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SUBJ : West German Press Comment on Economics Minister Erhard's Trip to the Far East and Aid to Developing Countries (through October 3, 1958)

Program of Federal Economics Minister Erhard's Trip to Asiatic Countries

HANDELSBLATT and other papers carried information from the Federal Economics Ministry that Federal Economics Minister Erhard will leave on October 3 for a several-week (6 weeks, according to DIE WELT) trip to East and South-East Asia. The first country to be visited is India, the papers said, where Erhard will attend the annual meetings of the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), and the International Finance Corporation (IFC) in New Delhi on October 6-10. Subsequently Erhard is scheduled to visit Burma, Thailand, Japan, South Korea, South Vietnam, Ceylon, and Pakistan. According to the papers, he will be accompanied by officials of his ministry (Dr. Reinhard, Dr. Handl, Dr. Saibt, Dr. Hohmann, and Dr. Erdmann), representatives of the Federal Bank and the Federal Finance Ministry, and seven members of the Bundestag (CDU deputies Niederalt, Dr. Stoltenberg, and Dr. Vogel; SPD deputies Dr. Deist and Kurlbaum; FDP deputy Dr. Lenz, and DP deputy Schneider).

A communique issued by the Economics Ministry pointed out that Erhard wants to inform himself on the situation and the needs of these politically and economically arising countries in order to obtain a reliable judgment as to what should be done to assist them effectively in finding a sound economic, social and political basis. Such information might be of importance to the basic policy of highly developed industrial countries vis-a-vis the less developed countries. The Federal Republic, which itself received foreign assistance for its economic reconstruction after the war, the communique said, recognizes a moral obligation to help the developing countries and has already demonstrated its readiness to do so by participating in multilateral actions as well as by granting bilateral assistance in the past.

Stressing the dependence of the developing countries, as raw materials producers, on steady sales of their products to the industrial

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countries, the communique pointed out that the Western industrial countries, by stabilizing internal cyclical developments, should meet their responsibility of creating a basis for steady sales--hence social stability--of the raw materials countries. Economic prosperity of the developing countries would, vice-versa, have favorable effects on cyclical developments in the industrial countries. - The communique concluded that the purpose of Erhard's trip happily combines West German trade interests with the interests of the Asiatic countries aiming at economic and social security by development of their domestic economies and expansion of international trade relations.

In view of current complaints from West German industry about very cheap imports into the Federal Republic from countries, e.g. Japan, with extremely low wage levels (so-called "social dumping"), STUTTGARTER NACHRICHTEN and other papers believed that this subject will also be discussed during Erhard's trip.

A DPA report from Bangkok, carried by STUTTGARTER NACHRICHTEN and other papers, pointed out that West German businessmen also expect Erhard to negotiate on the elimination of discriminations against Germany which still exist in many Asiatic countries on the basis of old agreements dating back to the colonial period, or on the basis of decisions resulting from World War II.

Pointing out expectations of countries in Asia for West German credits and technical assistance, the report emphasized that these countries greatly overestimate the actual capabilities of the Federal Republic. With regard to the wishes of Asiatic countries for West German purchase commitments for essential domestic products, the report stressed the difficulties resulting from the liberalization of West German imports. "West German importers, and not the Federal Economics Ministry, decide on the nature, time, and course of supply of imports", the report said. In view of the fact that the Federal Republic is importing goods from Asiatic countries primarily through transit trade via Holland, England, and Switzerland, the report suggested that the Federal Economics Ministry should consider ways and means to promote direct German imports from South Asia.

The Federal Government's Conception of Assistance to Developing Countries

Prominent press coverage was given to a press conference in Bonn on September 26 with Federal Economics Minister Erhard, who talked about his forthcoming trip to countries in East and South-East Asia and the Federal Government's and his personal views on economic assistance to the developing countries. He repeated on this occasion that his trip is designed to serve only information purposes and that it should not be interpreted as a counter-offense directed against the Soviet Bloc. He also emphasized that the Federal Republic does not pursue any political intentions in granting economic assistance to the developing

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countries. Regarding economic assistance in general, he remarked that international progress should be coordinated in order to avoid scattering funds without achieving the desired economic effects.

