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Development Policy Today: Challenges And How To Meet Them

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to
the
point

“The human sympathy of everybody who is 'for' the developing countries does that person honour, but it obscures the fact that the rich countries have considerable self-interest in a smoothly proceeding emancipation of the Third World.”

Gamani Corea, Secretary-General of UNCTAD, in the business newspaper "Handelsblatt", Düsseldorf (Dec. 31, 1980).

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Minister for Economic Co-operation Rainer Offergeld visited Niger at the start of 1981. Here he confers with Niger's Agriculture Minister Brab Mabamane.

Safeguarding

The

Independence

Of the

Third World

From the address of Minister of Finance Hans Matthöfer to the Bundestag on introducing the 1981 budget (January 23, 1981)

All the OECD countries together ran up a balance-of-services deficit of 73,000 million dollars in 1980, the oil-importing developing countries one of 50,000 million. Naturally every single industrialized or developing country could take drastic short-term measures to get rid of its deficit, by ruthless cutting down on imports and an aggressive export offensive. But that, instead of bringing about the desired result, would worsen the worldwide economic difficulties.

For developing countries that haven't enough other sources of energy, it is far and away the hardest to finance these deficits. Nevertheless the right thing for them is to invest more—despite much less capital at hand—so as to develop new sources of energy and to economize on energy. For only that way can they break out of the vicious circle of rising energy prices and growing deficits.

What is more, it's in our interest, too, that developing countries should invest more so as to get more independent of oil imports, because this investment provides us with export possibilities. If we advise the poorest, the most indebted developing countries, without currency reserves and with scant export possibilities as well—if we advise such countries, despite their deficit, which is higher and harder to finance than ours, to import (for example, by way of the World Bank) still more capital—giving such advice, only then are we in a position to be able to judge our own deficit more correctly, and to avoid jumping to over-simplified conclusions.

The Price of Petrol As an Aspect

The departing president of the World Bank, Robert McNamara, said, rightly, about that situation: "It's not only a matter of getting the balance of payments back into balance; the decisive thing is to achieve this balance with the greatest possible economic growth."

Compared with 1978, the last oil-price rise burdens the oil-importing developing countries with a sum that is higher than the Federal Republic of Germany's entire public development aid. Here we have the key world problem as the 20th century ends—a problem whose dimensions far exceed individual countries' possibilities of finding solutions. The world over, new forms of teamwork are required to make possible a turn for the better. As important as bilateral and multilateral development aid from the industrialized countries is going to continue to be so as to make possible the evolution of productive forces in the Third World—among them, the most important productive power being the working power of people—this aid alone is simply not going to suffice.

How is the developing countries' balance-of-services deficit to be financed? Additional capital transfers to be made possible, especially for investment in energy? Technical know-how to be mobilized? Economic growth brought about? All that can only work out if industrialized, oil-producing and developing countries merge their energies in a new, joint effort...

It would be a great gain for the discussion of financial and economic policy if we could get away from all-too-simple clichés. Our economic problems, like those of our European partners and the United States—and especially those of

the oil-importing developing countries—don't lend themselves to ready-made solutions...

It is greatly to our interest if the balance-of-payments deficits everywhere in the world remain financable; if things do not come to major reductions of import capabilities in industrialized countries or in oil-importing developing countries. So it's not only a matter of being very determined about the long-range reduction of our own deficit, and moving towards that goal even by taking unpopular measures. We have also to take note of the fact that it's of little use to us if we make it still harder for other countries to cope with their deficits...

Expected Help From Investments

In the cases of most of the industrialized and developing countries, the higher oil bill is draining away purchasing power. Sooner or later, accordingly, there has to be abstention from consuming. With us, this needn't mean, however, that to the same extent our country's economic activity will fall off. The transitional solution can only be that the withdrawn purchasing power flows back again and is invested, whether through direct participation in enterprise or via banks and credits...

How have the industrialized countries earned their high standard of living, dizzyingly high in comparison with that of the people of the Third World? The industrialized economies have done this largely through the high productivity of their labour, by having technologies available, by organizational ability, by the qualifications, the performance and the diligence of their employees; and through their better infrastructures. Only to the degree to which we manage further to develop our technologies, and to use them productively together with the available worldwide investment capital can we provide long-range insurance for our employment and income here at home...

Supported by a capable and competitive economy whose structural transformation we promote, an economy that enables us to create new jobs, to guarantee humane working conditions, to provide better environmental protection, and gradually to foster the further development of social security, justice, equal chances for all, we shall

- make our contribution to keeping world peace and freedom;
- strengthen the friendship between the German and the American people;
- further expand the European Community as an indispensable foundation for peace, freedom, social and economic progress;
- help to ensure the long-range economic, political and cultural independence of the people of the Third World, to strengthen democratic forces of reform and to reject any efforts towards domination;
- together with our alliance partners work towards a stable military equilibrium at the lowest possible level so that the burden of armament costs—not least to the benefit of development aid—will be reduced . . .

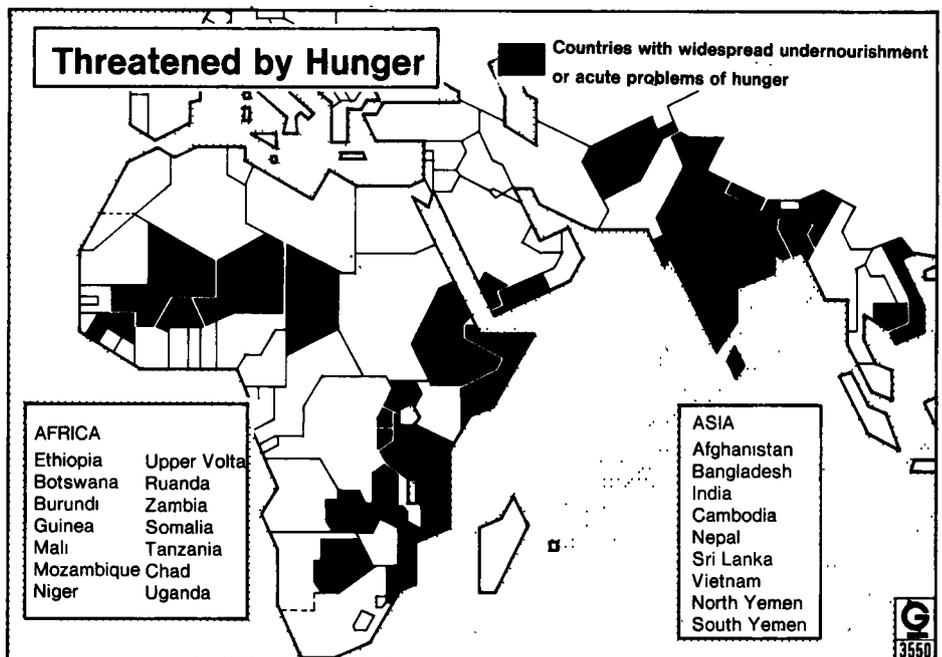
Towards A North- South Farm Policy

Here is a message to foreign journalists at International Green Week in Berlin (West) Jan. 24, 1981, from the State Secretary of the Federal Ministry for Food, Agriculture and Forestry, Hans-Jürgen Rohr:

We hope discussions in the United Nations increasingly will turn the attention of the North-South dialogue to the solution of specific tasks. On the one hand, this is a matter of help for a category or group of countries that as so-

called "threshold countries" or "take-of countries"—on the threshold of developing varied exports and industrializing their economies—already have been able to achieve notable economic success. Today with their offers of agrarian products—raw materials or processed goods—they are at the borders of the European Community, and are storming towards these EC markets. We have a readiness to help these countries, under the principle of liberal trade, open to the world. Despite serious market problems of our own, we keep looking for ways by which farm products from these countries can also be imported into the European Community.

These efforts to a considerable degree have paid off: The EC's importation of competing farm products or their substitutes from developing countries (other than OPEC countries) has actually risen in recent years, so that now, at about 14 percent of the European Community's imports of farm produce and related goods, it has reached a high level. True, it may not be easy, now that the Community is being extended to the South (to include Greece, Spain and Portugal), and in view of other important farm-policy goals, constantly to maintain this volume of trade with third countries. But still we are trying to further liberalize access to the Common Market for farm products. Here a relevant step is to implement in commercial practice the points that GATT has agreed upon.



