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Development Aid Priority Target Number One

Interview with Dr Gerd Tacke, Vice-Chairman of the Board of Directors of Siemens AG, Munich, on the future aid and trade relations between industrial and developing countries.

Dr Tacke, what is your view about the Federal Ministry for Economic Cooperation's endeavour during the last legislation period to improve the quality of development aid by achieving closer interdependence between the various aid tools?

I think that the Federal Ministry's efforts are necessary and deserve praise. However, perhaps it may be a little too early to produce a final assessment of success of Minister Eppler's striving to improve development aid's quality by greater harmonisation of its means and ways. On principle, any attempt to raise the quality of aid by better coordination is praiseworthy. But it would be a grave error to misunderstand coordination as setting up new bureaucratic machinery, which would delay even more the process of decision-making, thus affecting adversely development aid's effectiveness. Especially the relations between public and private aid ought to be better coordinated, as the two are as closely connected as are Siamese twins. But their highly desirable cooperation should make use of existing institutions.

Do you think that the transfer of capital aid from the Federal Ministry of Economics to the Federal Ministry for Economic Cooperation may be capable of improving the quality of public sector development aid?

Improved Coordination

Basically, success and/or failure of public development aid does not depend so much on the division of responsibilities between different ministries but on the personal qualities of those who work there responsibly — which means that efficient and experienced officials who themselves know the countries of the Third World and are practical "doers" should be placed in charge of carrying out the difficult business of development policy. However, I do not ignore the fact that uniting both technical and capital aid under one single roof may be of advantage for the future.

It was in November, 1972, when an independent group of experts from the United States, Western Europe and Japan came together in Brussels to investigate the problem through

which practicable political means aid to the countries of the Third World can be best transacted. This Commission, among other things, declared it to be essential that official development aid ought not to be given anymore under the condition that the necessary equipment must be provided by the donor countries. Are you of the same opinion?

Fundamentally, I agree with this demand. I have often enough spoken and written to the effect that "aid with strings" ought to disappear — statements which some of my industrialist colleagues resented. On the other hand, two essential factors must not be disregarded: In the Federal Republic of Germany less than 25 p.c. of capital aid is tied up with strings, which means that we are marching far in front of all other countries in the liberalisation of our capital aid. It is a question whether to advance even more in this matter, whilst other industrialised nations progress in the opposite direction by tying up their capital aid with exports of their own. Thus, for example, the USA has tied its capital aid

much more closely to its own exports from August, 1971, onwards, and also other countries do not seem to think much of the principle of capital aid without strings.

Secondly — drawing on my own practical experience — there are cases in which aid with strings may be more rational and even cheaper. Thus, in cases of telecommunication projects, it is indispensable that, long before any agreement on a given capital aid project has been signed, close cooperation between the commission of experts from the Ministry and the supplier company begins, in order to assure the less developed country (LDC) in question that it will benefit by deliveries of optimal quality. Such cooperation is more easily entered upon by the Ministry with companies that speak the same language and that, above all, work on the same basis of the same type of technical education and develop similar notions of the solution of a problem, which will eventually be chosen.

Aid without Strings

But does such compulsion to choose designated suppliers not lead to higher prices?

I do not think much of the assertion that cutting these strings will automatically lead to reduction of the prices payable by LDCs. Perhaps there have once in the past been cases of tied orders and price quotations above world market levels. But when, nowadays, international tenders are called for, e.g., for a power station, world market price levels per installed kW of capacity are well known to everybody concerned. That again means that no LDC will accept capital aid for such a project from any industrialised nation that intends to reserve design and construction work to an individual company which tenders at too high a price. Yet, in spite

of all that, the business community as a whole ought to advocate aid without strings because, if companies are certain that they are competitive, they can well dispense with them.

The Brussels experts also suggested to increase both bilateral aid — which at present accounts for four fifths of all aid — and multilateral aid in volume. Do you think that it will be possible to increase aid, during the seventies, to the aim stated by UNCTAD, namely 0.7 p.c. of GNP of the industrial nations as the target figure for public aid?

It is absolutely imperative that we increase the share of public aid to at least 0.7 p.c. of GNP. In my own view, 0.7 p.c. of GNP is insufficient, because development aid is the Number One priority target for the whole world. But I doubt that we shall reach this target figure soon, because in the process of distribution of the GNP, development policy competes with education, social, environmental policies, etc., and there it ranges very much with the "also ran". It is true that we have mobilised about DM 65 bn for public and private development aid between 1950 and 1971 — but in spite of this imposing figure, much more ought to be done in this field.

