on Development Strategy of the United Nations as to quality and quantity. The fundamental aim of this document is "to create the conditions of general stability and prosperity in the whole world, and to secure a humane minimum standard of living through social progress and development"³. The aim of interpreting its policy in this way is to consolidate the international position of the Federal Republic, to lay the foundations for trade growth, and in the long term, to improve the chances for a safe peace. This means that German development policy is to become an integrated part of its general policy. However, it is stated that development policy is not a short-term in-

¹ Press Releases of the Federal Ministry of Economic Cooperation (hereafter abbreviated as BMZ).

² Cf. here and below: BMZ, Entwicklungspolitische Konzeption der Bundesrepublik Deutschland für die Zweite Entwicklungsdade (Concept for Federal Republic of Germany's Development Policy in the Second Development Decade), in: Bulletin of the Press and Information Office of the Federal Government, Bonn, No. 25, Feb. 17, 1971, pp. 263 et seq.

³ UN, Internationale Strategie für das Zweite Entwicklungsjahrzehnt der Vereinten Nationen (International Development Strategy for the Second Development Decade of the United Nations), in the BMZ publication of the same title, Bonn, 1971, p. 7.

strument for foreign policy, and it must conform to the aims and intentions of developing nations.

Among other things, the Federal Government intends to use these highly generalised aims for disarming criticism against development policy. However, this alone will hardly be sufficient unless its population is offered better information by an improved public relations policy. But the Federal Government has taken already an unambiguous stand towards a subject which is at present the centre of keen debate: the Federal Government will not press upon the partner governments its own political, social, or economic ideas.

The focal points of German development policy are to be in the following fields of operation:

- ☐ the fight against unemployment and underemployment, mainly through help for labour-intensive projects, and for youth services and voluntary services;
- ☐ help for an education system geared to the needs of recipient countries, especially through aiding organisations for vocational training, within and without formal school education;
- ☐ structural improvements in rural districts, through help in building up productive and diversified types of farming;
- ☐ increased economic diversification, through giving more aid to projects which accelerate economic development, or which are capable of earning more foreign currency and/or economising foreign currency outgoings;
- ☐ improvement of developing countries' capacity for planning and organising through advice and management aid;
- ☐ direct aid for improving the conditions of life, mainly through family planning, building up health services, and more rational feeding habits.

Overall Priorities

This is the first list of priorities which the Federal Government has ever published. Without it, no rational use of German development aid would be possible. Admittedly, as the main points have been listed, they sound highly generalised and therefore non-committal. For example, almost all projects may be stated to serve economic diversification. Therefore, final judgement about the Federal Government's list of priorities must be reserved until the Government will issue a more detailed interpretation of it. It is, however, possible and necessary to discuss already now two of these points:

There is real need to give the fight against unemployment and underemployment top priority⁴, be-

⁴ Cf. Jan Tinbergen, *Ein neues Konzept* (A new Concept), in: *Die Zeit*, No. 19, May 7, 1971.

cause rapid population growth and the flight of the rural population to the towns progressively increases the importance of this problem, threatening not only the economic but also the political stability of the Third World. For the first time, the Federal Government has adopted clearly the aim of family planning, which is the most novel kind of German development aid⁵. However, since birth control is highly controversial, not only in the Federal Republic but also in the Third World, especially in Latin America, the Federal Government has taken special precautions: such measures may only be taken "if the developing country specifically expresses its desire to apply them"⁶. Moreover, such aid is to be channelled virtually always through multi-national organisations and/or national programmes carried out by private groups, which shows that the Federal Government does not intend at all to interfere with internal problems of developing nations. But through this it largely divests itself of carrying out ideas of its own in the field of family planning.

A New Point of Departure

"The point of departure for effective use of German development aid's instruments will in future be long-term, integrated aid programmes, tailored to the needs of individual countries, and internationally coordinated aid programmes to be drawn up country by country"⁷. In other words, development aid will no longer be geared to individual projects but to the needs of individual countries. Abandoning aid for separate projects will enable the German donors not only to scrutinise economic and social effectiveness of projects, but also to select priorities, locations for investments, and the places where, if necessary and desirable, follow-up investments should be made. It is especially intended to clarify the interdependence between different sectors of the economy and between different countries of a given region, in order to make aid conform to the real requirements of these countries. In the past, some projects were not susceptible of integration with given national economies, and the funds invested in them were lost. By choosing a new point of departure for German developing aid, it is hoped to avoid the recurrence of such errors.