Food for the Poorest

On the other hand, there is also the matter of help with the problems of the Third World's least-developed countries (LLDC's). Here, as one measure of help, we are constantly prepared to alleviate emergencies caused by suddenly developing bottlenecks in food supply. Secondly, we continue to try, together with other developed industrialized countries, to work out a comprehensive concept of support for this group of countries within the framework of the North-South dialogue, and to get that concept into operation. We seek a long-range concept that provides help while introducing or continuing to foster a self-supporting economic development in these countries.

There are various ways leading to this goal. They range from the integrated-raw-materials policy and trade agreements all the way to U.N. global negotiations including on food aid.

of their raw materials, as well as in their efforts to diversify their range of products...

Within the EC's general system of preferential tariffs for developing countries, which was revised and broadened in 1980, and which in 1981 is entering its second decade of operations, we have been able to make improvements in regard to a total of 46 items of trade in the farm-products area. Doing so, we had special regard for the delivery possibilities of the least-developed countries. Thus the number of farm products that can be imported into the European Community from developing countries not associated with the EC without quantitative restrictions and either tariff-free or at a reduced tariff has risen to 311.

We welcome the fact that the 11th General Assembly of the U.N. succeeded in reaching agreement on the text of a new international development strategy for the 1980s. We hope

Extensive expectations are being linked with the soon-to-begin U.N. global negotiations. These talks offer a good opportunity to discuss a wide range of important topics. Major efforts will be needed from all sides if in the complex problem areas of farm trade, development, raw materials, currency and finances we are to achieve the hoped-for progress...



In the implementation of the integrated-raw-materials programme demanded by the developing countries considerable progress recently has been made. The negotiations on the Common Fund have been successfully completed. We hope this fund can start operating this year still. That would considerably facilitate and insure the financing of storage measures within the framework of raw-materials agreements. Additionally, raw-materials-producing developing countries will be able to get support in the exploitation, processing and marketing

its—in part very ambitious—goals will be attained as far as possible. For our part, we shall not slacken in our efforts to make this hope come true.

However, there is an important contribution required from the developing countries that are in need of aid. These countries will need political determination and a maximum readiness to make redoubled efforts of their own, so that success can come fast and be assured as a long-term gain.

Five

Development

Policy

Challenges

Speech by Minister for Economic Co-operation Rainer Offergeld in the Bundestag on Jan. 28, 1981

Since 1950 the population of the developing countries has soared from around 1,600 million to about 3,200 million. The successes of development policy in this period are impressive:

- The per-capita income in the developing countries has almost doubled.
- The average life expectancy in the poorer developing countries has risen from 35 to 50 years.
- The proportion of adults in the Third World who can read and write has climbed from 30 to 50 per cent.

True, these average figures obscure major differences among developing countries and considerable disparities in individual countries. Nevertheless, this fact is beyond question: For many people in the developing countries the conditions of life have noticeably improved.

Although recent decades have brought the developing countries a degree of progress unparalleled in human history, the Third World today faces menacing problems:

- There are still 800 million people living in absolute poverty. They lack the barest essentials of existence.
- The total population of the developing countries is growing annually by about 65 million.
- With the unemployment quota already high in the Third World, year by year some 25 million additional people are looking for a job.
- Agricultural production in many developing countries is growing more slowly than the population; in some countries farm production is actually falling off.
- The population pressure in many countries is leading to extensive use of natural resources and to ecologically ruinous practices. Every year an area half the size of the Federal Republic of Germany is being deforested.
- Urbanization is confronting many developing countries with almost insurmountable problems: slums, unemployment and criminality. It is foreseen that in 20 years the Third World will have at least 40 cities with more than five million inhabitants.
- The great multitude of refugees and expellees in developing countries has grown steadily in recent years.

- The development problems of the oil-importing countries of the Third World have been brought dramatically to a head by the recent oil-price explosion. The developing countries' bill for oil imports in the past two years has more than doubled. The rise in the oil bill in 1979 alone was higher than that year's entire development aid. By 1980, the developing countries' indebtedness had reached some 360 billion dollars. Debt-servicing is eating up an ever-growing proportion of export revenue. Given the poor worldwide economic situation, the developing countries cannot count on higher export income in the short term. This means: a fall in national and hence in per-capita income; more hunger, poverty and human suffering; social and political tensions in the Third World.

All this makes it clear that the tasks which confront development policy in the 1980s have by no means lessened. Important signposts for our future development policy are the Brandt Report and the United Nations International Development Strategy for the Third Development Decade.

The Third World's situation can only be noticeably improved if there is international success in the coming years in steering towards the following five goals:

1. There needs to be a revival of economic activity in the industrialized countries. In view of the close economic interconnection between North and South, such a revival will also have positive effects on the developing countries.
2. For the developing countries it is a matter of their survival that the oil revenues be recycled. Here the OPEC countries shoulder a major responsibility.
3. All protectionist efforts must be unequivocally rejected. Restrictions on world trade would magnify rather than resolve the world economy's structural problems.
4. The many unused energy sources in developing countries must be tapped; these countries' dependence on oil must be reduced.
5. Everything has got to be done to prevent a fall-off of worldwide development aid. It is necessary to point out time and again that the Eastern industrialized countries, too, have a responsibility to bear in this respect.

The basic tenets of development policy approved by the Government in Bonn in July 1980 are the mainstays of the Federal Republic of Germany's development policy.

We want our development policy to promote the self-reliance and the political independence of the countries of the Third World.

The developing countries need to intensify their own efforts. Structures that hinder development must be removed.

We shall further increase our aid to the poorest countries. We shall lay particular weight on the promotion of rural development so as to combat hunger; of conventional and inexhaustible sources of energy so as to reduce the developing countries' dependence on oil. We shall pay attention to maintaining the ecological equilibrium so as to avoid erosion and the further build-up of desert wastes.

In 1981 again our development budget will increase disproportionately. *) This will be the trend throughout the period covered by our medium-range financial planning.

The share of technical co-operation in our overall aid is going to rise in the years ahead. Accordingly, the authorizations to commit funds for this bilateral technical co-operation are being increased in 1981 by almost 16 per cent. In this way we want to make a decisive contribution to coping with the shortage of specialists, which is a major hindrance to development.

From this it is clear that the new budget of the Ministry for Economic Co-operation is in no sense a budget of resignation.

According to Chinese philosophy, the concept "crisis" has two aspects: the danger it presents and the chance it offers.

There is still the chance of avoiding the massive dangers threatening the process of development in the Third World, and thus threatening world peace. We have pointed our German development policy in the right direction. Now, as always with policies designed to promote the Third World's development, what is needed is plenty of patience.

*) While the overall 1981 budget will increase by 5 per cent, funds for development aid will be 10 per cent higher, i.e. more than double the rate of increase for the national budget.

Talking to journalists in Bonn, January 12, 1981, Minister for Economic Co-operation Rainer Offergeld commented on a study by the World Economic Institute in Hamburg (HWWA) on private investment in developing countries which had been commissioned by his Ministry

For years there have been heated debates on the matter of private investment in the developing countries—debates or, as was sometimes nearer the truth, crusades for this or that cause. In commissioning this research project, we wanted to establish a foundation for empirical study of the topic. One has to be clear about one thing: private investment is not development aid: consideration always has to be given to the benefits for both sides. There is surely going to be no private investment in a developing country if the project doesn't promise considerable benefits to the investor, too.

This HWWA study looks at the instrument of private investment from highly differentiated perspectives—without one-sidedly either glorifying or condemning such investment. The study considers the effects of private investment on various economic factors—for example, on employment. The effects on employment are evaluated as being on the whole, but by no means overwhelmingly, positive. It is found that the effect of a private investment, seen in isolation, on the balance of payments is apt to be negative; that the developing country's loss of revenue is likely to be higher, within this context, than the inflow. But if you consider the broader effects of import substitution or of diversification of exports, then the effects on the balance of payments are quite positive. The study examines the effects on growth and mentions a negative aspect: that private investments nearly always take place in heavily populated areas and thus encourage migration to these congested areas and the growth of slums in the developing countries. That is, there definitely are private investments with negative effects, investment projects which the developing countries need to examine very closely.

On the whole, the study concludes that there can be no unqualified glorification and also no unqualified condemnation of private investment. The conclusion is that if private investment dovetails with a developing country's sectoral situation, if the investment is made at the right place, it can have positive effects insofar as the developing country provides the right conditions. In other words, the report concludes that while private investment does not unconditionally and in every case have positive effects, it can have them.

