

11 August 1993
ENGLISH ONLY

TRADE AND DEVELOPMENT BOARD
Ad Hoc Working Group on Expansion
of Trading Opportunities for
Developing Countries
Second session
Geneva, 4 October 1993
Item 3(a) of the provisional agenda

Country presentation by the Federal Republic of Germany*

*/ The attached country presentation is circulated in the form and language in which it was received.

TD/B/WG.4/Misc.9
GE.93-52945



June 1993

COUNTRY PRESENTATION
FEDERAL REPUBLIC OF GERMANY

I. Structural adjustment policies conducive
to opening up new trading opportunities
for developing countries

For more than four decades Germany has fared well in implementing its social-market-economy concept.

The social market economy is based in particular on a reliable legal system, private initiative, competition, market liberalisation and permanent structural adjustment. It has been possible to achieve lasting economic growth and a high level of price stability by consistently taking these principles into account.

Together with structural change and economic growth, a considerable rise in German imports and exports has been possible. The developing countries have also benefited from the increase of German imports.

German imports from the developing countries (including China) amounted to nearly DM 83 billion in 1992. In the past 20 years they have increased fourfold (1972: about DM 20 billion).

German exports to the developing countries (including China) also reached a value of approximately DM 83 billion in 1992.

The German trade account with the developing countries (including China) was thus nearly balanced. In 1992, German trade with the OPEC countries registered a surplus, while

there was a deficit with the non-OPEC developing countries and with China. By means of its growing and largely balanced trade with the developing countries, Germany has markedly contributed to improving the economic strength in the South.

**II. Measures to encourage foreign direct investment
and strengthen export supply capabilities
in developing countries**

To encourage foreign direct investment in developing and transforming countries, Germany has taken various measures with the aim of improving the economic strength of these countries and thus also their export capabilities:

- treaties governing the promotion and reciprocal protection of investments
- federal guarantees for investments abroad
- tax reliefs
- German Investment and Development Association (Deutsche Investitions- und Entwicklungsgesellschaft, DEG)
- promotion of branch offices and of technology transfer
- export financing and export credit guarantees

1. Treaties governing the promotion and reciprocal protection of investments

To promote and protect investment of German companies in developing and transforming countries, Germany concludes with these countries treaties on the promotion and reciprocal protection of investments. 65 treaties are now in force and another 13 have been signed.

In such agreements, the contracting parties declare their willingness to establish favourable investment conditions for the respective other state. Foreign investment is hedged against political risks (nationalisation; expropriation, armed conflicts, payment and transfer restrictions).

This creates a basis for German foreign investment under international law and thus makes possible the related transfer of capital, technologies and entrepreneurial experience to southern and eastern countries.

2. Federal guarantees for investment abroad

Pursuant to budgetary law, Germany can accept guarantees in favour of German companies for investments worth promoting in other countries to hedge the political risk, if sufficient legal protection is guaranteed. A treaty governing the promotion and reciprocal protection of investments usually proves sufficient legal protection.

The acceptance of such a guarantee by the state helps in particular small and medium-sized businesses to invest in developing and transforming countries. The companies concerned thus can transfer their know-how and experiences to other countries.

Not least due to such guarantees, German direct investment in the developing and transforming countries amounted to DM 2.8 billion in 1992.

3. Tax reliefs

Germany promotes cross-border company cooperation and foreign investment by concluding conventions for the prevention of double taxation abroad and in Germany. Such double taxation conventions facilitate investment abroad and make it more profitable. At present, there are 45 double taxation conventions with developing countries.

4. German Investment and Development Association (Deutsche Investitions- und Entwicklungsgesellschaft, DEG)

Within the framework of German development policy, the DEG promotes investments by German firms in developing countries. The Federal Republic of Germany is the DEG's shareholder. The capital subscribed for by the state at present amounts to DM 1 billion.

The DEG, whose activities are based on market principles, offers long-term loans and risk capital for private investment in developing countries. Most of the investment projects are joint ventures in which local firms in the country in which the investment is effected and German companies as finance and technology partners hold shares.

5. Promotion of branch offices of German companies in developing countries

Branch offices of companies from industrialised countries in developing countries can accelerate the economic development in the South. This is why Germany supports the establishment of branch offices of German companies in developing countries with long-term loans. This helps the developing countries with the establishment and the expansion of their own technological infrastructure.

