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Article — Digitized Version

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Intereconomics

Suggested Citation: Bruns, Wilhelm (1975) : The relationship of the GDR to the World Bank Group, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 10, Iss. 10, pp. 309-313, <https://doi.org/10.1007/BF02929305>

This Version is available at:

<https://hdl.handle.net/10419/139276>

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The Relationship of the GDR to the World Bank Group

by Wilhelm Bruns, Oldenburg *

In the World Bank's last annual report the Federal Republic of Germany was described as a leading member of the World Bank Group (IBRD, IFC and IDA). The Federal Republic has subscribed about \$ 1.4 bn to the capital of the World Bank and to date contributed \$ 1.1 bn to IDA. The second German state, the German Democratic Republic (GDR), on the other hand, is taking a negative attitude to the World Bank Group. Why does it do so?

The starting point for an examination of the relationship of the GDR to the World Bank Group is determined by three facts:

- The GDR joined the UN system by acquiring membership of UNESCO on November 21, 1972. It became a member of the UN as a result of the General Assembly resolution on its admission of September 18, 1973.
- Before its admission to the UN system the GDR declared over and over again that it wished to join all UN organisations as a member.¹
- The thesis that the GDR is an "active", "constructive" and "successful" member of the UN and taking a comprehensive part in its work is part and parcel of the image which the GDR has chosen to convey of itself.²

This general representation of the relationship of the GDR to the UN is in contrast with the fact that the GDR is pursuing a policy of selective membership in the Specialized Agencies and that "active" participation is not the same as all-embracing participation. The World Bank Group belongs, among others, to the specialized agencies of the UN of which the GDR has up to date not become a member.³

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¹ When the GDR was not yet represented in any of the Specialized Agencies of the UN and its status could be described as non-formalizable, it declared its readiness "for cooperation in all (emphasized by the present author) UN organisations". Cf. *Außenpolitische Korrespondenz* (publisher: GDR Ministry of Foreign Affairs), No. 43/1968, p. 354.

² "The (SED) politburo regards active GDR cooperation in the UN, its organs and special agencies as an important aspect of its socialist foreign policy." Cf. SED politburo report (reprinted in: *Außenpolitische Korrespondenz*, No. 25/1975, p. 199).

³ Besides, the GDR has not become a member of either the International Civil Aviation Organisation or the UN Food and Agriculture Organisation. The Federal Republic of Germany has been a member of all the Specialized Agencies since the fifties.

It is the object of the present study to identify the pattern of reasoning and perception by which the GDR determines its relationship with the World Bank Group in order to ascertain why the GDR is not a member of the World Bank Group. The basis of this examination of the relationship of the GDR to the World Bank Group is the GDR literature on the subject and the coverage given to the UN in the GDR daily and weekly press.

Structure of the World Bank Group

As background information the organisational structure of the World Bank Group will first be outlined briefly on the basis of the Articles of Agreement and the information material issued by the World Bank.⁴

The International Bank for Reconstruction and Development (IBRD) was founded in Bretton Woods on December 27, 1945. By agreement with the UN dated November 15, 1947, it was given the status of a Specialized Agency in the meaning of Article 57 of the United Nations Charter (A/Res. 124 II). Its Articles of Agreement assign it the function of providing loans for productive purposes to developing countries. The loans carry 8 p.c. interest and must be guaranteed by the government of the recipient country. The World Bank had originally an authorized capital of US \$ 10 bn. This was increased four times (in 1959, 1963, 1965 and 1970) and now stands at US \$ 27 bn. 125 governments are members of the World Bank (March 1975).

⁴ Cf. *Die Weltbankgruppe. Zielsetzung und Arbeitsweise*. (The World Bank Group. Objectives and Working Methods), published by the World Bank, Washington (German edition), without indication of place of publication, 1975; *Forum United Nations* (publisher: CESI), Geneva (published monthly since 1974); *United Nations Handbook 1974* (publisher: New Zealand Ministry of Foreign Affairs), Wellington 1974 (known in the UN and the foreign ministries of member countries as "New Zealand Handbook").