Richard pointed out, the papers reported, that the Federal Government, in consultation with the Federal Bank, has discussed the nature and the scope of West German measures designed to assist the developing countries. With the reservation that final concurrence on these measures is still pending, he outlined the Federal Government's conception as follows:

1) The Federal Republic will prefer multilateral assistance (e.g. in the framework of IMD) to bilateral assistance.

2) The Federal Government is ready to agree to recommendations which will presumably be made at the forthcoming meetings in New Delhi, for increases in contributions to IMD and IDP. (In an article published by HER WILHELM of August 22, Dr. Spindler of the Federal Finance Ministry has made a similar statement. Several papers agreed that in many cases the quotas of members of IMD actually do not correspond to the economic strength of the countries concerned, prestige questions having played a certain role at the time that the quotas were fixed.)

3) The Federal Republic might agree to bilateral assistance in exceptional cases. (One paper mentioned the case of India, STRUVERER ZIEVING pointed to technical assistance projects, e.g. pilot farms, workshops, training centers, schools, being carried out on a bilateral basis.)

4) In accordance with its economic principles, the Federal Government will prefer private initiative (e.g. private investments abroad) to loans from government to government.

5) The OEEC, in cooperation with the United States and Canada, should develop principles designed to achieve cyclical stability, taking into account the needs of the raw materials countries for stable markets. (According to a WTD report, the Federal Government intends to explain shortly its views on this subject.)

6) In order to encourage private investments abroad, which are considered a very important means of assisting the developing countries, the Federal Government aims at providing adequate security for German investors.

According to the papers, Richard stated that he intends to negotiate with the developing countries on the conclusion of agreements protecting German investments from nationalization and insuring the transfer of capital earnings, on the pattern of contracts concluded in some cases between these countries and the United States.

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Moreover, he said, the Federal Government intends to establish a special guarantee fund (Erhard mentioned the amount of DM 1 billion) designed to insure West German investors against the political risk (e.g. nationalization, convertibility and transfer risk) involved in investments in foreign, especially the developing countries. This fund, which might be financed, according to Erhard, from repayments of ERP loans and funds raised in the German capital market, should be administered by the Hermes insurance company, analogous to the DM 9.5 billion government fund (administered also by Hermes) for export credit guarantees, covering exports of goods and services. He noted that the implementation of this measure requires legislative action.

The announced establishment of a DM 1 billion Hermes guarantee fund for the political risks involved in foreign investments was received with great interest by the German press, judging by the headlines of most reports on Erhard's press conference. (According to the papers, there had been urgings on the part of West German business for such guarantees for some time.) DIE WELT believed that the German investors themselves would have to bear 25 percent of the political risks.

HANDELSBLATT pleaded simultaneously for easing the requirements for Hermes export credit guarantees (the latter affect also AKA export credits) on grounds that exporters in other Western countries receive government guarantees at more favorable terms than West German exporters. The paper complained that under current arrangements West German exporters are compelled to assume 20 to 30 percent of the political risk and generally receive AKA credits only for about 60 to 80 percent of an export transaction.

Other Measures of Assistance Considered Possible

According to DIE WELT, well-informed circles assert that it is also being considered to grant tax privileges for West German investments in the developing countries.

Dr. Spindler of the Federal Finance Ministry mentioned in his article (DER VOLKSWIRTE, August 22) the possibility of establishing a special investment fund in the framework of the planned European Free Trade Area. The establishment of such a fund might be necessary, he said, to meet the demands for assistance voiced by certain OEEC countries, for instance Turkey, Greece, Ireland, and Iceland.

Spindler as well as Federal Bank President Blessing (in a speech in Frankfurt on June 21) considered the issuance of foreign loans in the Federal Republic another means of granting assistance. The Federal Bank's unsuccessful efforts to reduce West German interest rates to the international level were generally interpreted as a German contribution to overcoming international illiquidity.

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Vinally, it might be possible, Spindler said (DER VOLKSWIRT, August 28) that a German institution, engaged in investment financing, might acquire foreign exchange from the Federal Bank's reserves with the help of funds to be raised in the capital market, if the latter should continue to develop favorably. These funds might be extended as long-term loans at favorable terms, Spindler said, to West German companies interested in acquiring holdings or establishing subsidiaries abroad.