I agree with this assessment. The Government of the Federal Republic of Germany continues to see in the promotion of private investment in developing countries a suitable instrument with which to achieve economic and social progress for the developing countries. But the right conditions must be provided, especially via the host country's policy. Moreover, we dare not disregard the danger that large private investments in some smaller developing countries could create monopoly situations—monopoly situations with the possibility of exerting powerful influence, not least political influence; a sort of influence that in some cases can be disturbing. That is why the private investor needs to have an intuitive feeling and a corresponding sense of restraint.

Effects of Private Investments In Developing Countries



The German chemical branch at work in India: the research department of Hoechst Pharmaceuticals Ltd. in Bombay.

Summary of a study commissioned by the Government of the Federal Republic of Germany from the World Economic Archives in Hamburg (HWWA)

Private economic co-operation with developing countries is an integral part of the Federal Republic of Germany's development policy. Investment in the form of securities, private credits and above all direct investments by German firms in developing countries amounted in 1978, at DM 9,500 million, to a quite considerable part—66 %—of the over-all services by the Federal Republic of Germany within the framework of its development co-operation. Direct investments, accounting for some two-thirds of the services of the private economy, play an outstanding role.

The German Federal Government believes that private direct investments in developing countries not only, seen from the financial aspect, meaningfully supplement development aid from public funds, but also, seen qualitatively, complete this country's financial and technical co-operation in the Third

World. So the Bonn Government supports private commitments in developing countries by wide-ranging means.

We expect of private direct investments in developing countries that they

- channel to those countries long-term capital,
- transfer technological and entrepreneurial know-how,
- help to differentiate the host country's economic structure,
- strengthen export abilities, and
- by expanding working and training opportunities,
- bring about better living conditions.

We do not, on the other hand, conceal the fact that these private investments also serve our own interests. They do so in such ways as

- the creating of new and the safeguarding of existing markets,
- the building-up and expanding of our raw-material supply,
- making use of export effects as results of direct investments.

For a long time, political scientists, economists and practicing businessmen have been arguing bitterly the question: do or do not the investors and their home countries' self-interests exceed the development-policy benefits that these investments are supposed to confer on the host countries? Not only by the East Bloc countries, but in the developing countries and the Western industrialized countries as well, criti-

cism—in part, extraordinarily strong criticism—is uttered (or at least extreme doubt is expressed) about the suitability of foreign direct investments as a factor in development. The criticism and the doubt place in question, at the same time, the entire concept of governmental promotion of such investments by both industrialized and developing countries.

The championing of and the opposition to direct investments are reflected in a large number of controversial examinations of the mode of operations and the effects of the activity of foreign enterprises in developing countries. An overdue need has been to arrive at an objective evaluation of the situation behind the debate, with its strong emotional and ideological overtones, and the provision of a summary of the numerous examinations that have been made. Accordingly, the Ministry for Economic Co-operation has charged the HWWA with a research project: the assigned task has been to evaluate the deluge of literature and the existing experiences about the development-policy effects of private direct investment in developing countries.

Problems of Surveying Direct Investments

In judging existing examinations of the over-all economic effects of foreign direct investments in developing countries, this phenomenon emerged strikingly: an extraordinarily sensitive correlation between the results of an investigation on the one hand and, on the other

hand, its underlying premises and the research methods used. Disregard for these background circumstances very often results in erroneous judgements and contradictions in the evaluation of direct investments. The results of such examinations are always conditioned conclusions. And where premises and research methods—as often happens—are not even stated, it is impossible to judge the value of the conclusions and to use them as a basis for extremely questionable politico-economic decisions.

It is extremely problematic, too, if aspects that are only a part of the whole are made to serve as the foundation for an over-all evaluation. For example, in determining balance-of-payment effects it is not enough simply to analyze the capital input and outflow—and to leave entirely out of consideration currency-saving or currency-earning import or export effects. That is why one can also be misled by “analyses” of growth that take no heed of the effects on preceding and succeeding parts of the economic process (linkages).

What aspects are to be included in the analysis? The answer largely depends on which implicit assumptions are being made by the investigation as to the alternative situation—that is, the answer depends on what is being assumed for the event that no direct investments are made. Today investigations hardly ever are based on one of the two extreme assumptions:

- Either foreign investments supplement additively the investments undertaken by entrepreneurs in the host country—that is, the foreign investments supplement local investment activity; or
- foreign investments replace investments that otherwise would have been undertaken by persons in the developing country—that is, the foreign investments force indigenous investments out of the market.

Instead of one of these extreme positions, investigators lean towards one of the numerous variations that exist between these extreme assumptions, since so doing gains probability for the results of the inquiry.

Below are offered reliably based findings on direct investments in developing countries; offered, too, is a kind of “dominant opinion” about the positive and negative effects of such investments.

Extent and Structure Of Direct Investments In Developing Countries

At the end of 1975 the over-all total of foreign direct investments in developing countries was 75,900 million U.S. dollars. Fully 88 % of these investments came from the five leading Western industrialized countries: the United States, Great Britain, the Federal Republic of Germany, Japan and Canada. The Federal Republic of Germany's share was only 7.1 %

As a place to invest, developing countries play a subordinate role in the eyes of industrialized countries. Only 20 to 30 % of the total investments abroad go to developing countries. The Federal Republic of Germany, with 30 % of its foreign direct investments in developing countries, is no exception.

Corresponding to the high over-all total of the American share of foreign investments, American firms also dominate in this regard within individual developing countries, accounting in Mexico, for example, for 70 % of all direct foreign investments. In not a single developing country does the Federal Republic of Germany play a leading role as foreign investor. This country tends to range among the foreign investors far behind the U.S., Japan and Britain. The highest proportion is achieved by the Federal Republic of Germany, with 12.4 %, in Brazil. This situation reduces the potential for conflict between German investors and host countries, in regard to the ever-recurring worry about an over-alienation and foreign control of a given economy.

Regional Distribution

Central and South America, with about 50 % of the total, are the scene of most of the investments in developing countries. In proportion to this over-all pattern is the investment there by German firms (1977: 46.8 %).

Two factors determine the regional points of concentration of direct investments: geographical proximity, in conjunction with traditionally close politico-economic relations; and the size of the market. Direct investments go primarily to “threshold” countries (countries on the eve of becoming industrialized countries) and to nearby developing countries. By far the major part of German direct investments in developing countries is sales-oriented; these investments go to countries that have a relatively large domestic market.

But since the beginning of the 1970s export-oriented investments have steadily been becoming more significant. Typically, these investments involve partial relocation of labour-intensive production processes in countries with low wages. Such investments represent a special category of procurement-oriented direct investment.

Sectoral Aspects

The branches that invest in developing countries are not those that are structurally weak. Instead they are the branches with average or over-average growth prospects—often outright “growth industries”.

Direct investments made in developing countries are largely those of manufacturing industry. Investors in the Federal Republic of Germany show preference for the chemical industry, the electrical-electronic branch and the transport-equipment sector. It emerges that research-intensive and technology-intensive branches prevail—which leads to the conjecture that direct investments are undertaken in particular where the developing countries lack the requisite know-how.

Because of their knowledge of the market and their worldwide configuration, multinational concerns do most of the investing. Recently, too, there have been increasingly frequent cases of partial relocation of production by medium-sized firms. The Federal Republic of Germany supports these investments, incidentally, with a special programme.

In general it can be said that the industrialized countries' direct investments are more significant for the developing countries than for the countries of origin. While the proportion of transfers (reflecting foreign investments) in relation to the industrialized countries' gross national products is very slight, on the other hand foreign firms occupy an outstanding position in the economies of the developing countries.

In industrialized countries, too, firms with foreign capital participation carry much weight in some branches. Although the developing countries—aside from a few exceptions—do not for their part invest in the rich countries, within the group of industrialized countries one can speak of a mutual capital involvement. Here the situations of the two categories of country—industrialized and developing—are, however, different: as a rule, within an industrialized country it is not possible to speak of a dependence on a foreign country—including not in regard to direct investments.

Effects on Employment

The investigations agree in revealing positive effects on employment. There are exceptions only in locations in so-called export zones or where similar circumstances apply, which are, however, not typical regarding investors from the Federal Republic of Germany. It became clear that besides direct creation of jobs there are indirect employment effects. A realistic estimation of the alternative position shows that the jobs for the most part would not otherwise have been created. Yet a certain extent of substitution of former jobs by new ones, and the suppression of local firms, should not be overlooked. Since the direct investments mostly are for production that is relatively capital-intensive, the contribution to resolving the employment problem of the developing countries, in relation to the capital committed, is relatively slight.