The International Finance Corporation (IFC) was founded on July 20, 1956, as one of the World Bank affiliates and given Specialized Agency status by agreement with the UN of February 20, 1957 (A/Res. 1116 XII). The IFC encourages the growth of productive private enterprises in developing countries through investments and credits for projects and by raising capital in the developing country itself and from foreign sources. Unlike the World Bank the IFC operates without governmental guarantees. In March 1975 it had 100 members who had subscribed a total capital of US \$ 107,331,000.

The International Development Association (IDA) was founded on September 24, 1960 – also as a World Bank affiliate. It acquired the status of a Specialized Agency by agreement with the UN of March 27, 1961 (A/Res. 1420 XIV). Set up in response to criticism about stringent credit terms of the World Bank by many developing countries, IDA was designed to meet the demand for a special capital fund from a large number of developing countries.⁵

IDA is concentrating its activities on giving assistance to developing countries with per-capita incomes averaging less than US \$ 375 a year which are too poor to approach the World Bank for loan finance for projects.⁶ IDA loans are for 50 years and free of interest. The only charge is a service fee of $\frac{3}{4}$ p.c. a year. The 114 member governments have subscribed a total sum equivalent to US \$ 10,659,079,000 (March 1975).

This brief outline shows the complementary functions of IDA and IFC in relation to the World Bank. As for the amount of multilateral development aid provided by these specialized agencies and thus their rank in the UN system, it need only be mentioned that "the IBRD and IDA were responsible for two-thirds of all multilateral aid commitments over the period from 1961 to 1972".⁷ The relevance of the World Bank Group to multilateral development aid was explicitly acknowledged in the so-called Jackson Study and the Pearson Report, although the comments in the UN literature were not altogether uncritical.

Differences from Other Specialized Agencies

To appreciate the position of the World Bank Group in the UN system and the value of its work, three specific features which set it apart from other Specialized Agencies must be kept in mind:

□ While the principle of "one land – one vote" is observed by the other Specialized Agencies,⁸ the votes in the World Bank are weighted according to capital quotas. This means that seven (!) western industrial countries have 50.38 p.c. of the vote

– more than the other 118 members between them.⁹ Vote-weighting is thus a significant intrinsic feature of the World Bank and makes it one of the oligarchic international organisations.¹⁰

□ Whereas cooperation between the other Specialized Agencies (such as UNESCO, WHO and FAO) is often "loose", that is to say, non-formalized, close institutional and personal integration is a characteristic of the World Bank Group. Membership of IFC and IDA for instance is only open to members of the World Bank (IBRD). The World Bank's president is *ex officio* president of IFC and IDA. The three organisations have also almost the same staffs.

□ The large financial resources available or accessible to the World Bank Group give it a high degree of *de facto* autonomy in the UN system. The financial resources ensure that the World Bank Group exercises a cardinal influence on multilateral development aid – from the phase of *ex-ante* programming to *ex-post* evaluation.

Uncompromisingly Negative Picture

The intrinsic features of the World Bank Group mentioned here are responsible for the uncompromisingly negative picture drawn of it in GDR literature. The basic tenor of the attitude of the GDR to the World Bank Group is indicated by the following statements:

On the IBRD: "The activities of the World Bank since its foundation characterise this organisation as an important US-dominated and state-monopolistic international financial institution."¹¹ The "anti-socialist and neocolonialist objectives of the World Bank"¹² make it effectively "an instrument for its (the USA's) reactionary foreign policy"¹³.

On the IFC: "The real aim of the organisation is to make sure of the largest possible profits for the exporters of capital and to establish a private-capitalist structure of economy in the recipient

⁵ Cf. Klaus Hüfner, Jens Naumann, Das System der Vereinten Nationen (The United Nations System), Düsseldorf 1974, p. 97.

