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The Netherlands Adjustment Policy with a Development Cooperation Dimension

by Michael D. Alford, The Hague *

All developed market economies have, during the last two decades, suffered serious structural difficulties in their economies, due, in part, to increasing LDC competitiveness in the production of manufactured goods. Most developed countries have reacted by adopting measures aimed at restructuring their economies to take account of these trends. Only the Dutch, however, have included a development cooperation dimension into part of their general restructuring programme.

The strategy of "export lead growth" based on manufactures, practised by a number of LDCs over the last two decades, has caused considerable disturbances within specific regions and sectors of industry in the developed market economy countries. This trend has been recognised and encouraged by international fora, which have recommended an acceleration in the diversification of LDC economies, with specific reference to the expansion of production of manufactured goods and diversification of export trade. To accommodate this desired action, a number of measures have been suggested to allow access into foreign markets. Most of them refer specifically to adjustment measures as being an integral part of any adequate international development strategy. The Declaration on the Establishment of a New International Economic Order states in this respect that, "developed countries should facilitate the development of new policies and strengthen existing policies, including labour market policies, which would encourage the redeployment of their industries which are less competitive internationally to developing countries, thus leading to structural adjustments in the former, and a higher degree of utilisation of natural and human resources in the latter."

Protectionism vs. Adjustment

Reactions by the developed countries to the external economic disturbances have not been consistent with these political proclamations. While some companies have adjusted by transferring

their activities to LDCs, thus further encouraging the economic trends, an all too frequent reaction of developed countries is to resort to the "partners in crime" — protectionism and support assistance. They opt for protectionism rather than adjustment, as the former does not require detailed government intervention, a new and complex administrative apparatus, it is socially and politically more attractive, and innovation which characterises adjustment policies is not often evident in the government administrative apparatus¹.

Similarly, supportive assistance, often mistakenly referred to as adjustment assistance, acts as a crutch to the existing order, and is directed at slowing rather than assisting change. Recently, developed countries have resorted extensively to export and employment subsidy schemes.

Adjustment policies are characterised by:

- ☐ increasing involvement of the state in planning and subsidising restructuring,
- ☐ change orientation rather than maintenance of the existing structure,
- ☐ an attempt to tackle fundamental, long-term problems, rather than cyclical difficulties,
- ☐ and ideally, an anticipatory element.

* This research was undertaken while at the Institute of Social Studies, The Hague.

¹ Ferdinand Braun, *The EEC Approach to Adjustment*, in: Helen Hughes (ed.), *Prospects For Partnership*, Johns Hopkins, Baltimore 1973.

Most developed countries have introduced programmes which, to some extent, incorporate these characteristics, but only the Dutch have an adjustment programme in which a development cooperation dimension is central to the programme rather than incidental.

The Dutch official development policy recognises that developing countries require more than just an aid programme — the problem is a structural one, requiring adjustment in the economy of the donor as well as the recipient. With this in mind, the restructuring programme with a development cooperation dimension was first presented to the Dutch Parliament on December 9, 1974.

The Adjustment Programme

The policy is the joint responsibility of the Ministries of Development Cooperation and Economic Affairs, the finance for the scheme being drawn from the budget of the latter. As the allocation of 35 mn Guilders (fl.) per year (1% of the total Dutch development assistance budget) was to be disbursed in the Netherlands, the expenditure was classified as non-Official Development Assistance. Table 1 provides details of the budget and anticipated disbursement pattern. Initially, it was intended that fl. 35 mn would be committed in each budget year, but this, it transpired, was not possible. Substantial uncommitted funds from the first two years, were therefore returned to the consolidated fund, and subsequently a rolling disbursement system was introduced.

Table 1
Budget and Disbursement Pattern
as Anticipated at the Beginning of 1978
(in fl. mn)

Budget Year \ Disbursement Year	1975	1976	1977	1978	1979	1980	after 1980	Total Budget
1975	35.0							35.0
1976		25.0	0.845	5.0	3.0	1.155		35.0
1977			15.000	7.5	5.0	3.750	3.75	35.0
1978				7.0	10.5	7.000	10.50	35.0
Disbursement Budget	35.0	25.0	15.845	19.5	18.5	11.905	14.25	

Source: National Budget, Chapter XIII (Eco Affairs), Article 32.

The policy recognises that a number of conditions must be satisfied in order for the developing countries to make use of opportunities which are a consequence of restructuring activities in a developed country:

- ☐ The LDC must have the ability (qualified labour,

technicians, capital, infrastructure, etc.) to fill the vacuum.

- ☐ There must be a close link between restructuring, trade measures, and financial and technical assistance.

- ☐ Efforts would be necessary to ensure that production is not transferred from one developed country to another, bypassing LDCs.

