Foreign Relations

External Economic Policy and Development Policy

by Axel Borrmann, Hamburg *

Since 1970 the world economy has gone through a series of grave crises which have stimulated an intensive discussion about the economic and political relations between industrialized and developing countries. As seen from the Federal Republic of Germany, the witnessed events have not only an international dimension, but they focus attention again on one particular problem of national economic policy, the relationship of external economic policy and development policy, because the new strains on the international plane are in part reflected by this relationship.

The two spheres of external economic policy and development policy are in many ways objectively interdependent and therefore very closely interrelated. In consequence of this they may overlap and clash. An attempt will be made here to analyse systematically how these two spheres of policy are related and to identify those associations between them which may give rise to conflicts. Finally, the conditions and prospects for success in efforts to remove or lessen the identified conflicts will be discussed.

Development Effects of External Economic Measures

The external economic objectives of the Federal Republic of Germany, which have their place in the common setting of the external economic policy of the European Community, include the demand for a trade policy towards other states which ensures freedom of trade and factor movements. International division of labour and structural changes are indispensable prerequisites to and subsidiary aims of it.

The Federal Republic engages in development policy in order to promote the economic and social progress of the developing countries in a system of global partnership. On the economic plane it aims at creating, in the interest of both sides, the preconditions for more extensive exchanges of goods. More intensive integration of the developing countries with world trade through improvement of their sales opportunities is a major objective.

Of the instruments employed in pursuit of external economic objectives those used for the trade, raw material and monetary policy are of special interest for development policy. The German trade policy forms part of the foreign trade policy of the European Community. In the setting of its external economic policy it continues to be one of the stated aims of the Federal Republic that it wishes to pursue a trade policy towards foreign countries which is based on the principle of unrestricted imports and exports. An analysis of its trade policy towards the developing countries reveals a large measure of compatibility as far as the objectives of both sides are concerned because trade liberalization and opening-up of markets are in accord with the interest of the developing countries in an improvement of their economic and social conditions through greater integration with the world economy.

As regards the instruments to be used in pursuit of these aims there is however a possibility of more or less severe conflicts developing in some foreign trade sections. The Common Agricultural Policy and tariff obstacles — some of which provide a substantial measure of protection — shield many markets, also in the Federal Republic of Germany, from competition by third countries. The non-tariff obstacles to trade, which seem to have superseded the classical instruments of trade policy in certain areas, are no less effective in this respect.

The general trade policy towards third countries has been modified in regard to its application to developing countries. Owing to the trend towards integration it now originates less and less from a wish for national autonomy in matters of economic policy. Since the introduction of a system of generalized preferences and the Lomé Convention the imports from developing countries have been enjoying a preferential treatment which may be regarded as the most important contribu-
tion yet by western industrialized nations to trade liberalization. Nevertheless these measures did not and do not suffice to free completely the imports from developing countries from the obstacles seen to operate in certain sectors.

In the area of the agricultural products which are regulated by Market Orders there is still a potential for conflicts although the resulting negative effects are as a rule dispersed over a large number of developing countries. The imports of raw materials from developing countries are not impeded by major obstacles because the Federal Republic is one of the countries which depend upon imports— for some categories of goods to a substantial degree. In the area of finished and semi-finished industrial products the developing countries had until a few years ago to put up with considerable competitive handicaps arising from the numerous tariff and non-tariff obstacles, and this in regard to goods in the production of which they enjoy special advantages (as in the case of labour-intensive products). The preference system has probably removed part of the protection, and the Lomé Convention operates for a limited number of favoured states in the same direction. The conflict between external economic policy and development policy is nevertheless likely to drag on— though it is less acute now than some years ago— because the system of tariff preferences suffers from weaknesses, especially the quota system and other ongoing non-tariff obstacles to trade.

As a country with few raw materials the Federal Republic is dependent on imports inter alia for its mineral oils, rubber, timber, wool, iron ore, non-ferrous metals and other commodities. In spite of this it has not yet defined general objectives for its raw material policy. Such aims and measures as have become known relate only to a few commodity sectors (agricultural products, mineral oils, crude minerals). In regard to these no consideration has been given to development policy as an aspect of raw material policy. The aims of the latter however are not in conflict with the normative ideas of development policy. The two could therefore come into conflict only when measures for the supply of raw materials are worked out in detail. The enlargement by the Federal Republic of its own raw material basis for instance could have repercussions on the export earnings of the developing countries; stockpiling of commodities by the state could have short-term effects on the prices. Besides, supplying and consuming countries may not always think alike about the direction in which production and export patterns should be diversified in a particular developing country, and this could lead to conflicts even with long-term supply con-

tracts. Since the interpretation of the right of developing countries to dispose of their natural resources is a contentious issue, strains may be set up if the promotion of direct investments for reasons of raw material policy clashes with the recognition of the mentioned right on grounds of development policy. Finally, conflicts could threaten if the development aid were accommodated to the requirements of raw material policy.

These fields of tension are however only potentially areas of conflict. Over large areas it seems to be possible to gear measures which are advisable in the interest of external economic policy to the objectives of development policy and thus to lessen the danger of conflicts, the more so because the raw material interests of the Federal Republic and the developing countries are interdependent.

Since the Federal Republic of Germany is at present the most important trading partner of the developing countries after the USA and Japan and its economic relations with them are marked by an— in some cases pronounced and one-sided— dependence of the developing countries upon the foreign trade with the Federal Republic, monetary measures are assuming special importance for their long-term growth prospects. Their objec-

The Annual Register 1975
of the Monthly Review
of International Trade and Development
INTERECONOMICS
is enclosed in this issue

Cloth-bindings for Volume 1975
may be obtained at the price of DM 8.–

VERLAG WELTARCHIV GMBH
2 HAMBURG 36
NEUER JUNGFERNSTIEG 21