⁶ Charles R. Frank Jr., Mary Baird, Foreign aid: its speckled past and future prospects, in: C. Fred Bergsten, Lawrence B. Krause, World politics and international economics, in: International Organization, Vol. 29, No. 1, 1975, pp. 133–167, see p. 150.

⁷ Frank, Baird, *ibid.*, p. 137.

⁸ Except for the ILO: The structure of the International Labour Organisation (ILO) is characterized by tripartism: Each member state has three votes at international ILO conferences: 1 for the state representative, 1 for the employers' representative and 1 for the employees' representative.

⁹ The USA has the largest quota (22.66 p.c.), followed by Great Britain (9.15 p.c.) and the Federal Republic of Germany (4.85 p.c.).

¹⁰ On the concept and work of "oligarchic international organisations" cf. R. Cox, H. K. Jacobson, The Anatomy of Influence, New York 1973, especially p. 430 and p. 434.

¹¹ Völkerrecht (International Law), (publisher: Arbeitsgemeinschaft für Völkerrecht beim Institut für Internationale Beziehungen an der Akademie für Staats- und Rechtswissenschaft der DDR), Berlin-East 1973, Section 2, p. 108.

¹² *ibid.*, p. 108.

¹³ Peter Klein, Die UNO (The UN), Berlin-East, p. 126.

countries which is lop-sided, backward and dependent upon the capitalist world and thereby prevents these countries from gaining economic independence."¹⁴

On the IDA: "Among the international state-monopolistic financial institutions IDA performs the function of generating and fostering favourable investment conditions for the various forms of capital and goods exports from the imperialist states."¹⁵ It serves as a cloak for "neocolonialist policies".¹⁶

The GDR view of the World Bank Group may thus be summed up as follows: The group is "anti-socialist" and "neocolonialist". Its purpose is not "primarily the achievement of high profits but the attainment of political ends, namely, to repel the influence of the socialist world system, to undermine the national liberation movement and to chain the developing countries for an immeasurable time to the capitalist system of society."¹⁷

The determined rejection of the World Bank Group by the GDR as indicated by these statements is not corroborated by any criticism of its manifold activities which could be verified by an analytical process and would justify the rashly stuck-on label of "anti-socialist" and "neocolonialist". Significant for the — albeit indiscriminate — strictures on the World Bank Group by the GDR is the distinction which is being made between the "formal" objectives as set out in the Articles of Agreement, which are for the most part passed without censure, and what are termed the "actual" objectives. The "actual" objectives are not however determined by a genuine analysis but simply set forth as quoted above.

Lack of Evidence

While the GDR's strictures on the weighting of World Bank Group votes can be understood and are also made by other critics as a point of principle¹⁸, the other points of censure are based on an empirical argument and ought for this reason to be supported by a factual analysis. Such an analysis bearing on the "actual" objectives and dealing with the activities of the World Bank Group

however has not been made. The first and so far only GDR text-book on international law describes the "formal" objectives quoting the Articles of Agreement for this purpose. But the enunciation of the "actual" objectives is not based on any extensive analyses but follows abruptly on the description of the "formal" objectives.

"Measures on the part of the World Bank which curb sovereign rights and thus run counter to international law have demonstrably taken place from the date of the loan application right down to the complete repayment of the credit".¹⁹ How is this "demonstration" given, and how is this thesis substantiated thereby? The author "substantiates" his thesis by referring in general terms to the "whole procedure involved in dealing with a loan application"²⁰ and in particular to the World Bank's practice — which is not examined in detail — of making the terms for the grant of an investment loan conditional upon an investigation "on the spot" (that is, in the recipient country). Among the "measures which curb sovereign rights and thus run counter to international law" the author includes the study of economic data of the recipient country by the World Bank and in particular the demand for "abstention" from nationalization measures and from extension of the "public sector" on the ground that they restrict the borrower's freedom to take decisions. "This practice" — it is deduced — "is nothing else than legalised commercial espionage."²¹

Socialist GDR vs. Imperialist World Bank

The GDR attempts to vindicate its conduct in the UN and its attitude to problems with which the UN has to deal by pointing to its "character" as a socialist state. In relation to the World Bank it adduces its purported socialist order of society as an explanation for its non-membership.²² The socialist order of society however cannot be put forth as a cardinal argument justifying GDR non-membership of the World Bank except with some qualifications, especially if it serves the attempt to construe an antithesis between the socialist GDR and the imperialist World Bank.