It is, however, a moot question whether conditions for this kind of advance planning really exist, because aid programmes geared to the needs of individual countries can be based only on overall, regional, and sector-directed planning. And there

⁵ The Federal Republic made available DM 5 mn for the first time in 1969 to serve this purpose.

⁶ See *Entwicklungspolitische Konzeption der Bundesrepublik Deutschland für die Zweite Entwicklungsdekade*, (Development Policy Concept of the Federal Republic of Germany for the Second Development Decade), L.C., p. 267.

⁷ L.C., p. 264.

are probably very few countries where such conditions can be met. Where such planning does exist, it is usually based on insufficient statistical evidence, or on estimates, whose margins of error are frequently of a magnitude of 100 p.c.⁸

Stricter Requirements

Programmes geared to the needs of individual countries, on the other hand, demand also a higher degree of effectiveness and coordination of the Federal Republic. In selecting and carrying out individual projects, effective coordination between the various donors of aid is indispensable. But this is often lacking even in the field of government aid⁹. There is frequent friction between the Federal Ministry of Economic Cooperation (which organises technical aid) and the Federal Ministry of Economics (which finances capital aid). To what extent such friction can be reduced by recent agreements remains to be seen. It would be best to subordinate the most important forms of aid to one single ministry. Since the Ministry of Economics and of Finance have been merged, it would be useful to endow the Federal Ministry for Economic Cooperation with overriding responsibility also for capital aid. If there is not even, as in the past, a chance for achieving the indispensable coordination on government level, it can, of course, be expected even less between private and government aid, national and multi-national aid, though the Federal Government itself declares it to be necessary. Aid programmes geared to the requirements of individual countries can, therefore, only be treated as a useful theoretical concept, so far, but not as an effective tool for the practical man.

Financial Planning

It appears more realistic to aim at making annual capital transfers equivalent to 1 p.c. of the GNP. In 1969, for example, the Federal Republic gave net aid of 1.33 p.c. of its GNP, but in 1970, its transfer dwindled to 0.76 p.c., mainly because private buying of development stocks was shrinking. But fluctuations of this kind, which are caused by the government's policy on interest rates, are unavoidable as long as private transactions are accepted as development aid. Yet on principle, such fluctuations will not make it impossible to achieve an overall average transfer of 1 p.c.

It is intended to increase government aid to 0.7 p.c. of the GNP, during the current decade, and "as early as possible". This definition of the Federal

Government differs from the aim of the United Nations to reach this level already by 1975. Anyway, it is an open question whether this level can be reached at all in the Federal Republic. The Government's medium-term financial planning provides for an increase in government aid till 1974 by 11 p.c. By 1975 and after, the growth rate would have to be 22 p.c.¹⁰. In view of the planned internal reforms, it will already be difficult to achieve a growth rate of 11 p.c., but to speak of eventually doubling this rate appears to be a product of wishful thinking. Under outside pressure, the Federal Government has thus adopted a target figure which can hardly be reached, and its German critics will use its failure to belittle its successes¹¹.

¹⁰ See Klaus Leffringhausen, *Regierungserklärungen zur Entwicklungspolitik werfen Fragen auf* (Government Statements on Development Policy Have Posed Questions), in: *Entwicklung und Zusammenarbeit*, 1971, No. 5, p. 4.

¹¹ That the CDU/CSU opposition will not pass by this chance unused, may be seen from the interviews of INTERECONOMICS with the Federal Minister, Dr Eppler, and the opposition spokesman on development policy, Leisler Kiep. Moreover, the opposition spokesman fears for the Federal Republic's credibility in foreign countries, as follows: "Such promises made without solid financial planning must have a disconcerting effect on the developing countries..." (from the interview on "Development Policy in the Conflict of Opinions", in: *INTERECONOMICS*, 1971, No. 7, p. 201).

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⁸ Peter Diebold, *FAO-Leitplan - Wegweiser einer internationalen Agrarpolitik* (The FAO's General Plan - a Pointer towards an International Policy on Farming), in: *WIRTSCHAFTSDIENST*, 1968, Vol. 48, No. 6, pp. 341 et seq.

⁹ Almost all government departments bear responsibility for Development Aid, though in varying proportions.