The loans granted within the framework of this programme may be used either for the prorata financing of specific investment projects or for the financing of preparatory investigations of the prerequisites of such projects. Investment financing comprises the construction, expansion or the acquisition of companies or company interests in developing countries.

6. Export financing and export guarantees

The exportation of capital goods and services to developing countries can be supported by a public financing programme with concessional interest rates.

Another means of public support of medium and long-term export financing is a special rediscount line granted by the Deutsche Bundesbank to the AKA Ausfuhrkredit-Gesellschaft mbH, a special institute of renowned German banks for medium-term and long-term export financing.

Economic and political risks in connection with the exportation of German goods and services and their financing by the exporter or his or her banks can be covered by a public export credit insurance (Hermes). One criterion for granting such an insurance is the requirement that German supplies and services enhance the efficiency in the receiver country, and thus contribute to economic adjustment and growth.

III. Measures affecting import growth from developing countries

1. German external economic policy aims at global open markets on the basis of multilateral agreements. Germany calls for a successful conclusion of the Uruguay Round negotiations in the near future.

Growing protectionism or a weakening of GATT will have a negative impact in particular on the weaker world trade partners, which have no bilateral negotiation potential. A strengthening of the multilateral system, that is of the GATT regime, is thus even more important for the weaker countries than for the stronger world trading partners. A successful conclusion of the Uruguay Round of Gatt talks continues to have priority for the future development of world trade and the world economy as well as for the development process in the South.

The further development of the multilateral trade system, which is based on the principles of reciprocity and reliability, will contribute to the recovery of the

world economy. An improved global system offers protection against unwelcome unilateral measures and the protectionism of regional trading blocs. At the same time, the desired liberalisation and globalisation of markets facilitates the integration into the world economy of the young democracies in Central and Eastern Europe, states of the former Soviet Union and developing countries that are willing to carry through reforms.

A liberal foreign trade policy results in structural change and more efficient economies. It makes possible a comprehensive international division of labour to the benefit of all countries.

Existing restrictions on and distortions of international competition should be abolished. Export-promoting cartels and import cartels may prevent making full use of the benefits of free world trade and of international division of labour. It is thus desirable to make such cartels subject to antitrust stipulations within the framework of international agreements. This must be done gradually, starting with improved cooperation of the authorities in charge of competition, then by harmonisation of national stipulations, and finally by a multinational consensus within the framework of GATT.

2. The reduction of existing trade barriers as aimed for by the industrialised countries, including the European Community (EC), within the framework of GATT, is likely to have a varying, although positive impact on the individual groups and regions of developing countries.
- 2.1 The dynamic threshold countries, whose share of finished products in total exports is sizeable or even high, become more competitive on the markets of the industrialised countries with absorptive capacity due to the tariff cuts and the reduction of non-tariff trade restrictions of the industrialised countries, including the EC.

The threshold countries, on the other hand, can be expected to reduce protectionism and assume more obligations within GATT.

The single European market offers additional outlets for the threshold countries, especially as a consequence of the growth impulse due to the integration of the EC countries, which is to be expected in the medium term.

- 2.2 The developing countries with medium per-capita income - including the majority of countries in Latin America, several North-African and a number of Asian countries - will not benefit from the necessary liberalisation measures on a sustained basis unless they produce efficiently and their products become more export-oriented. This must be supplemented by an active marketing policy, which the threshold countries are already pursuing with success. In this context, UNCTAD and the Internal Trade Center (ITC), which is supported by GATT and UNCTAD, can provide advisory help with regard to the export policies of this group of countries. This is supplemented by consultancy through bilateral chambers of commerce and the participation of developing countries in trade fairs such as the Berlin fair "Partners of Progress".

Competition on the single European market is likely to become more lively due to the removal of internal borders; this could have a slight impact on the export success of the less dynamic developing countries.

- 2.3 The poor developing countries - those with low per-capita income, including nearly all ACP countries - will presumably benefit less from a general trade liberalisation and from the single European market than the developing countries that are better off, since they export primarily raw materials whose trade is usually already unrestricted. They will, however,

benefit indirectly from the growing demand of raw materials owing to the global growth impulse as a consequence of the liberalisation round.

Due to the world-wide tariff cuts, the advantages of the ACP countries and of other countries that benefit from the Generalised Tariff Preference Scheme will be partly levelled off.