Positive effects result from the training activities of the foreign firms, although a certain amount of migration of qualified personnel from home firm to foreign firm is not to be excluded. These aspects are to be kept in mind:

- Foreign branches make efforts to employ local personnel, partly for reasons of cost, partly from politico-economic considerations.
- In foreign branches a higher-than-average number of qualified workers is employed, because these branches are concentrated in areas that require advanced knowledge of technology, management and marketing.
- Many foreign firms carry out special training programmes, and to a degree there is close co-operation with the host country's training institutions.

Balance-of-Payments Effects

Despite differing areas of investigation, differing periods under survey and differing analytic methods, the empirical examinations all agree on this finding: that the flow-off of capital by transfer of earnings, fees and interest payments which is induced by direct investments, along with the flow-off of capital due to advance payments in the host country, is in excess of the in-flow of capital brought about by the investment. The resultant passive effects on the balance of payments as a rule are at least compensated for by contributions to import substitution and/or an increase of exports. Accordingly, those empirical investigations that include these effects overwhelmingly confirm an activation of the balance of payments. At the same time there are indications of major departures from this general rule in various branches and different countries, corresponding to the stage of development in a country and to a branch's ability to obtain preliminary items for the production process from domestic sources.

Effects on Growth

The analysis of direct investments' effect on growth has shown this effect to be, in the main, positive. Investigations made according to the descriptive-analytical method, on the macro-economic level, in particular support this result. But here the qualifying remark is to be made that major difficulties are involved in making adequate surveys of activities that tend to suppress competition, and operations involving associative or "coupling" relationships. Thus the clear finding in favour of direct investments is based to a large extent on an alternative situation that is empirically absolutely supportable. According to it, developing countries that abstain from direct investments have only more modest prospects of success.

But the fact that there is no occasion for developing countries to accept each and every project for direct investment sight unseen is made clear, in particular, by investigations sponsored by UNCTAD, applying social-cost/benefit analytical methods at the project level. These studies show that in a considerable number of cases the activity of the sponsors of direct investments will lead to negative income effects on the economy.

The location of direct-investment projects depends on the type of investment, the available natural resources, the labour supply and the existing infrastructure. It emerges that most direct investments are made in congested areas. Thus direct investments increase economic concentrations in urban areas. Therefore such investments foster the general tendency towards migrations into central areas, and in extreme cases also slum-building. Over a period of time a trend towards increased concentration in built-up areas is noticeable.

Technology Transfer and Attendant Factors

By definition, direct investments are a "package" combining capital and know-how. Thus direct investments always also involve a technology transfer. The investments' effects on the country of investment depend on whether this country is already familiar with the respective technology or not, and whether the relative commitment of the various factors of production, a relationship determined by the technology, corresponds to the pattern of scarcity that dominates in that country.

Usually the same technologies are used in branches in developing countries that are in use in the mother country. The technology that is involved often corresponds to the developing countries' goals. Contrary to the opinion of many economists and political scientists in industrialized countries, developing countries tend to attach value to the transfer of modern technologies. Up to now, only a few firms have concerned themselves with developing accommodated technologies—that is, methods for manufacturing modern industrial products via procedures that have been simplified yet are easily capable of expansion.

As a rule, foreign firms in developing countries use more capital-intensive production methods than do comparable domestic firms. On the other hand, the typical subsidiary firm in a developing country goes in for more labour-intensive production than does the home firm in the motherland. But this does not happen primarily because wages are low in developing countries, but rather in the course of adjusting to diminished output.

Export-oriented direct investments involve the highest, raw-materials-oriented investments the lowest degree of labour intensity. Given only slight pressure of competition, production techniques tend towards being capital-intensive, in the case of both domestic and foreign firms. A "too capital-intensive" production technique will, accordingly, be used in particular by foreign import-substitution enterprises that,

thanks to governmental protective measures, are exposed to only slight competition.

Summary

On the whole, the investigation makes clear that neither a condemnation of direct investments and of multinational firms nor their unconditional and general glorification is called for. For direct investments can, but need not necessarily, have positive effects.

For the capital-importing country direct investments can make a considerable contribution to the development process, and can, in accord with the host country's development-policy goals, whether

- economic growth,
- employment,
- transfer of know-how,
- promotion of exports,
- import substitution and/or
- adjusting the balance of payments,

represent a desirable form of development co-operation—the more so if the direct-investment projects are in agreement with the developing country's sectoral and regional priorities.

But foreign private investments can have neutral or negative development-policy effects, especially if the projects force out of the market existing or poten-

tial local counterpart enterprises and/or supplier firms. Also possible are politically undesirable effects that can result from the over-alienation of a country's economy or from the size—often conferring on it a status not unlike that of a monopoly—of the foreign firm.

From the perspective of the foreign investors' homeland, too, these investment activities can have a positive effect. That is particularly so if the capital commitments

- are made in addition to and not instead of domestic investment,
- serve the opening up of new, or the intensified cultivation of existing markets that are protected against outside competition,
- maintain outlets that are threatened by domestic rises in costs, distance from markets and/or foreign competition,
- contribute to a purposeful structural change and/or to the raw-materials supply.

Disadvantages can result especially from the undesirable export-undesired from the perspective of the business situation and/or of structural policy—of jobs.

Summarizing, it can be stated that direct investments, given the appropriate selectivity, can be an important contribution to facilitating the structural change necessitated by the requirements of the industrialized and the developing countries' economic development. But it is to be kept in mind that both categories of country—that of the investor, and the country that is host to investment—cannot simultaneously achieve an activating influence on their balance of payments. In such cases only a limited juxtapositioning of mutual interests (e. g. in regard to time element) is possible. What is, however, possible in the sense of welfare economics is that both categories of country can attain positive effects on growth and employment.



Siemens factory to manufacture teletype equipment in Mexico



Key Points in the

Report of the

“Independent

Commission on

International

Development

Issues”

(From the “Development-Policy Basic Tenets of the German Federal Government”, July 1980)

1. The Government of the Federal Republic of Germany welcomes the fact—especially in view of the latest international events—that the “Independent Commission on International Development Issues” (hereafter referred to as the Commission) under the chairmanship of Willy Brandt directs attention in its Report to the future development of North-South relations as one of the key world issues. The analyses, and particularly the unanimously adopted recommendations of the Commission, can give new impetus to the joint search for equitable solutions serving the interests of both North and South.

2. The basis of the Report is humanity's shared interest in survival in a world in which escalating global problems—economic and social inequalities, population explosion, mass poverty, disturbance of the ecological balance and exhaustion of resources, as well as regional political and military tensions—increasingly restrict the scope for peaceful solutions. Fuel for conflicts is accumulating in vast quantities. Security and stability do not depend on a military balance alone, but also on the solution of pressing North-South problems. The Commission appeals to the international community to recognize these connections and to accept joint responsibility for a stable and functioning world order.

3. The Commission believes in the mutuality of interests on which alone lasting solutions can be built. This basic concept corresponds to the Federal Government's policy and is likely to appeal to the politically responsible persons, especially in industrialized countries, in governments and parliaments, as well as to a broader public, and to widen the basis for far-reaching decisions.

The Federal Government agrees with the finding of the Report that the necessary reconciliation of interests between North and South should not be confined to the economic sphere alone. The efforts must deal with other problems as well: among them, the population increase, inadequate educational opportunities, the disturbance of the ecological balance, the wasteful use of resources and the connection between disarmament and development.

German development policy supports the countries of the Third World economically and politically on the basis of a partnership of equals, in order to promote their independence and autonomy. Like the Commission, the Federal Government considers the independence and autonomy of countries of the Third World an essential element of world peace.

Within the framework of the European Community (EC), the Federal Government particularly promotes co-operation with numerous developing countries with which comprehensive agreements on co-operation exist. A prime example is the Lomé II Convention with now 60 countries of Africa, the Caribbean and the Pacific.

The Federal Government endorses the Commission's reference to need for developing countries to make efforts of their own. In this connection, it encourages the expansion of economic relations among these countries themselves, especially on a regional level.

The Federal Government welcomes the initiative taken by the Commission in calling on every country in the world—including the East European state-trading countries—to co-operate, each according to its ability, in the common task.

There did not have to be an energy crisis to make clear to all that a solution of North-South problems requires, in many areas, new ways of thinking.