As always, capital aid is to remain the most important instrument of government assistance¹². The total of capital aid promises given during the period 1960-70 was DM 15.39 bn (1970 alone: DM 1.38 bn). Net payments totalled in the same period DM 9.92 bn (DM 0.78 bn)¹³. In the past, the lion's share of these payments was for infrastructural projects, but in future, projects which promise quick profit yields are to be given priority. It may be doubted whether this shift is desirable within the overall framework of development policy, or whether it conforms to the list of focal points for aid, which has been discussed above. It is, of course, true that this new policy, in the short term, may help many developing countries to get over their situation of heavy indebtedness, which is also to be facilitated by reformed conditions for the credits granted. It is intended to charge an interest rate of 2.5 p.c., to extend repayments over 30 years, and to start repayments only after 8 years. In contrast to earlier years, during which the Federal Republic's credits were issued only under rather harsh conditions, this is certainly progressive, and it shows Germany also in a favourable light, compared with other creditor states.

Capital Aid

Already in 1970, the Federal Republic has come very near to this aim: development credits were issued, on average, on the following terms — a rate of interest of 2.85 p.c., a repayment period of 28.2 years, and repayment to start after 8 years. But in view of the debts which developing countries are already carrying, and of the amounts of development capital which they still need, even these terms will hardly be sufficient for making a worthwhile contribution to overcoming their indebtedness. By tying capital aid to the purchase of certain products of the creditor countries, the value of such aid is reduced by an estimated 20 p.c. On principle, the Federal Government is therefore willing to reduce the proportion of such "aid with strings". In 1970, aid tied to certain deliveries represented 26.8 p.c. of total capital aid. However, the Government has not yet drawn the logical conclusion — to abolish such "strings" entirely. That they are still being retained for capital aid is being explained by the need for protecting the German economy against unfair competition, caused by the much tighter "strings" for aid granted by other countries. But this is not a very cogent argument, because the Federal

Republic, as a country whose exports are relatively cheap, manages to obtain about 80 p.c. of all non-tied capital development orders, and about 200 p.c. of all orders financed by its own mutual aid¹⁴.

Technical Aid

The second pillar upon which German development aid is built is technical aid. In this field, it is intended to achieve above-average increases for educational, administrative, and management aid, as well as for fosterings skilled crafts and trades. Average increases are planned for aid to farming, to health service, and to commerce. Particular care is to be taken to recruit and train experts for work in developing countries. It is envisaged to double the number of experts to about 3,000 and that of development helpers to about 2,200.

It will probably be relatively easy to increase the number of development helpers, as they are excused military service and receive other bonuses for their work, but past experience has shown that recruitment of more experts, without accepting a lower level of their training and expertise, will hardly be possible. The German business community is not prepared to pay more for foreign experiences, and many experts, during the years which they are spending abroad, are losing contact with developments in their home countries. But even if the government should succeed in reaching its declared aims, this will only mitigate but not obviate existing staff shortages, even though training of local counterpart experts is also to be increased. In the field of aid through supplying trained staff, the Federal Republic has lagged far behind the other important creditor countries.

The fact that development aid is now being planned to serve a number of main and focal purposes shows that the Federal Republic has become aware of the mistakes of its past development policy. The intended reforms and the large volume of its aid will assure for it the role of one of the most important donor states also in the future. But the main aim of its new development aid concept—to replace individual projects by programmes geared to the needs of individual countries and based on international coordination—will still remain a dream of the future.

¹² However, capital aid is to be reduced relatively to technical aid, in order to obtain a well-balanced proportion between capital transfers and the transfer of knowhow. For this reason, authorised expenditure on capital account for 1971 was increased by 9 p.c., whilst technical aid is to rise by 18 p.c.

¹³ Press releases of the Federal Ministry of Economics.

¹⁴ Estimates of BMZ up to the end of 1969 show that Germany's share in new deposits with the World Bank was 5.5 p.c. of the total, but its share in drawings on account of goods supplied nearly 12 p.c. In account with IDA, the corresponding figures were 8.9 and 19.3 p.c., respectively. In account with the Second European Development Fund, new deposits for financing aid were 33 p.c. of the total, drawings for deliveries only 22.5 p.c. But compared with past developments, this was an improvement of the German position; cf. Karl-Heinz Sohn, *Kooperation ist das Gebot der Stunde* (Cooperation is Needed Now), in: *Vorwärts*, No. 6, Feb. 6, 1971.