The inadequacy of this basic argument of the incompatibility of the socialist order of society and the imperialist World Bank is demonstrated by the

¹⁴ Peter Klein, *ibid.*, p. 127.

¹⁵ Völkerrecht, *ibid.*, p. 112.

¹⁶ Peter Klein, *ibid.*, p. 127.

¹⁷ Joachim Göldner, "Finanzierungen durch die „Weltbank“ als Ausdruck souveränitätsverletzender internationaler Finanzbeziehungen (Financing Operations through the "World Bank" as an Expression of International Financial Relations which Violate Sovereign Rights), in: Wissenschaftliche Zeitschrift, Halle, GDR, XXIVth year (1975), No. 2, p. 23–32, see p. 30.

¹⁸ Cf., for example, Peter Pawelka, *Vereinte Nationen und strukturelle Gewalt (United Nations and Structural Force)*, Munich 1974; and Eva Senghaas-Knobloch, *Internationale Organisationen (International Organisations)*, in: E. Krippendorff, (ed.), *Probleme der Internationalen Beziehungen (Problems of International Relations)*, Frankfurt 1972, p. 103–136, see especially p. 120–122.

¹⁹ For instance the central thesis of Joachim Göldner (permanent lecturer in the department for state and legal sciences at the Martin Luther University of Halle-Wittenberg, GDR), *ibid.*, p. 28.

²⁰ *ibid.*, p. 28.

²¹ *ibid.*, p. 29.

²² Spröte, Wünsche for instance say in: UNO-Bilanz 1971/72 (GDR), *Die Spezialorganisationen der UNO — Bestandteil der internationalen Beziehungen der Gegenwart (UN Balance-Sheet 1971/72 (GDR), The Specialized Agencies of the UN — an Element in Contemporary International Relations)*, p. 113–127, see p. 120: Socialist states are not members of the World Bank Group "because the rules of conduct applying in it and its objectives are incompatible with participation by socialist states".

fact that Yugoslavia and Rumania, both of which are "acknowledged" socialist states, are World Bank members. A glance at the list of World Bank members thus shows that the World Bank cannot be classified as generically "imperialistic". A reason for non-membership of the World Bank Group which is specific to the GDR is probably the scarcity of foreign currencies in the GDR and its consequent reluctance to join in cost-intensive co-operative efforts, a reluctance which has also been manifest in other UN organisations.

While the contributions to other UN agencies — like the UNDP for instance²³ — are in part payable in national currency, the World Bank subscriptions must be made in convertible currencies. Their size depends upon the economic and financial position of the member but also upon its share in the IMF. Using the GDR contribution to the UN (1.22 p.c. — FRG: 7.21 p.c.) as a yardstick, the GDR would have to supply about 0.8 p.c. of the present World Bank capital. However, this gives only an approximate idea of the magnitude of the required subscription. The GDR subscription to IMF and World Bank would probably be fixed at a higher level, chiefly because of its strong foreign trade position (it would be over one p.c.).

Attitude to Development Aid

Since the GDR repudiates the World Bank Group and its criticism of the group's work is entirely adverse, it may be asked whether the GDR is in a position to suggest an institutional alternative to the World Bank Group, for not even the GDR denies "that the developing countries are in urgent need of capital, equipment and other industrial products for solving their national tasks"²⁴. What material contribution is the GDR willing to make to "economic decolonization" (Waldheim), and in what setting does it wish to make it?