4. On the basis of a detailed analysis, the Commission's Report makes a number of specific recommendations in regard to individual problem areas within North-South relations. The Commission also proposes a programme of priorities for the 1980s and 1990s, as well as a programme for immediate action between 1980 and 1985. Basically, the two programmes are summaries of the individual recommendations, with the programme for immediate action concentrating on the most urgent measures in the areas of resources transfer, energy, food and reform of the international economic system.

The Federal Government supports a large part of the Commission's recommendations. Many of the demands are an encouragement to the Federal Government to go on with its present development policy. They include the strong emphasis on official development assistance to the world's poorest countries; the demand for increased promotion of rural development; the need to support energy security programmes; protection of natural resources. The Commission's rejection of protectionism in world trade also finds the Federal Government's emphatic approval.

The international discussion of the Commission's Report has just begun. The problems mentioned in it are to a large extent the subject of intensive international consultations within the framework of the United Nations (International Development Strategy and new Global Negotiations). The Federal Government, along with its European Community partners and the other Western industrialized countries, is taking an active part in these discussions. The outcome cannot yet be foreseen.

The Federal Government has revised its development policy guidelines in the light of the Commission's recommendations. The revised version makes clear in detail that the Federal Government approves of a substantial part of the recommendations.

5. The Federal Government supports the proposal to hold occasional summit meetings of a limited number of heads of state and heads of government from industrialized and developing countries. Such meetings can have a positive influence on the international climate. The Federal Government believes that such conferences could offer a valuable opportunity for preparing solutions to the world's most urgent problems, thus lending new impetus to international negotiations.

Summary of The Federal Republic of Germany's Development Policy, 1976-1980

Recent years have seen a clear rise in support by the citizens of the Federal Republic of Germany for development aid. While in 1977 about 62 % of the population took a positive attitude towards development aid, in October 1979 the proportion had already climbed to 71 %. This change is shown by a survey of representative public opinion that the Infratest social-research organization carried out among the adult population on assignment by the Ministry for Economic Co-operation.

Only 18 % of the population is still basically opposed to development aid, compared with 23 % in 1977. Those with no opinion have decreased from 16 % (1977) to only 11 %.

The public's evaluation of the Federal Republic of Germany's development policy has also clearly improved. Fully 54 % of those surveyed expressed positive opinions about this Government's development policy, 25 % opposed the policy, and 21 % said they had no opinion. In 1977 the corresponding returns were 46 % in favour, 27 % against and 26 % undecided.

Development policy has become a more important topic for the population in recent years. While in both 1975 and 1977 only 55 % of the public said they had a strong to moderate interest in this topic, today the proportion is 79 %—that is, practically four-fifths of the population.

Changed Development-Policy Situation

The basis for the Federal Republic of Germany's development policy at the start of the 8th legislative period (1976-1980) was a document approved by the Cabinet, "The Federal Republic of Germany's Development-Policy Conception", and another, approved by the Cabinet in June 1975: the 25 theses on a policy of co-operation with developing countries (the so-called Gymnich theses).

But during the succeeding years the development-policy situation has basically changed. Aspects of this change include the several major oil-price rises and the concomitant energy problems in industrialized and developing countries; an increasing interdependence of the industrialized countries' and the developing countries' economies; an increased differentiation of developing countries from one another; the growing problem of absolute poverty in wide areas of the Third World; and also a number of non-economic problems of development co-operation—for example, the cultural side of the development processes.

The 17 new theses approved by the Cabinet on May 30, 1979, took these changes into account. These new theses were meant to further develop and supplement previously expressed principles in regard to individual spheres of the development-policy conception. The supplementary tenets also included some new areas, such as that of "disarmament and development".

Then came the Cabinet decision of July 9, 1980, on "the German Federal Government's future development policy in the light of recommendations of the Independent Commission for International Development Issues". This Cabinet-approved document for the first time in five years brought together and systematically presented the Government's development-policy goals, tasks and priorities.

A new version of the development-policy basic tenets was necessary for these reasons:

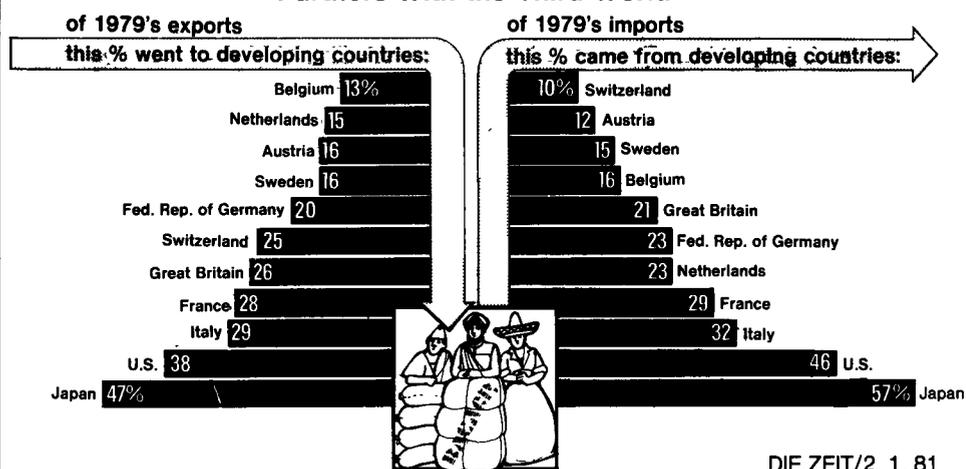
- At the start of the 3rd Development Decade, this Government wanted to introduce its own conceptions constructively and emphatically both in the formulation of an international development strategy and in the resumption of the global North-South dialogue.
- The so-called North-South Commission under Willy Brandt's chairmanship at the start of this year had submitted a concluding report. This report contains a number of important considerations and proposals for resolution of North-South problems; proposals that to a large extent correspond to the German Federal Government's views—proposals, therefore, that called for express mention in the conceptual statement of this country's development policy.

Within the new development-policy principles, the Government has deliberately abstained from going into detail as to each individual question. Instead, clearly defined priorities are set for the work of the coming years.

Special priorities are set for: rural development; resort to both conventional and inexhaustible sources of energy; protection of natural resources (ecology). Areas of particular attention are the countries in the "poverty belts" of Africa and Asia. The extent of co-operation with the poorer developing countries is to be further increased. In addition, there is to be intensified promotion of regional and community projects that benefit several developing countries.

The key political point made by the new principles is: Development aid is not a reward for political "good behaviour". Instead, development policy is to contribute to doing away with tensions and to the Federal Republic of Germany's co-operation on the basis of partnership with countries of the Third World. Thus the policy is a significant instrument for safeguarding world peace. Support for the non-aligned countries of the Third World is to strengthen their autonomy and independence.

Partners With the Third World



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As part of this process, there is to be promotion of social progress particularly in the countries that, in combating poverty and meeting basic needs, have set as a goal the implementation of elementary human rights.

Services From Public Funds

The Federal Republic of Germany in the past four years has considerably increased its development-aid services from public funds (ODA), and in the past two years alone has nearly doubled such finds, from DM 3,200 million to DM 6,100 million. ODA services during the past four years together have come to about DM 17,500 million. In this way the German Federal Government has reacted to emphatic demands by all the parties represented in the Bundestag, the churches and an evolving public opinion.

The share of the Federal Republic of Germany's publicly funded aid services in the gross national product in 1979, at 0.44 %, was clearly over the average of Western industrialized countries. With this considerable increase, achieved despite a difficult general economic situation, the Federal Republic of Germany, with France, in 1979 was in second place among all donor countries.

Liberalization of Trade to the Benefit of Developing Countries

Besides the ODA services and the private transfer of aid in the form of direct investments, the extent of liberal-

ization of trade with developing countries has a direct and important influence on their economic and social development. An investigation by the German Institute for Economic Research (DIW) in Berlin on assignment by the Ministry for Economic Co-operation has shown the following:

After the Netherlands and Sweden, the Federal Republic of Germany is following the most liberal trade policy towards imported industrial products from developing countries. It has been on the markets of these three countries that developing countries in past years have had the best likelihood of obtaining supplemental earnings of currency. After the three mentioned countries came the United States and Japan.

Since 1977 the Federal Republic of Germany's trade with non-oil-exporting developing countries beyond Europe's shores (that is, not counting the OPEC countries) has shown an import surplus. This import surplus—after a setback in 1978—increased from DM 1,400 million to DM 1,500 million in 1979. Imports from these countries increased last year by DM 3,100 million to DM 27,400 million, while the Federal Republic of Germany's exports to the same countries climbed by DM 3,000 million to DM 25,900 million.