The poorer, textile-exporting countries will benefit from the planned stipulations on trade in textile within the framework of GATT, by contrast to trade with textiles pursuant to the Multi-Fibre Arrangement.

Pursuant to the Lomé Convention and the Common Customs Tariff (CCT) as well as the customs preferences granted by the EC, exportation from ACP countries into the EC is duty-free, apart from a few exceptions. Exportation of farm products from ACP countries continues to be subject to general import levy stipulations; special regulations for ACP countries have, however, been agreed on within the framework of import levy reliefs. Trade of the EC with ACP countries nonetheless has continued to be unsatisfactory, in particular due to a lack of competitiveness of ACP products.

The difficulties of poorer countries in gaining a foothold on the large single European market and on the other markets with absorptive capacity are likely to increase rather than decline, since the weaker developing countries will be faced with more competition from the Central and East European countries as well as with the newly independent states of the former Soviet Union.

3. The impact of the reduction of protectionism on producers and suppliers of various product groups varies.

3.1 Industrial goods: If the single European market remains open to third countries and if the expected growth impulse due to the integration of the EC countries takes place, the developing countries can expect a further increase of their exportation of finished products into the EC. The abolition of internal barriers and the harmonisation or reciprocal acceptance of standards throughout the EC, which will facilitate the sale of products from developing countries, will contribute to this.

In view of the expiry of the Multi-Fibre Arrangement and the introduction of a transitional system pending the final integration of this sector into the GATT body of stipulations, the industrialised countries expect that the developing countries will open their textile markets and comply with the same GATT stipulations to which the industrialised countries are subject (reciprocity in the textile sector).

As regards the call for more rapid and comprehensive liberalisation of the trade in textiles, it must be taken into account that exports from the countries that are subject to the textile policy (parties to the Arrangement) have risen considerably in the last few years and that the EC imports much more from these countries than it exports to them. In addition, it must be acknowledged that the European textile industry is under heavy structural adjustment pressure.

In the German textile industry (western Germany), for example, the number of firms declined from 2,248 to 1,440 between 1980 and 1991. Output has shrunk by 10 % since 1980. The number of employed persons fell by 100,000 to only 204,000 between 1980 and 1991.

The trend in the German apparel industry (western Germany) in the 1980s up to 1991 was even more drastic due to the payload ration of this sector: a drop in

the number of companies by more than one-third, a sharp decline of employment by 88,000 persons to no more than 161,000. The structural adjustment process in the German textile and apparel industries has been painful and comprehensive in spite of the Arrangement. The declining trend in this sector, however, has been compensated for by expansionary effects in competitive sectors.

- 3.2 Farm products: It is expected that at least in the short term the aimed-for reduction of protectionism in the agricultural sector of the industrialised countries will promote trade among industrialised countries to a greater extent than trade between industrialised countries and developing countries, since only a few developing countries such as Argentina are in a position to offer in the long term considerably more farm products that are subject to EC agricultural market regulations.

There are usually no restrictions on tropical products entering the European market. The protection of ACP bananas by the EC is to the detriment of "dollar bananas" and influences the trade flow within the heterogeneous group of developing countries.

4. For most developing countries the EC is an important trading partner

- 4.1 To be able to assess the potential quantitative impact that further liberalisation of EC import policy within the framework of multilateral activities to reduce trade barriers will have on EC imports from developing countries or on the developing countries' export earnings, it is necessary to examine the present scope and the structure of EC trade with developing countries and individual sub-groups.

- 4.2 In 1991 the EC imported goods from developing countries worth ECU 150 billion (= \$ 186 billion). Of this, merchandise worth ECU 47 billion originated from the OPEC countries. Imports from non-OPEC developing countries amounted to ECU 103 billion. They rose by approximately 5 % in 1991 compared with 1990.

Provided that the reduction of protectionism by the EC results in an import growth of 5 % in the following year or that the import growth rate of the preceding year doubles, the export earnings of the developing countries (excluding OPEC countries, which hardly benefit from this) will rise by ECU 5 billion (= more than \$ 6 billion). This amount may seem relatively modest at first sight. However, it must be taken into account that the sum total of positive liberalisation effects over the years could considerably stimulate the development process in the South.

- 4.3 The main beneficiaries of EC liberalisation are likely to be the Asian and Latin American countries. This is due to the present trade volume. In 1991 imports of the EC from Asia amounted to ECU 20 billion and from Latin America to ECU 26 billion. In addition, these two regions are the most competitive among the regions of developing countries in relative terms and most capable to make use of new market opportunities.