These questions bear on the development policy of the GDR and call for some remarks about the attitude of the GDR to the requirements of development aid. The GDR is trying to circumscribe its relations with the developing countries by the following line of argument:

□ The thesis of a "North-South conflict" and the implied division of the world into a "rich North" and "poor South" is rejected on the ground that

²³ UNDP (United Nations Development Programme) which is concerned with operative development aid under UN auspices obtains its funds entirely from voluntary contributions. At present it is fostering about 7,000 projects in about 140 countries. The Federal Republic of Germany is paying three times as much as all communist states together — US \$ 24,383,668 for 1974, against US \$ 7.6 mn from the communist states (including the GDR); quoted from UNDP in Action, December 1974 (Supplement to Forum United Nations, Geneva). It has been learnt that the communist states paid no more than 10 p.c. (!) in freely convertible currencies.

²⁴ Joachim Göldner, *ibid.*, p. 30.

it reflects "an entirely unwarranted" attempt to "hold the colonial powers and the socialist countries jointly responsible for the economic backwardness of the developing countries".²⁵

□ The "imperialist states" have been exploiting the developing countries and therefore bear sole responsibility for their underdevelopment (*causality theorem*). From the causality theorem the socialist states deduce that the "imperialist states" alone are under an obligation to give aid to the developing countries. The correlate of the causality theorem is the *exculpation theorem*: By the plea of the "causality" of underdevelopment the GDR is trying to explain why its development aid under UN auspices (that is, its multilateral aid) is insignificant.²⁶ As for its bilateral development aid, that is confined to the rendering of training assistance, which is, moreover, concentrated on a few selected countries.²⁷

The lines of argument outlined here are the background of the refusal of the socialist states (in the present case: the GDR) to allow the developing countries to address any demands to them. This refusal found concrete expression when the demand in the first development decade was for the "developed countries" to turn over one p.c. of their gross national product (GNP) to the "developing countries", as far as possible in the form of multilateral development aid through the UN.²⁸ When the Charter of the Economic Rights and Duties of States was adopted by the 29th General Assembly, it was also clearly seen that the GDR

²⁵ Editorial board (ed.), *Sozialistische Diplomatie* (Socialist Diplomacy), translated from the Russian, Berlin-East 1974, p. 268.

²⁶ The multilateral development aid by the GDR (under UN auspices) is confined to what the GDR makes available for UNDP: US \$ 772,308 for 1974, commitment for 1975: US \$ 769,231. Compared with that by the Federal Republic of Germany, this material aid looks modest: The Federal Republic of Germany paid US \$ 24,383,668 for 1974 and committed US \$ 27,131,783 for 1975. The scale of the GDR development aid indicated by these figures is of particular relevance because the GDR is always eager to demonstrate its friendship for the developing countries and yet shows such "restraint" in "the most important operative programme of the UN for the granting of technical assistance to developing countries" (*Spröte* in: *Horizont*, Berlin-East, No. 33/1973, p. 13). Cf. also the UN study E/C.9 L.7 Addendum 2 on the Second Development Decade (first version), not yet published, New York 1975. It should be noted that the multilateral technical assistance only is provided through the UNDP. The capital aid which involves larger financial funds is provided through the World Bank IRDB, IDA and IFC and the regional development banks.

²⁷ Cf. Henrik Bischof, *Nach der Anerkennung — Eine Bestandsaufnahme der Beziehungen DDR—Dritte Welt* (After the Recognition — An Inventory of the Relations GDR—Third World), in: *Monatsberichte* (Forschungsinstitut der Friedrich-Ebert-Stiftung), Bonn, March 1974, p. 216–242.