Among the imports, particularly noteworthy is the increase in the value of semi-processed and manufactured goods by DM 2,900 million to DM 14,200 million (a rise of about 25 %). For the first time last year, these imports accounted for more than half (51.8 %) of the total imports from the countries in question. By contrast, the share of imports attributable to food, tobacco and

related items (1979: 33.9 %) and to raw materials (1979: 14.6 %) has steadily declined in recent years. This development reflects a change in the export structures of countries of the Third World, especially the advanced developing countries.

Improvement Of Bilateral Co-operation

Based on the experiences of recent years, the Ministry for Economic Co-operation, in co-operation with the affiliated KfW and GTZ organizations, has re-examined the procedures involved in bilateral financial co-operation (FZ) and technical co-operation (TZ), with these goals:

- Improvement and simplification on the German side of procedures involving planning, examination and implementation.
- Disburdening partner countries of administrative tasks, and support to these countries in coping with their planning and implementation tasks.
- Increased efficiency of German development aid.

The examination of procedures for financial co-operation has led to changes above all in the planning and preparation of projects.

In regard to financial co-operation, the Ministry for Economic Co-operation is trying, via numerous measures, to decrease the time between commitment of funds and their actual availability.

An important change is a provision that assignments to examine projects can be made without the necessity at the same time of resorting to an authorization to commit funds.

By the start of 1980 (largely from TZ funds), some 50 grants to sponsor studies and experts, to a total of about DM 120 million, had been approved. From these funds, necessary services in regard to planning and preparation of FZ projects can be financed (e.g. feasibility studies, the short-time use of experts and other counseling services). In carrying out projects, the KfW is making use of intensified steering of projects—especially the continuous counseling of project carriers—to deal with the difficulties that can emerge despite careful preparation of projects.

Co-operation with Individual Groups of Countries

- Development aid from public funds plays an especially important role in co-operation with poorer developing countries. Almost half of all public development-aid funds within the framework of bilateral co-operation go to countries with a gross national product of less than 300 U.S. dollars per capita. Within the group of these poorer countries, a special status is attached to aid to the 30 poorest countries (LLDC's). Within the field of financial co-operation, the share of these poorest developing countries in the over-all governmental commitments approximately doubled from 1972 to 1978; within the field of technical co-operation, these countries' share rose in the same period from one-fourth to about one-third.

This concentration of public aid funds on LLDC's and on other poorer countries corresponds to the policy of giving priority to aid in combating absolute poverty in developing countries.

- Funds for financial co-operation, which until 1977 were still granted to the least-developed countries as loans under very favourable conditions, since 1978 have been exclusively non-recompensable grants. In addition, in October 1978 this Government decided that it would—on application and after an examination of the individual case—cancel interest and amortization resulting from previously granted credits. By the end of 1979 the German Federal Government had concluded agreements with 17 developing countries on the transformation of loans to grants. A total of DM 3,500 million is involved in these agreements.
- The countries hardest-hit—most seriously affected—by international price rises (MSAC) since 1976 have been receiving loans on terms until then only extended to LLDC's (0.75 % interest, 50 years for repayment, 10 interest-free years).

- In regard to co-operation with the more-advanced developing countries, the so-called threshold or take-off countries, the Ministry for Economic Co-operation has developed guidelines. The publicly funded co-operation here aims at helping to break sectoral and regional bottlenecks to development. Priority areas of co-operation are social development, urban development and zoning, industry and environmental protection. Along with the traditional development-policy methods, growing importance is attached in these countries to private economic co-operation and to the border area between private economic and public co-operation.

In this country's development co-operation, during the past four years clear sectoral and supra-sectoral priorities have been established. Supra-sectoral priorities (e.g. basic needs, rural development, the protection of natural resources) require an interplay of measures in different sectors. In regard to the most important supra-sectoral priority—combating absolute poverty—the German Federal Government, subsequent to international discussion, has developed a concept of its own. This concept is productivity-oriented and aims at mobilizing a poverty-stricken population's ability to help itself.

Particular categories of project have related to

● **Energy:** Here this Government is concerned especially with promoting development of new, accommodated technologies for the use of inexhaustible energy sources (wind, sun, biomasses, heat from the earth), as well as with promotion of conventional energy sources, along with the preservation and rational use of traditional energy sources (waterpower, wood). The goal is to lessen the developing countries' dependence on petroleum imports.

● **Ecology:** The German Federal Government is supporting various Governments in their battle against erosion and the build-up of deserts, especially in the arid Sahel zone of Africa.

● **Support for new "target groups" in developing countries.** This effort includes regard for the particular concerns of women and children.

Co-operation with the Private Economy

This Government has considerably intensified its promotion of private business activity in developing countries, and has improved and broadened the methods for so doing:

- In 1977 the capitalization of the Government-controlled German Association for Economic Co-operation (DEG) was increased by DM 100 million and in 1978 by DM 300 million, to a total of DM 1,000 million. By the end of 1979 the DEG had granted participating loans of DM 794 million for the establishment or expansion of 246 firms.
- In 1979 the so-called developing-countries tax law, which grants considerable benefits to those who make capital investments in developing countries—a law that was passed in 1974 and improved in 1975—was again amended. The purpose was to grant intensified support to capital projects in the least-developed countries, and to capital projects in the areas of raw materials and energy in other developing countries.
- In 1979, too, this Government decided on an improved programme to promote branch firms of German enterprises in developing countries, a programme financed from Ministry for Economic Co-operation funds. By granting more favourable terms, this programme is to encourage more small and medium-sized firms to invest in the Third World. The 1979 budget allocated DM 25 million for this purpose.
- Since January 1980 the Ministry for Economic Co-operation has intensified its promotion of on-the-job training by German firms in developing countries. Thereby these training services are being recognized as a development factor in themselves.

The Government of the Federal Republic of Germany has made considerable effort through its co-operation to contribute to de-escalating conflicts in areas of conflict, and to promote speedy reconstruction in countries hard-hit by civil war.

Help in Conflict Situations; Food Aid

Thus the financial commitments for development projects and programmes in the so-called front states, bordering on areas of conflict, in southern Africa between 1975 and 1978 have been more than quadrupled, to DM 173 million. In 1979 such commitments were increased again, to DM 282 million. With a training programme for refugees from southern Africa, the potential supply of technicians for Namibia and Zimbabwe was enlarged, and the foundation laid for fruitful development-policy co-operation after the above-mentioned countries' independence. After the ending of the civil war in Nicaragua, this Government quickly resumed development-policy co-operation with that war-damaged country. Up to now the Federal Republic of Germany's aid to the new Nicaraguan Government has come to more than DM 90 million.

For the alleviation of the worldwide misery of refugees, funds have been made available for food aid, for trusteeship projects, for longer-range solutions and for regular contributions to the United Nations Commissioner for Refugees (UNHCR). In 1978 these funds came to DM 10.8 million, in 1979 to 20.58 million and in 1980, according to latest available figures, to 14.5 million.

An especially important case of humanitarian aid recently has been the Cambodia aid for people residing in Cambodia and for refugees in the Thailand-Cambodia border area. For this purpose DM 24.6 million was paid out in 1979 and DM 15 million in 1980. At the last so-called Cambodia conference, an additional DM 7.5 million was committed.

The German Federal Government has emphatically worked towards the end that intensified production of food in the developing countries themselves should reduce their dependence on food imports. Nevertheless, in order to avoid special emergencies and to safeguard the food supply, extensive deliveries of foodstuffs have had to be made.

In the last four years, this Government has made available 147,800 tons of wheat a year as food aid, spending almost DM 305 million. We have participated in the financing of the European Community-sponsored food aid with an additional sum of almost DM 1,000 million.

The food aid is granted to LLDC's and MSAC's with high food deficits, and is also granted in the event of catastrophes. The main recipients have been the Sahel countries of Africa as well as Bangladesh, Pakistan and Sri Lanka. Our contributions to the world food programme in the past four years have included cash payments of a total of DM 138 million for the programme's Food for Work projects and 115,000 tons of wheat to a value of about DM 58 million for use in the event of catastrophes.

This Government has continued and broadened its measures first undertaken in 1974/75 to ensure the food supply in the Sahel. There, and also in Bangladesh and Tanzania, we are promoting the build-up of food reserves, including storage space and transport facilities. At the start of 1980 a beginning was made on the establishment of a harvest-estimating and early-warning system in Somalia, with the goal of recognizing crop failures early and being able promptly to take measures, via imports, to ensure a sufficient food supply.