Ten criteria were established, at an early stage, to judge restructuring projects and grant subsidies. All projects consisted of three parts:

1. abandonment of production in the Netherlands,
2. modification of the production structure in the Netherlands,
3. the building of productive capacity in LDCs.

It is only parts 1. and 2. which are funded by this allocation. Expenditure on part 3. will normally be charged to other items, such as funds for the promotion of industry and exports from LDCs (with a budget of fl. 40.1 mn in 1979). The policy statements make clear, however, that part 3. is an essential aspect and a condition for the allocation of subsidies to parts 1. and 2.

The subsidies were to be provided in proportion to the degree to which benefits would accrue to developing countries. Thus, projects which would offer LDCs immediate or potential cost advantages, or, where concrete benefits for LDCs could be shown and where there is reasonable certainty that other developed countries will not be the beneficiaries, would be considered more favourably. At the same time, projects should be consistent with the domestic sector policy of the Ministry of Economic Affairs, the substitute activities should be viable, ensuring the Netherlands has comparative cost advantages, and domestic employment should be safeguarded. In these criteria, the differing interests of the two ministries charged with the programmes implementation, can already be discerned.

Programme Implementation

It was envisaged from the outset that the final decision on whether a subsidy would be provided would rest jointly with the two ministries, which would presumably have equal responsibility in decision making. However, advice prior to decision making, and implementation subsequent to decision making, was not to rest solely with the central government. The Netherlands Restructuring Company (NEHEM), established in 1972 to oversee domestic restructuring in general, was considered most suitable to identify, through sector studies, the industrial sectors most likely to be eligible for adjustment assistance as well as, to

some degree, become involved in actual project implementation. The Netherlands Finance Company for Developing Countries (FMO), was believed the most suitable agency for transmitting data concerning new openings to LDCs and for the provision of often necessary investment capital and technical assistance to enable LDCs to quickly and profitably fill the vacuum.

The programme began in 1975, with subsidies provided to three companies, two manufacturing plywood and the other textiles. The amount of these subsidies, fl. 6.86 mn, was far short of the fl. 35 mn available for the scheme. The following year a large subsidy was provided for the first time to a sector organisation and not directly to an enterprise. In this case it was fl. 15.220 mn to the Cotton, Rayon and Linen Sector Organisation, and in 1977 fl. 8.0 mn were committed to the clothing sector through the sector organisation, STRUCON. These organisations had already initiated programmes aimed at restructuring their sectors, the funds being drawn from the Ministry of Economic Affairs budget for general domestic restructuring. However, in these two instances, it was agreed by the Ministry of Development Cooperation that the programmes had some favourable repercussions for LDCs and were thus eligible for support from this development cooperation budget. The remainder of commitments were made to individual enterprises who, in most cases, prepared restructuring projects and presented these to the government who, if content that benefits would accrue to LDCs, usually provided a subsidy of 25 %.

Table 2
Commitments and Disbursements
as at December 1977

(in fl. mn)

	committed	disbursed
1975	6.860	3.286
1976	16.040	11.913
1977	14.700	4.515
Total	37.600	19.714
mid 1978	17.770	

A selected description of some of the projects should be sufficient to draw some conclusions on the programme's success. Only one of the projects, that of the Bruynzeel Plywood Company, involved the FMO and demonstrated a direct link with a specific project in an LDC. This, the largest plywood manufacturer in the Netherlands, realised by 1973 that it was no longer competitive to import logs and peel them in the Netherlands to manufacture veneers, standard and quality plywoods. Thus a restructuring plan was prepared in

which Bruynzeel would produce quality plywood for the European market and only trade rather than manufacture standard plys. The veneers for the manufacture of quality products would be imported, and to secure a supplier, Bruynzeel took a 41 % share in a company in the Congo. The FMO, who provided investment capital, have a 24 % share, a German company 10 %, with the remaining 25 % in the hands of the Congolese Government.

Table 3
Recipients by Sector 1975 to mid-1978
(in fl. mn)

Textile	32.17
Clothing	8.00
Knitting	5.70
Plywood	7.73
Telecommunications	1.67
Foodstuffs	0.10
Total	55.37

The "Windsurfer" project of Nijverdal-ten Cate, the Netherlands' largest textile concern, displays advantages to LDCs of an indirect nature. This project was an attempt by the company to divert its excess capacity in the spinning and weaving sector into a totally new product. The Government agreed to subsidise the restructuring which involved the purchase of new plant, the retraining of personnel and market promotion, because the company was moving away from products (basic textiles) which competed with LDCs into a product primarily suited to a luxury European market.