Richard Amhurst Subsidized Food Imports

In the press conference on September 26, Richard expressed himself against Federal Agricultural Minister Lohse's recent proposals that agricultural surplus products should be exported at subsidized prices to the developing countries, DIE ZEIT and other papers reported. Both experts would disturb international markets, Richard said. He also stressed the financial difficulties involved.

West German Public Opinion on Assistance to Developing Countries

Newspaper editorials concurred with statements made for some time by representatives of the Federal Government, the Federal Bank, and private business in stressing West German readiness to assist the developing countries for political, economic, and humanitarian reasons. Serially, these reports pointed out the limited availability of government and private capital for this purpose (the papers mentioned, for instance, West German financial burdens resulting from the war, payments under the London Debt Agreement, payments to East Vietnam, and German rearmament). They also stressed the very great political risks involved in private capital investments in the developing countries and, therefore, repeatedly called for an International Charter of Private Property, as suggested by the German banker Hermann Abs. There were also frequent complaints that the policy of the Western countries, including the United States, vis-a-vis private German assets confiscated during the war has not been suitable to strengthen the principle of private property in the world and to encourage West German business to invest abroad.

The Federal Government was often criticized for "lacking a clear conception" regarding economic assistance to the developing countries. An FDP publication "Friede West", cited by IMUSZRIEHWIRT and STURF-GAZER ZEITUNG of August 30, complained that in several cases the Federal Government made available large funds--sometimes under political pressure of the United States--without adhering to the desired efforts in the developing countries. Criticism has also been voiced regarding the investment and finance policies of certain developing countries.

In latest press reports the idea of "trade not aid" has recurred at a growing rate. STURF-GAZER ZEITUNG of September 20 held that the increased exchange of goods between the industrial countries and the

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developing countries would be, in the long run, the most reasonable and most effective method of assistance. The "Near and Middle East Association" at its meeting in Frankfurt in the middle of September agreed that the promotion of exports from the developing countries might also involve expenses to Western taxpayers in the initial period, DIE WELT reported.

Virtually all press reports emphasized that the Western countries must grant assistance to the developing countries without imposing any political conditions. Therefore, many papers (including STUTTGARTER ZEITUNG, DIE WELT, INDUSTRIEKURIER, and FRANKFURTER ALLGEMEINE ZEITUNG) welcomed the suggestions for a Near and Middle East Assistance Program made by President Eisenhower at the UN assembly in the second half of August. Pointing out that Eisenhower suggested measures of assistance on a purely non-political basis, including the establishment of a Near East development fund in cooperation with Arab nationals, INDUSTRIEKURIER, DIE WELT, HANDELSBLATT, and STUTTGARTER ZEITUNG concurred that these proposals reflect a new turn in U.S. foreign policy.

In view of current discussions in the United States on the establishment of new institutions for assistance to the developing countries, DER VOLKSWIRTE stressed the danger of decentralization, which might arise if a Near-East Fund, a Fund for Latin America, and an International Development Loan Association were to be added to existing organizations, such as the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC).

Against Long-Term Investment of the Federal Bank's Foreign Exchange Reserves

From the beginning of June up to now, West German papers have not ceased to carry statements of prominent personalities as well as editorials repeating constantly that the foreign exchange reserves of the Federal Bank, being short-term funds, cannot be used for long-term capital exports to the developing countries. Federal Bank President Blessing (whose speech in Frankfurt on June 21 was most frequently cited in this connection), Federal Economics Minister Erhard (in an interview in July), Dr. Spindler of the Finance Ministry (DER VOLKSWIRTE of August 22), and press comments also stressed the inflationary effects on the West German currency as a result of such a measure. If the Federal Bank were to make available foreign exchange for loans to developing countries, Erhard argued, these amounts would presumably be reconverted to a large extent into DM, thus inflating purchasing power in the Federal Republic. It would be "unpardonable" to jeopardize West German monetary stability in this manner, he said.

Blessing and Spindler both emphasized that capital exports must be financed exclusively from saved capital. In theory, there is no objection to "selling", against payment in DM, foreign exchange reserves of the Federal Bank up to an amount of about DM 8 billion to an institution

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which, in turn, would use them for financing investments in the developing countries, Spindler added.