Facilitating the Lomé II Agreement

A special service of the German Federal Government outside the bilateral sphere is the role we played in bringing about the Second Agreement of Lomé. This Government emphatically opposed tendencies to restrict the EC's liberal trade policy towards ACP (African, Caribbean and Pacific) countries. The new arrangement in the mining area—the so-called SYSMIN—a solution, similar to the Stabex plan, for those ACP countries whose export earnings are extremely dependent on one or another mineral, stems from a Bonn initiative.

Finally, the Federal Republic of Germany makes the highest contribution to the European Development Fund: 28.3 % in comparison with not quite 26 % under the first agreement. (France contributes 25.6 %, Great Britain 18 %.)

Energy-Policy

Aspects of

Co-operation

Starting Situation

In the 1980s the developing countries remain dependent on a still-increasing use of the increasingly scarce and expensive energy sources petroleum and natural gas. Together, these two sources currently cover almost 80 % of the developing countries' commercial demand for energy.

In this decade, moreover, the majority of the population, especially in African and Asian developing countries, is remaining primarily dependent on traditional energy sources (in particular, wood, plant and animal wastes, human and animal labour).

The developing countries' frequently unexploited potential in regard to conventional and new, regenerative energy sources cannot begin contributing to a broad-scale liberation of those countries from dependence on oil before the 1990s. This delay is due to the long periods needed for planning and building big conventional projects (new dams or new coal mines) and to the long-drawn-out processes involved in expanding unconventional technologies (for which the developing countries lack sufficient training, research and production systems).

The oil-importing developing countries need much greater help with balances of payments and investments than heretofore in order to withstand the rising price of oil in the 1980s and to introduce a restructuring of their energy supply. In 1980 alone, the World Bank estimates, nearly 25,000 million U.S. dollars were needed in those countries for energy investment. Through 1985 it is estimated that 36,000 million U.S. dollars, in the second half of the 1980s more than 53,000 million U.S. dollars, will be needed for investment in energy. Accordingly, the World Bank, in line with the decisions of the summit meeting in Venice, has worked out proposals to mobilize additional funds from industrialized and oil-exporting countries.

A German Contribution

The goal of development-policy co-operation in the energy sector is to reduce the developing countries' high degree of dependence on oil by broadening the energy base. This goal is reflected in the Federal Republic of Germany's new basic tenets of development policy, of July 9, 1980—according to which in the future the energy sector, along with rural development and the protection of natural resources, is to be characterized as an especially important area of promotion.

Along with this country's contribution to the rapidly increasing investment aid from the World Bank, the regional banks and the European Development Fund, there is evidence of a clear upward trend in bilateral aid in the energy sector: Commitments under financial co-operation have risen from DM 321 million in 1977 through DM 417 million in 1978 and DM 464 million in 1979 to an estimated DM 660 million or more in 1980. The volume of grants within the technical co-operation programme has risen in three years, in particular because of the special programme for regenerative sources of energy, by some 200 % to DM 58 million (DM 36 million of this for regenerative sources of energy). In 1980 the sum was an estimated DM 77 million. In view of the starting situation, it is necessary at the same time to provide transitional aid for the 1980s and forward-looking help with restructuring.

Transitional Aid

Essential imports of oil by the developing countries require intensified longer-term financing—in the forms of help with balances of payments and commodities aid—by multilateral agencies, the OPEC and bilateral agencies.

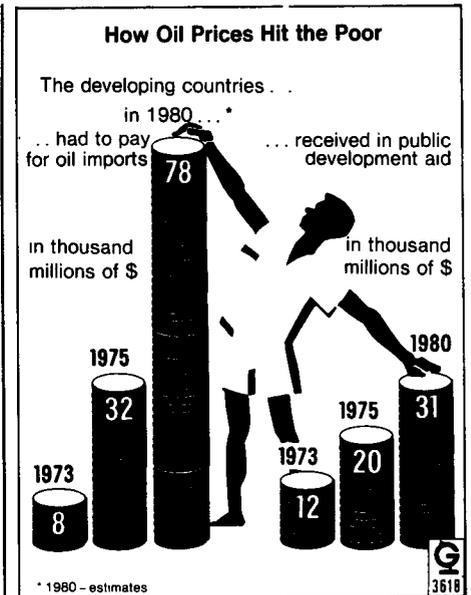
Already worked-out energy projects based on waterpower and coal need to be accelerated, so as to achieve noticeable relief from 1985 onward. Two examples:

- The Selingué dam in Mali, whose power plant was scheduled to go into operation at the end of 1980. Its 48 megawatts will cover the demand for electricity in the Bamako area through 1985, and will make an increase in the number of diesel stations superfluous.

In addition, an expanse, formerly underwater, of about 137,000 acres of irrigated area is being won for agriculture; the navigability of the Niger is being improved, and the reservoir is being made suitable for commercial fishing. The Federal Republic of Germany is participating in the financing of the total costs—DM 317 million—with a grant of DM 38 million, and has received extensive orders in connection with this project.

- The brown-coal mines and the power plant in Neyveli, southern India. Expansion of the mines is to produce 4 million tons of brown coal a year, fuel for a power plant delivering, to begin with, 630 megawatts. It is anticipated that through 1984 this electricity will serve those industries—more than 60 %—and farms—nearly 20 %—that are increasingly converting from diesel power to electrical operation. In 1980 the German Federal Government contributed an initial DM 176 million to the expansion project, which involves a total cost of DM 1,300 million.

The life-expectancy of the existing supplies of wood for energy is to be prolonged via massive programmes for more rational use of this traditional source. Particular attention is going to improved locally manufactured cooking stoves that use up to 50 % less wood. After encouraging experiences in Upper Volta, similar efforts are being undertaken in, for example, Kenya and the Sahel zone.



Although the developing countries' existing energy systems offer considerable possibilities for economizing and for substitution, these opportunities can hardly be taken advantage of without outside help. Antiquated installations, poor organization and inadequate training facilities, in the case of power plants, industry and traffic systems, results in the use of more primary energy per production unit than in industrialized countries. Thus it will be necessary to finance the replacement of over-aged capital equipment with energy-saving installations, and, via help in the forms of training and counseling, to see to it that there is an approximation in practice of the technically possible efficiency.

An interesting example here is the giving of counseling services to Indian power-plant personnel: The oil-wasting practice within Indian industry of using oil to provide for a firm's electricity can only be done away with if the big power plants deliver electricity more reliably than up to now.

Structural Change Within the Developing Countries' Energy Sector

Even measures that are to become broadly effective only in 10 years or more need to be prepared for and begun now.

Most developing countries lack sufficient data on the patterns of their future demand for energy and on the various possibilities of meeting this demand. The consequences of the energy crisis for the expansion of industry, agriculture and infrastructure need to be figured out, and medium-range development plans reviewed accordingly. Here intensified counseling aid by multilateral agencies and via our technical co-operation are necessary so as to increase the developing countries' know-how.

An example is provided in the now-beginning German project to counsel Colombia in regard to a comprehensive energy policy. Here we can build upon successful planning for the expansion of water-powered electricity plants, and can fit into the over-all scheme, in a purposeful interrelationship, projects in the areas of coal and of regenerative energy.

Investment Programmes to Use Conventional Energy Potential

Of the total waterpower potential, industrialized countries make use of more than 40 %, Latin American countries as of now 12 %, Asian countries 6 % and African countries 2 % to produce electricity. Only 22 of some 70 developing countries are using their oil and natural-gas reserves, and at least 20 developing countries with coal potential are mining no coal. But years-long, expensive preparations are needed in order to harness this potential for even the most important projects. Some examples:

- In 1980 we committed an initial DM 67 million to oil-prospecting drillings in Bangladesh, basing our grant on the results of a surveying and counseling project that had been running since 1977. Doing this, we are incurring a not-inconsiderable risk. But we consider it essential to provide this chance for a country that currently has to spend some 65 % of its export revenues for oil imports.

- Our systematic inventorying of the coal potential of developing countries that are particularly dependent on oil has already led to exploring projects in Haiti and the Philippines. Further projects are to begin in Somalia, Zambia and countries of the Andean Pact.

- In Jordan a shale-oil deposit that could cover the country's oil needs for decades to come has been discovered. Now Jordan, at its own expense, is having detailed studies carried out in regard to evaluation and exploitation of the deposit.