That is what made me write a letter to Minister Eppler after the last federal election, which expressed the hope that he would succeed in making public opinion much more aware of the need for development aid. I even believe that, for the purpose of development aid, it would be well worthwhile to increase taxes, because only by restricting the growth rate of consumption will it be possible to increase availability of development aid to any significant extent.

There is still another avenue open for increasing capital

transfers to LDCs — to allocate to them more SDRs.

I do not think an additional creation of money would do LDCs any good. The right way to aid them is through practical deeds by building for them new schools, seaports, railway lines and roads, and to help them by giving their people more highly skilled vocational training as technicians and merchants.

Allocation of Special Drawing Rights

But it is of no benefit whatever to LDCs to train a rising part of their students in the industrialised countries for diploma holders in political and social sciences, or even for graduated engineers. These countries are not only in need of university graduates but much more of skilled workers, foremen, and master craftsmen, as well as of trained civil servants and merchants. There is the great risk that, as in the industrialised nations, LDCs bring out too many university-trained people whose fate will then be unemployment.

Almost two thirds of German development aid will continue to be channelled abroad via private transfer. What is your assessment of the future trend of German direct investments to the Third World?

It seems to me that the inclination of German businessmen to invest directly in the poor and poorest of all countries is on the downgrade. One of the causes for this behaviour seems to be criticism, both German and foreign, directed against the "hunger for profit" of private enterprise.

People who indulge in this kind of criticism always forget that businessmen and companies who make direct investments are compelled to prove, sometime and in some place, that they use their capital outlays profitably,

for it is usually not their own money which they manage. In addition, few seem to see the point that constant public ranting against projects like the Cabora Bassa dam does nothing to strengthen businessmen's willingness to engage in economic risks. The suggestion that direct investors were never thinking of anything but their own interests, and would never willingly serve the aims of the community, indulges in a generalising verdict that is in no way true of the German business community.

Moreover, many private businesses abroad have been nationalised in LDCs, and such expropriations naturally also dampen the business community's propensity to invest. It goes without question that every sovereign state has legal power to nationalise property, but such countries cannot then expect of potential direct investors that they should disregard, in their advance calculations, the possibility of losing their investments by confiscation. If Dr Eppler laments the fact that most direct investments seek out those countries which are likely to respect private property rights, I can only state that I myself also regret such developments, because it is mostly those governments who display the greatest eagerness in nationalising foreign-owned assets, whose countries are most in need of direct investments — not only in order to create new jobs for their unemployed people but also for the transfer of know-how and the promotion of their exports.

The Future of Direct Investments

Does that mean that you foresee a poor future for direct investments in LDCs?

I am basically an optimist, and that is possibly why I do not see the future in dark hues only. One of my reasons for this optimism is that LDCs are visibly in a

process of learning from experience. We can see this in India, where Mrs Indira Gandhi is now trying to turn her economic policy slightly more in favour of private enterprise. Kenya, too, whose political leadership had embarked about six or even seven years ago on a truly extremist course, has now returned to a more moderate practice, avoiding all threats of expropriation. I even believe that the day will come when Libya will take more reasonable counsel and emulate Algeria's example of returning to making its economy again attractive to foreign investors.

Siemens, for example, has taken an interest in a big joint-venture project in Algeria after Dr Eppler had through negotiations thrown open the doors for resuming cooperation. This is an obvious example of close and successful cooperation of government and private enterprise, such as I would wish to proliferate.

Determinants of Competitiveness

The Brussels Commission sees in the further trade evolution the real test of the development of relations between industrial countries and LDCs. This has led the Commission to recommend a further dismantling of import restrictions for industrial manufactures from LDCs, notably also within the framework of the EEC system of preferences. What is your own view in regard to this system of preferences?

It is my conviction that this recommendation is a step in the right direction. If I had to decide, I would try, not only to reduce, but to abolish completely all tariff barriers which industrial nations still keep in being in their trading with LDCs, concerning the industrial products of the latter. However, destroying such trade barriers, in itself, will be of limited benefit to LDCs, because these constitute one, and

only one, of the numerous determinants of competitiveness. Producers of industrial goods in LDCs still fail to meet with three other essential requirements: First, in many cases the quality of their manufactures is not up to international standards; second, their production costs are frequently too high and force them to quote uncompetitive prices, the reason for this usually being the low volume of their regular production runs, and/or the poor infrastructure of their countries; and third they lack a worldwide marketing and distribution organisation. To create such a network of sales and delivery facilities is extremely difficult and takes a long time for each and every exporter.