It was also generally emphasized that the Federal Bank's foreign exchange reserves are committed to a large extent in claims against international organizations, including the EPU, and that a certain amount is needed to cover West German import requirements.

In the course of June and July, there was a very lively press reaction to foreign, especially British, urgings for West German capital exports to be financed from the Federal Bank's foreign exchange reserves on grounds that the latter had contributed to "international illiquidity". Virtually all papers endorsed Federal Bank President/Blessing's statement in Frankfurt (June 21) that a creditor country must not be held responsible for the effects of inflationary policy conducted by debtor countries. There were sub-headlines such as "British Conceptions Are Inaccurate" (KÖLNISCHE RUNDschau, pro-government). DEUTSCHE ZEITUNG, for instance, commented that "the British, with their experience in the economic and monetary fields, should be understanding of the Federal Republic, if it does not want inflation, if it defends the DM, and if it does not want to jeopardise, for the sake of England, domestic monetary stability, which was regained by so many sacrifices and sufferings".

Only former Reichsbank President Hjalmar Schacht advocated the financing of German investments abroad with the Federal Bank's foreign exchange reserves, though through intermediary of a special institute analogous to the prewar Gold Discount Bank. He explained his views in an article published by DIE WELT (June 15), which did not meet with a favorable reaction.

Reaction to Moursney Plan

Among the subjects to be discussed--at least in unofficial talks--at the forthcoming bank meetings in New Delhi, INDUSTRIEKURIER and other papers mentioned U.S. Senator Moursney's Plan providing that the hard-currency countries, including the Federal Republic, should extend "soft-currency loans at very low interest rates and for periods of 20 to 40 years to the developing countries through intermediary of an "International Development Loan Association" with a fund of about \$1 billion at its disposal. Very much criticism of this proposal has been voiced in recent months, INDUSTRIEKURIER said, but a final judgment cannot be made as long as there is no clarity about all details of the plan. It must also be taken into account that the plan pursues political rather than economic objectives.

DIE WELT and other papers believed that the Federal Government apparently feels "little sympathy" for the Moursney Plan, judging by the fact that Erhard did not mention it in his press conference on September 26. (Press reports on the visit of IBERD President Eugene Mack in Bonn

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in June had also stressed the reluctant attitude of the Federal Government vis-a-vis this Plan.)

STUTTGARTER NACHRICHTEN and other papers of September 19 carried a statement by Federal Bank President Blessing that the sound financing methods of IERD are preferable to the "soft" financing methods of the proposed International Development Loan Association. He pointed out that such "soft" loans also involve inflationary dangers for the developing countries. (According to the papers, Blessing had objected to the Monetary Plan on similar grounds in his speech in Frankfurt on June 21.) Blessing, Dr. Spindler of the Federal Finance Ministry (DER VOLKSWIRTSCHAFTLICHE ANZEIGER of August 22), as well as several press comments considered it also dangerous that the very "soft" credit terms of the proposed Loan Association might spoil the international credit climate. Moreover, most commentators of the plan feared that the funds might soon be exhausted and have to be refilled by the creditor countries, because the repayments in soft currencies were likely to be gradually devaluated by the permanent inflation in the developing countries.

Some papers remarked that the Monetary Plan apparently offers an opportunity for the United States to make use of its existing soft-currency accounts in foreign countries, pointing out that the United States reportedly intends to contribute soft-currency claims equivalent to about \$300 million to the planned international loan fund. These accounts, which originate primarily from U.S. deliveries of agricultural surplus products to the developing countries, the papers said, are frozen in most cases. The matter is different for the Federal Republic, the papers concluded, which would have to contribute new DM funds.

West German Interest in Developing Countries as Export Markets

HANDELSBLATT stressed the very great West German interest in the developing countries as future markets in view of the fact that West German exports to European countries have recently stagnated or declined, and only those to overseas countries continued to increase. (The paper noted that this development is not clearly visible at first sight, because many overseas countries are settling their accounts through the European Payments Union.)