- Together with the World Bank, this country participated in the financing, in 1980, of the Nyaunggyat multi-purpose project in Burma, involving costs of some 210 million U.S. dollars. After a construction period of six years, more and more land—up to a final total of 205,000 acres—is to be irrigated, so that, in particular, rice and cotton can be planted. The German share of DM 110 million, including additional export credits, is being used in the financing of the power plant and the transmission and distribution networks. Varying with the change from the dry to the rainy season, a capacity of between 25 and 56 megawatts will help to preserve Burma's reserves of gas for more important purposes, such as production of fertilizer.

Using the Potential In Regenerative Energy

This special programme was adopted in 1979. In 1980 alone, DM 72.8 million, of which for the first time DM 20 million came from our financial-co-operation funds, was made available. Local research, training, production and distribution capacities are being created—especially in the "priority countries" Kenya, Tanzania, Sudan, Upper Volta, Mali, Niger, Senegal, the Philippines, Colombia and Peru—so as to provide a chance for the solid and wide-scale use of tested technologies.

The reversal of the disastrous trend towards deforestation and destruction of the agricultural basis of existence is, especially in the Sahel area of Africa, as urgent as it is difficult. Within the framework of technical co-operation, we have introduced a wide-ranging project to tie in the introduction of energy-saving agro-forestry systems of production with accelerated reforestation. Apart from this, well-prepared programmes of reforestation to produce wood for fuel may well take on increased significance within the framework of rural-development projects.

A Call for Competition In Helping

From Foreign Minister Hans-Dietrich Genscher's address to the 11th Special General Assembly of the United Nations in New York August 27, 1980

Development assistance can never be more than help towards self-help. It cannot bear fruit unless it meets with promising national development strategies. The dovetailing of outside support and national development strategies must be the central concern in our negotiations on an International Strategy for the Third Development Decade.

In the fifties and sixties development was often thought of in terms of more industrialization. Today it is being realized that one-sided industrialization ends up in a blind alley. What we need are broad-based national development strategies embracing all economic and social sectors.

In many developing countries such strategies must normally focus on the development of a labour-intensive agricultural system as a priority concern, industrialization in interaction with agricultural advancement, and, as a basis for the two, the development of national energy resources.

Further integral elements are:

- a population policy containing population growth;
- an environment policy protecting the natural resources of developing countries, such as arable land, forests, water resources, from destruction through predatory exploitation;

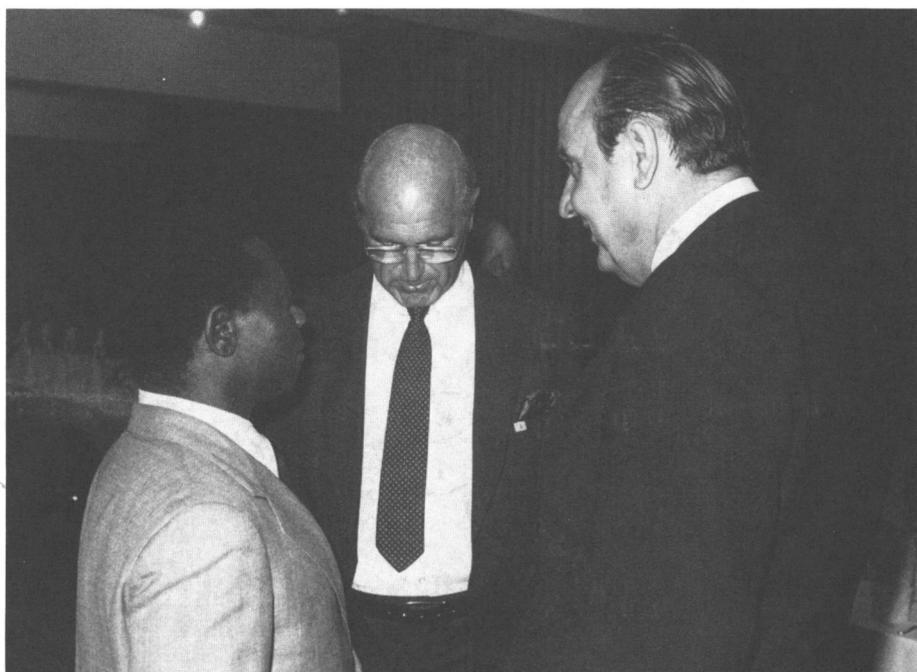
- a policy for "human development"-attention is drawn to this important field of any development strategy in this year's world development report prepared by the World Bank;

- and finally a policy which is designed to develop further the country's traditions and values in harmony with the requirements of modernization. Only the nations and States that can establish their own identity will be able to cope with the challenges. Exchanges on a basis of equality in all political, social and economic spheres: yes, indeed, we want them: but no artificial transplantation, and no impairment of national, cultural and religious identities!

In the North-South dialogue we are in danger of talking at cross-purposes. The developing countries claim that all their own development efforts are useless unless the external conditions for development are created through reform of the world economic structure.

The industrialized countries, on the other hand, claim that all external aid is no avail unless it is augmented in the developing countries themselves with strategies designed to promote development, not just industrial growth.

We shall only achieve a fruitful dialogue if each side recognizes and admits that



During the U.N. Special General Assembly, August 27, 1980, in New York: Foreign Minister Hans-Dietrich Genscher and Ambassador to the U.N. Rüdiger von Wechmar (centre) talking with the Nigerian delegate and former ambassador in Bonn, Shuaib Uthmann Yolab.



+ background information material + + + background information material +

both statements are correct: On the one hand, development is only possible if the external conditions are shaped in such a way as a result of the reform of the world economic order that the developing countries can secure the imports and the technological know-how needed for their development. On the other hand, development is only possible if it includes the mass of the poor in the development process. One-sided industrialization strategies, which leave out the large majority of the population, are bound to produce increasing economic and social injustice and hence political instability which would finally destroy the growth of industry as well.

Development co-operation can thus, inherently, never be a one-way street. Each one of us knows this.

What is needed is that we draw, in all frankness, the conclusions from this situation for the North-South dialogue.

More than has been possible up to now, we must make it a dialogue about what each of the two sides has to contribute to the success of development co-operation. I hope that the developing countries will appreciate the situation when I say that the Government of the Federal Republic of Germany can only require its people to contribute towards development assistance when they know that this does help to alleviate poverty and want. The more obvious it is that development assistance benefits all the people in the developing countries, the more will the citizens of my country be willing to contribute.

The growing burden of military expenditure in the East and West weakens the economic potential of the industrial nations and with it their ability to increase their aid effort. Armament in the Third World itself eats up resources which are indispensable for economic development and at the same time

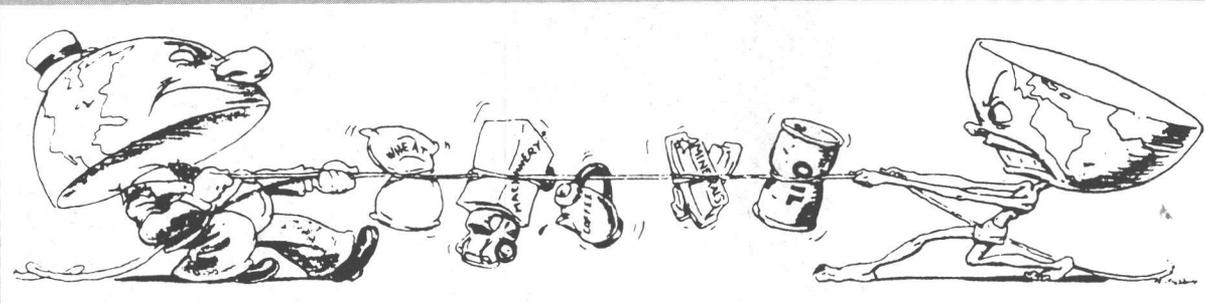
causes increasing instability and a growing threat of armed conflict.

The success of development thus also depends more and more on whether it proves possible to put a stop to arms growth. The world does not need an arms race but a race in the provision of aid for the developing countries!

The industrial nations of the West and East must make it a point of honour to do works of peace for the developing countries. The Third World needs schools and hospitals, it needs tractors and factories, but not guns. My country is striving for disarmament in Europe. We want the balance of power necessary for our security to be at the lowest possible level of armament.

Whoever calls for disarmament in Europe, as we do, must join in our call for an end also to the arming of the Third World.

As the Third World Sees North-South Problems



Source: Jeune Afrique

Dessin de Robert Grossman