²⁸ The socialist states abstained from the vote on the demand of the developing countries for one p.c. of GNP and stated "that they consider the one p.c. demand of the developing countries entirely legitimate as applied to the imperialist states". Cf. Wolfgang Spröte, Hans Wünsche, *Die ökonomischen Organe und Organisationen der Vereinten Nationen, Grundriß* (The Economic Organs and Organisations of the United Nations, Basic Outline), Berlin-East 1973, p. 104. That the "imperialist states" are to be regarded as the sole addressees of the demands by the developing countries is not only not supported by the text of the First Development Decade but has already aroused criticism of the socialist states. Cf. Branislav Gosović, UNCTAD. *Conflict and Compromise, The Third World's Quest for an Equitable World Economic Order* through the United Nations, Leiden 1972.

was trying to dodge all aid commitments by claiming that the "socialist" states were not the proper addressees for aid demands: the GDR portrayed it as a "success in the struggle against imperialism".²⁹

But a look at the Charter shows that it recognises only two groups: the developing countries as recipients and the "developed countries" as donors. It does not — as the GDR press would have it — differentiate in the "developed countries" group between the B group (of western states) and the D group (of eastern states). The "Economic Charter" puts in words what the GDR is trying to repudiate, namely, that it is itself one of those to whom the developing countries address their demands, even if the involvement of the GDR is distinguishable from that of the western industrial states.

No Alternative

To return to the question whether the GDR has an institutional alternative to the World Bank Group in view: The alternative position of the GDR has been circumscribed in the following terms: "Socialist states and progressive forces in the UN do not agree to the role and activities of the World Bank in view of its imperialistic character. They demand instead that full use be made of the democratic organs and programmes for assistance to the developing countries and fostering

international cooperation on the basis of the principles and objectives of the UN Charter."³⁰

ECOSOC³¹, UNDP and UNCTAD are regarded as "democratic organs and programmes for assistance to the developing countries". The potentialities of UNCTAD for action in the interests of the developing countries do not however warrant the partiality for UNCTAD rather than the World Bank as an institution for development strategy. It may be that the GDR prefers UNCTAD because participation in it does not involve the GDR in any expenses. Cooperation with it would seem to have publicity value. UNCTAD — and UNIDO likewise — cannot serve as an "alternative" because it cannot provide credits, if for no other reason. In the UN set-up there is no alternative for the World Bank Group whatever censures western journals and Third World spokesmen may wreak on the World Bank. It may be that the developing countries would be ready to go along with the socialist states in completely disregarding the World Bank, but only if the "Community of Socialist States" had a similarly efficient organisation to hand in the sphere of development finance.

²⁹ Cf. Claus Dümde, Ein Erfolg im Kampf gegen den Imperialismus (A Success in the Struggle against Imperialism), in: Neues Deutschland, December 10, 1974, p. 6.

³⁰ Völkerrecht, *ibid.*, pp. 108 f.

³¹ In the view of the GDR the Economic and Social Council (ECOSOC) should, together with UNCTAD, play the central role in UN development strategy.

Technology Transfer

Problems of a Code of Conduct

by Dr Karl Wolfgang Menck, Hamburg *

UNCTAD's Main Committee for Technology is to meet in November 1975 to discuss once again the subject of a Code of Conduct to be observed in transferring technical knowledge. What chances are there for such a Code to be adopted?

The transfer of technology is for many developing countries the only means whereby the technological gap between rich and poor countries may be closed.¹ Besides, the transfer of technological know-how may help developing countries to overcome their technological backwardness and their dependence on others by enabling them to set up national institutions of their own for technological development.² This has become the objective of many countries after they had been forced to realize that technical aid measures as such did not equip them with sufficient knowledge

in that a great deal of it was know-how protected by patents and licenses, and it is precisely this kind of knowledge of which poor countries stand in most need in their efforts to build up modern production plants and become internationally competitive. In addition, granting licenses and assign-

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¹ Cf. int. al. A. Wolf, G. Werth, Der internationale technisch-industrielle Lizenztausch (The International Exchange of Technical and Industrial Licenses), Düsseldorf 1972, *passim*; Institut für Weltwirtschaft an der Universität Kiel, Übertragung von Technologien in Entwicklungsländer (Transfer of Technologies into Developing Countries), Sept., 1974.

² Cf. int. al. G. S. Jones, The Role of Science and Technology in Developing Countries, London 1971, *passim*.