The African states will benefit relatively little from the EC liberalisation since most of them export raw materials, which are subject to only few restrictions, and since they are already being granted considerable preferences which will be phased out due to general liberalisation.

The poor countries will thus continue to depend largely on development aid. One might even say that general trade liberalisation is another reason for focusing development aid even to a greater extent on the poor-

est countries that actively aim at structural change.

VI. Import promotion and marketing support

There are various instruments for promoting imports from developing countries to Germany and their sale on German markets:

- the trade and exhibition promotion programme (PROTRADE);
- the institutional framework for the promotion of foreign trade;
- foreign trade services of industrial associations.

1. Trade and exhibition promotion programme (PROTRADE)

The PROTRADE Programme consists primarily of repeatable short-term consultancy for companies from developing countries to support the integration of these firms in the world economy that is characterised by growing division of labour. It comprises the following main elements:

- product and marketing consultancy;
- market information, providing didactic material and advertising;
- grants for the participation of companies from developing countries in German trade fairs;
- safeguarding the quality of tropical fruit and vegetables;
- supporting cotton exports from developing countries that must compete with artificial fibres;
- promoting exhibitions in developing countries to give an impetus to South-South trade.

2. Institutional framework for the promotion of foreign trade

The maintenance of the German trade relations with foreign countries requires a functioning services

infrastructure. The following institutions are in charge of this infrastructure:

- the bilateral chambers of commerce or the delegates' offices,
- the Federal Office of Foreign Trade Information (Bundesstelle für Außenhandelsinformation, BfAI),
- the German diplomatic agencies abroad.

These institutions are available to all parties of the economy in Germany and abroad. They aim at promoting and strengthening economic cooperation between German and foreign businessmen.

- 2.1 The German bilateral chambers of commerce (or the delegates' offices) serve to initiate business relations beyond trade relations. They find, for example, licence and investment partners.

The bilateral chambers of commerce are membership organisations under private law. They are closely linked with the economy of the host country since companies of the host country are also members of the chambers and of their managing boards. They have even greater knowledge of the individual markets and distributive channels, the economic law and the business practice of the respective partner state. The chambers offer their services to German companies and the enterprises of the host country. These chambers are thus bilateral institutions promoting trade flows in both directions. They are based on the principle of a functioning interpenetration of national economies.

The offices of German delegates in the host country are usually a preliminary stage of the establishment of a bilateral chamber.

- 2.2 The Federal Office of Foreign Trade Information (BfAI) is the official central information and contact body for all matters relating to foreign trade. The BfAI

also helps foreign businessmen with the initiation of business contacts with German firms. Foreign producers and exporters can inform German industry - free of charge - about their range of products, their demand for products and their representation or cooperation wishes.

One of the BfAI's tasks is the support of the export efforts made by the developing countries, among other things in the form of reports on supply possibilities, the provision of market data and information on legal and customs matters.

- 2.3 The German diplomatic agencies abroad offer similar help to that of the bilateral chambers of commerce (or delegates' offices) and the BfAI, in particular when there is no bilateral chamber or a delegates' office in the host country or when the services offered by the BfAI cannot be used sufficiently.

3. Foreign-trade services by the associations of German industry

The associations of German industry and banks offer numerous practical information services regarding foreign trade.

The "Association Developing Countries", which is supported, in particular, by leading associations of German industry, primarily promotes cooperation between the private sector of the German economy and developing countries.

The developing countries' trade interests are also represented by the Federation of German Wholesale and Foreign Trade (Bundesverband des deutschen Groß- und Außenhandels e.V., BGA) and the Federation of German Export Trade (Bundesverband des deutschen Exporthandels e.V.). The BGA supports, on its own initiative, exports

from developing countries into Germany and into the European Community. It informs the developing countries about the conditions on the German market, marketing channels, sales opportunities, trends on the producer markets and customs as well as import regulations.

A wide range of data regarding foreign trade is also being offered by the German banks and their subsidiaries as well as their branch offices abroad.

The country associations (registered associations)

- Afrika-Verein e.V.,
- Australien-Neuseeland-Südpazifik-Verein e.V.,
- Ibero-Amerika-Verein e.V.,
- Nah- und Mittelost-Verein e.V.,
- Ostasiatischer Verein e.V.,
- Ost- und Mitteleuropa-Verein e.V.

have made numerous experiences due to their contacts over years to the German companies that operate in the various regions of the world and to the government agencies of the respective countries. The country associations are supported by the interested German companies. They aim at promoting German trade relations with the respective regions of the world.