Supports for other projects were based on this assumption that, if it can be shown that adjustment involves a move "up market" away from the manufacture of products, in which the LDCs are more competitive, benefits to LDCs exist, however incidental. In the clothing sector this was often the case. One recipient of a subsidy restructured by producing riding costumes, sporting wear, and high quality speciality uniforms, instead of blue-grey suits which were no longer competitive with Mediterranean and Asian manufacturers.

In 1978, Philips Telecommunications Industries received a subsidy for retraining a portion of their Dutch employees, who were made redundant as a result of an adjustment decision. In order to maintain a vital Latin American market, Philips began manufacturing in Mexico, rather than directly exporting finished components. They had undertaken similar programmes in Brazil, and contemplate similar moves to Colombia, Peru and Indonesia. In order to qualify for government assistance, the company claimed that it would be

unable to transfer to so many LDCs, without re-training subsidies in regard to some of them.

In quantitative terms, one may argue that the demand for this policy had been overestimated. Only fl. 37.60 mn (35.8 %) of a budgeted fl. 105 mn was committed in the first three years, and of this, only fl. 19.714 mn (18.7 %) was disbursed as of December 1977.

Constraints on Goal Attainment

In qualitative terms, three constraints on goal attainment appear most relevant. The first, whether the development dimension, which is, after all, the *raison-d'être* of this policy and distinguishes it from all other adjustment policies, was adhered to and achieved. In this regard, the programme failed to be selective about what are to be considered as LDCs. We may classify LDCs into three groups: self-supporting countries such as the oil exporters or those exporting mainly manufactured goods; the real poverty countries; and those in an intermediate position, who export some manufactured goods, but continue to experience large balance of payments deficits. In an aid programme each one should be differentiated. It is the intermediate group at which an adjustment policy of this kind should be aimed, not at the Taiwans, Singapores and South Koreas. Adequate efforts need to be made, possibly by preferential tariff treatment or joint ventures, to ensure that benefits of this policy accrue to this intermediate group. The least developed countries which do not have the experience and infrastructure for extensive manufacturing are more likely to benefit only if there is a direct link à la Bruynzeel and the Congo.

In the overwhelming number of cases the link between adjustment in The Netherlands and the transfer of production to LDCs was not made. Generally, any advantages accruing to LDCs were incidental, where it was only assumed that a move "up market" leaves a vacuum for LDCs to fill. The direct causal relationship is tenuous. Indeed, in most cases, restructuring was a reaction to competitive pressures, rather than to anticipate them. That is, LDCs in all instances prompted adjustment, rather than adjustment assisting LDCs marketing potential.

This introduces the question as to which extent a policy can stimulate companies to take cognizance of the aid dimension when formulating their restructuring plans. In most cases the subsidies have not been an incentive to take an aid orientation, but little more than a lump of sugar, to sweeten a decision already taken by the enterprises. There is indeed some truth in the notion of larger companies practising "subsidiology" — the art of seeking out government subsidies to suit

their plans. Often the subsidy was so small in relation to the total restructuring programme that it could not have been a stimulus, and when subsidies were provided indirectly, through sector organisations, the recipients were unaware that part of the assistance they were receiving came from the aid budget — it was disguised amongst other general restructuring funds from the Ministry of Economic Affairs.

Innovative policies are bound to face some difficulties in respect of their administration. Hence, the second constraint: The most noticeable difficulties concerning the management of this programme would appear to be the *ad hoc* manner in which the few project requests were handled. This lack of institutionalisation led to a lack of consistency in maintaining the criteria for assistance, and the bypassing of the recommended support organisations (NEHEM & FMO). This poor response is due, to some extent, to the lack of aggressiveness of the administrators in promoting the policy, and recently the few instances of adverse publicity, when large companies, capable of financing their autonomous adjustment, were recipients of subsidies. Finally, the conflict of interests that was evident between the two ministries responsible, shall remain as long as social and political considerations interfere with the rationale of structural adjustment.

The third constraint concerns the effects of contradictory policies on the goal attainment of this policy. Two contradictory policies are most salient in counteracting any achievements of an adjustment policy aimed at aiding LDCs. One, already referred to, is the numerous varieties of protectionism. The other, the role of multinational corporations. In order to genuinely help LDCs, it is not acceptable if the prime beneficiaries of adjustment in developed countries are multinationals which (whether operating in LDCs or the donor country) are much better able to adjust autonomously when compared with smaller, less mobile firms.

Highlighting these constraints should not be seen as a criticism of the programme, but rather an attempt to emphasise the difficulties facing adjustment programmes which are primarily directed to assisting LDCs. A policy of this kind, aimed at structural change in developed countries, inherently faces a struggle to achieve its aims in a society which is structurally biased against it. Inevitably, the consequences have led to compromises between change and *status quo*. However, the policy is imaginative and adventurous, and as such it is to be praised. As it is as ambitious as the New International Economic Order itself, the disappointments are bound to be more glaring than the achievements.