To illustrate this, I give you an example from the Siemens Group's own experience: Siemens nowadays employs outside Germany a staff of about 50,000 as its international sales force. They do not operate behind the counters of numerous shops but all of them are highly skilled experts who are obliged to know their products, their markets and the national languages. Local industrial companies in LDCs, naturally, have not yet built up such worldwide marketing organisations. But multi-national concerns which have set up their own manufacturing plants in one or more LDCs do own such worldwide marketing networks, and this lays upon their shoulders a responsibility of a highly specialised nature and of overriding importance: promoting exports of industrial manufactures produced in the world's underdeveloped regions.

Perhaps, some statistical figures will show you what I mean: Siemens during 1972, imported into the Federal Republic of Germany from abroad — i.e. from Siemens subsidiaries in foreign countries — products valued at about DM 350 mn. At the same time, foreign subsidiaries exported to

other countries goods of a total value of DM 70 mn. This truly worldwide network of distribution and marketing can assume decisive importance for promoting exports from LDCs — a possible approach which has hitherto been neglected, as I see the situation.

Dismantling of Obstacles to Trade

It is possible that your observations are correct for electrical and electronical engineering, but there are other industrial goods manufactured in LDCs, e.g. textiles and products of food processing, which would be fully able to compete with similar goods deriving from industrial countries — but precisely in these branches of the economy there still exist particularly noxious protectionist tariffs and non-tariff barriers to trade.

In this respect you are absolutely right, and that is why I have already stated that I advocate the complete abolition of obstacles to imports of industrial goods from LDCs. But it is necessary to avoid generalisations. We should acknowledge that there are two different trends towards change in the structure of trading in industrial goods. On the one hand, certain categories of industrial manufacture will necessarily shift to LDCs — textile manufacture and certain branches of food processing. On the other hand, our own exports will change in their structure: these exports will progressively become more complex, both economically and technologically, and individual exports will consist of larger and larger units — perhaps an atomic power station costing, as a single object, DM 1 bn, or a data bank costing DM 150 mn, or a whole telecommunications system for DM 500 mn — in other words, giant projects which, together with the required software, the knowhow,

the planning, the trained staff, and many auxiliary facilities, can only be supplied as an undivided and indivisible whole. To promote and facilitate exports of this kind, present German tools of export promotion are still not sufficiently diversified and sophisticated.

Can you suggest practical steps to complete and refine this kind of export promotion?

I cannot, at present, put forward clearly defined proposals for improvement. But I can make a fundamental suggestion: such giant projects call for the most intimate cooperation between industry and government. I am sure, that we need a new statutory framework, but apart from new laws, it will be necessary that government agencies closely examine every individual case, and they must be authorised and prepared to go beyond legally imposed limitations of government finance in individual cases. European firms, unlike the Americans, must rely on State aid for financing such huge projects, for half a billion is chickenfeed for a truly big US corporation, whilst even big European companies are only rarely capable of mobilising such vast sums.

Do you believe that the present situation will change through the future evolution of the EEC?

Perhaps, but at the present time it is a fact that the EEC, though being a customs union and having a number of other charming qualities, has not added much to the competitive strength of European industry. If we want to change that in the future, we have to change first European consciousness. We have to teach the people of Europe that the EEC is not only an economic community but a union of a common fate, and that this requires, among other things, the disappearance of harping constantly on national

prestige, also in the industrial sector.

Though a number of countries in the Third World have already developed and enlarged some export markets for their semi-finished and finished manufactures, it must not be forgotten that most LDCs can export predominantly only raw materials and agricultural products. What do you think of the possibility to overcome successfully protectionist policies for farm produce both in the EEC and in other industrial countries?

Raw Materials and Agricultural Produce

I am not an expert on farming, but I can discern some trends which, in my view, are harbingers of a coming change: Firstly, there are statistical returns which demonstrate that exports from LDCs are progressively being made up of raw materials and industrial products, thus reducing the relative share of farming produce in the total. Secondly, there are numerous agricultural commodities which grow only in the tropics and are therefore not affected by agricultural protectionism of industrial countries. Thirdly, it is impermissible, in this context, to overlook strategical aspects of "political security". And fourthly, LDCs, because of the "population explosion", are consuming a growing part of their own farm products.

I should think, therefore, that exports of farming produce is not the chief problem. Much more significant is the export of simple industrial manufactures from LDCs, which should be promoted by suitable international measures. In addition, commodity exports from the Third World should be facilitated through international agreements, because these exports are of decisive economic importance, both for the industrialised and the developing nations.