V. Support, technical cooperation and advisory services for developing countries available in the areas of work of the Ad Hoc Working Group

The following measures are worth mentioning:

- advisory service for the private sector of the economy in developing countries;
- partnerships of chambers of commerce, associations and savings banks;
- Senior Expert Service (SES) - honorary work of German companies to promote international cooperation;

- consultancy and information courses on foreign trade (export promotion seminars).

1. Advisory service for the private sector of the economy in developing countries

The advisory service improves the economic strength in the developing countries by supporting the efficiency and the competitiveness of the private sector of the economy. It advises companies in developing countries in the commercial and production fields, for example with regard to production engineering and organisation, purchase, financing and marketing, including export marketing.

2. Partnerships of chambers of commerce, associations and savings banks

Partnership projects are long-term cooperation schemes between comparable or similar institutions in Germany and in developing countries. Such partnerships result in an exchange of know-how and experiences between North and South, in particular in the organisational field and with regard to services.

3. Qualified staff and managers in developing countries

Education and science in developing countries are a major prerequisite for their lasting economic and social progress. Germany therefore supports the education sector of many developing countries in various ways:

- by means of grants for in-house training in developing countries;
- via the Carl-Duisberg-Gesellschaft e.V. (CDG);
- via the Central Placement Office of the Federal Institute for Employment (Zentralstelle für Arbeitsvermittlung);
- via the German Foundation for International Development (Deutsche Stiftung für internationale Entwicklung, DSE);

- by supporting development-policy projects of the crafts in developing countries.

- 3.1 Within the framework of the public programme "grants for in-house training in developing countries", in-house and inter-company training of staff from companies in developing countries are supported in Germany or abroad by means of training programmes that are comparable to training of qualified workers, courses for assistant foremen and master craftsmen, short-term and multi-stage training programmes as well as preparatory measures for such projects (studies etc.).
- 3.2 The Carl-Duisberg-Gesellschaft e.V. (CDG) focuses on international further education and human resources development. The DCG's services, together with the Carl-Duisberg-Centren GmbH, include the implementation of training programmes for participants in programmes from abroad, in particular from developing countries, and the placement of foreign qualified staff and managers in German firms.
- 3.3 The Central Placement Office of the Federal Institute for Employment is in charge of placing foreign staff in Germany and German staff abroad, among others qualified staff and managers from developing countries as trainees or scholarship holders at governmental level. In addition, it carries through programmes to support the re-integration of qualified staff returning to their jobs in their home countries after training or work in Germany. Within the framework of the integration of foreign qualified staff in their home countries, the re-integration programmes also provide for financial support of business start-ups.
- 3.4 The German Foundation for International Development (DSE) is in charge of fostering the German relations with foreign countries on the basis of reciprocal

exchange of experiences in the field of development cooperation, e.g. by supporting economic-policy and social-policy reforms and by means of consultancy in the field of economic policy. The DSE carries through meetings for senior persons from developing and industrialised countries that are relevant with regard to development policy as well as seminars and training courses for qualified staff and managers from developing countries.

- 3.5 In addition, the German Government promotes development-policy projects of the crafts in developing countries. Due to its labour-intensive production in view of relatively low capital invested, the crafts are particularly suited to create additional training places and jobs. Often smaller enterprises develop technologies that are adapted to the needs of developing countries.

4. Senior Expert Service (SES) - honorary service of German companies to promote international cooperation

The SES is a non-profit-making association that sends retired, experienced qualified staff in particular to developing countries and transforming countries to do honorary work within the framework of international cooperation. The experts' activities focus on initial and further training of qualified staff in these countries and help for self-help.

5. Consultancy and information courses concerning foreign trade (export promotion seminars)

Germany supports consultancy and information courses on foreign trade for foreign institutions. This is to guarantee consultancy and information on foreign trade reflecting real conditions.

The consultancy, with seminars covering several days, takes place both abroad and in Germany. It focuses on the promotion of exports of the partner states into the EC member state of Germany. Modern marketing methods that are needed for successful export activities are taught. In addition, the developing countries are given advice on how to make their products more attractive for the German and the European markets.