A report published by the Dresdner Bank revealed that the year-to-year increase of 2 percent in West German exports in the first seven months of 1958 resulted primarily from increased exports to developing countries outside Europe, whereas West German exports to European countries, as far as EPU countries are concerned, fell off by 1.4 percent primarily under the impact of declining economic activity in European industrial countries. The report noted, for instance, a year-to-year decline in West German exports to the Netherlands (12 percent), Switzerland (6 percent), and Italy (7 percent), in contrast to simultaneous year-to-year

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increases in West German exports to developing countries, such as India (9 percent), Ceylon (40 percent), Iraq (40 percent), Iran (45 percent) and the Union of South Africa (51 percent). Consequently, the share of exports to European EPU countries in West German total exports reportedly declined from 68 percent to 66 percent, while the share of overseas developing countries increased from 21 percent to 23 percent.

The Dresdner Bank report also stressed structural changes in exports as a result of regional changes. While exports of the West German coal mining industry declined 11 percent below the preceding year and those of the steel producing industry 23 percent, the report said, West German exports of capital goods increased substantially from January through July. They amounted to 55 percent of total exports, as compared with 51 percent during this period last year.

West German Capital Exports and Economic Assistance Since 1952

There have been a large number of recent press reports pointing out contributions made by the Federal Republic since 1952 to the assistance of developing countries and the improvement of international liquidity. The articles, which carried headlines such as "We Have Done Enough" (INDUSTRIEKURIER), cited mainly the Federal Economics Ministry, the Finance Ministry, or a report by Dresdner Bank as sources of information. The total figures mentioned ranged from DM 7 billion to 23 billion (the Dresdner Bank report arrived at a total of DM 17 billion). The total figures varied, according to the extent to which basically different items (grants, loans, credit guarantees, etc.) were added together and the scope of items included was limited to assistance to developing countries in the proper sense or expanded to cover miscellaneous foreign transactions, including, for instance, repayments of prewar German debts, payments (about DM 1.5 billion) to Israel, restitution payments (about DM 3 billion) to foreign residents, West German credits (more than DM 4 billion) to the EPU, special financial assistance to France and Great Britain, private investments in all foreign countries.

Among more or less direct contributions to the promotion of developing countries, DEUTSCHE ZEITUNG, INDUSTRIEKURIER, FRANKFURTER ALLGEMEINE ZEITUNG, STUTTGARTER ZEITUNG, and other papers mentioned the following: About DM 6 billion credit guarantees in the framework of the DM 9.5 billion Hermes guarantee fund (DM 7.5 billion being committed altogether at present); about DM 161 million allocated for bilateral technical assistance from 1954 to 1958 and contributions, totaling about DM 9 million, to UN assistance programs as well as the International Atomic Energy Commission; the payment to IBRD of the full German quota of DM 277.2 million prior to maturity; DM 578.9 million contributed to stand-by credits of IMF; the German contribution of DM 15.5 million to IFC; loans totaling about DM 1.3 billion extended by the Federal Bank to IBRD and

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participations, estimated at more than 20 billion, of German commercial banks in EEC loan commitments 20 billion spent in two years for economic assistance to developing projects investments in developing countries, which were estimated by EUROPEAN COMMISSION at 20 billion by the end of 1977 (total investable amount of German business by the end of 1977 were quoted by THE MINISTER at about 20 billion.) Under the EEC Agreement, the papers said, the Federal Republic has to contribute 20 billion, including 20 billion payable in 1978, to a development fund for overseas investments 20 has also to contribute 20 billion to a development bank for European projects.

According to the press at the time, the EEC agreement, Dr. Jaeger said, had been rejected to Germany Minister Jaeger to originally announced. They gave on the banks for their refusal the fact that they did not want to appear in Asia merely as "white financing" added to a government party.

Jaeger expressed his regrets that the EEC agreement would not accompany him, since he felt the problem of their creation could have been worked out on a mutually satisfactory basis and since he had hoped that the whole financing might have been something of the atmosphere, the atmosphere, the problem, as well as the details of those (for Germany) countries. As he explained, "This (participation) would have been useful in the coming parliamentary discussions on these questions and plans."

For the Ambassador:

William C. Oshy

William C. Oshy
Ambassador for Economic Affairs

Attachments:

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Ambassador, London

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