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INTERVIEW

Should, and Can, the State Promote Export?

In spite of all professions in favour of a free market economy and liberalisation, measures for increasing exports are continuously extended in the industrial countries. This procedure creates numerous problems: Are such interferences with the economic process consonant at all with the existing economic order? Are government institutions suited for taking the right measures without delay in view of the rapid changes in the economic process? What are the aims of such a promotion policy? Is price stability not particularly endangered by additional exports at the present moment? INTERECONOMICS discussed these problems with representatives of the Federal Ministry for Economic Affairs, the German private economy and the Italian Institute of Foreign Trade which is exemplary in the field of export promotion.*

Fundamental Change of Export Policy not Required

Interview with Fritz Berg, President of the Federal Association of German Industry

INTERECONOMICS: Mr President, the free, dynamic entrepreneur is a major factor in a market economy. An enterprising concern is continually trying to exploit market opportunities, and takes risks in doing so; this has a decisive effect on the economy. Through his competitiveness and his own abilities, the entrepreneur establishes a position for himself in the market. Or so economic theory teaches us! Recently the

entrepreneurs have been calling more and more for an improvement in, and intensification of export promotion by the State: what is the basis for this call?

BERG: It is quite true that the abilities and competitive power of the entrepreneur are of prime importance to the entrepreneur pursuing his market activities. Competitive power in foreign markets will naturally be influenced to a

large extent by the price and cost structure in the domestic market. Next to the efficiency of the individual entrepreneur, a stable price policy has the most influence on the position of German industry in foreign markets.

As for the ostensible demand, by the entrepreneur, for State promotion of exports, this seems to me to call for some clarification before we go any further. The export trade differs from domestic trade in that it is beset with risks which are beyond the control of the entrepreneur: at the making of contract, these risks are not to be foreseen by the entrepreneur. Consider, for example, the transfer difficulties caused by lack of foreign currency, and political intervention in commercial transactions. These are the kinds of risks which are covered, in all countries, by State export credit insurance. However, the extent of protection guaranteed by the State differs from country to country.

When the export economy calls for adjustment and equalisation of export credit, one should not refer to it as "export promotion". The same applies to medium and long-term financing of exports. In the

* The three interviews were arranged by Dietrich Kobschull.

FRITZ BERG

was born as son of an entrepreneur owning a medium-sized enterprise in Altena/Westphalia. He studied economics and business administration at Cologne and then, following the advice of his teacher Schmalenbach, worked in the United States and Canada for several years before he entered as authorised signatory his father's firm, whose sole owner he has been since 1940. In August, 1946, he was elected President of the Chamber of Industry and Commerce at Hagen and in the same year he became President of the Association of Iron-, Tin-plate- and Metal-working Industries whose head he is now for 20 years. His efforts for the formation of an industrial parent association led to the establishment of the Federal Association of German Industry whose first and only President Fritz Berg is until today. In 1951, for the first time since the end of World War II, a German delegation headed by him took again part in the International Congress of Industrialists at New York. As a convinced European Fritz Berg has time and again used his influence for the establishment and further extension of the European Coal and Steel Community and the EEC whose functioning is essential to German industry.

field of exports of capital goods—particularly to the developing countries—conditions of payment are becoming more and more important. The constant extension of terms of payments leads to a growing indebtedness of exporters, who are financing long-term running credits in favour of their foreign customers. Because of this enterprises are being forced to play the rôle of bankers, and this is a rôle to which they are not accustomed. The demand for adjusting conditions of financing to the changed requirements of the export market, and the search for a formula to free the exporters from the burdens of long-term financing are not, under any circumstances, to be equated with the desire for elaborate promotion of exports.

INTERECONOMICS: Is it not possible that the entrepreneurs were unprepared, or insufficiently prepared for the "consolidation" phase in which we find ourselves now and they are looking, therefore, to the State for support? For many years everything was in their favour, and high profits were possible not so much due to their enormous abilities but rather due to exaggerated demand.

BERG: As a result of the consistent "liberalisation" policies of the Federal Government, even during the rehabilitation phase, German industry was possibly more exposed to free, international competition than its European competitors. It feels to be equal to facing foreign competition, provided there are no initial handicaps to be overcome. I have already indicated the particularly important spheres of State insurance cover for export credit risks, and export financing. Industry in other countries has many advantages in this respect.

The extent of export risks and of financial burdens is governed, in large degree, by the percentage of any loss which the exporter himself has to bear. In France and Britain the export credit insurance covers political risks to the extent of 90 to 95 %, and normal trading risks to the extent of 85 to 90 %—in special cases these go up to 100 %. The Federal Government, on the other hand, sticks to the principle that the entrepreneurs have to accept 15 % of the most important political risks, and 20 %

of the "insolvency" risks. This example should show you that German industry only demands parity with its better-placed foreign competitors.

INTERECONOMICS: Leaving aside for the moment the acknowledged desire for equality with foreign competitors in this respect, there still remains the important question whether State-directed export promotion is meaningful. Should the State try to achieve any special aims, such as the development of certain branches, regions, etc., or should it set itself more or less purely political targets?

BERG: Any distortion of international competition through artificial export conditions is highly dangerous and to be avoided at all costs. I am glad to say that, in this respect, the major industrial nations are in full agreement.

The exports of a country are also its visiting cards. A country as highly industrialised as the Federal Republic must take cognisance of the effect on exports of every decision in the political sphere. The close inter-relationship with industry in the European and Atlantic spheres—and indeed with the emerging nations overseas—is an important factor in the interplay of political forces. That the Federal Republic has been able to regain its reputation and enjoy its present political standing in the world, is due to a considerable degree to export activities since the war. Only by conscientiously nurturing its export trade can the Federal Republic live up to its responsibilities as the second greatest trading nation in the world.

INTERECONOMICS: In the social market economy system, the targets of full employment, a stable level of prices and equilibrium of balance of payments together with economic growth are generally recognised. Does the danger not arise that, through an intensification of exports, there will be a risk of undermining price stability—particularly in view of the full employment which was achieved some time ago? Or are you of the view, Mr President, that German economic policy must not neglect exports since otherwise strong losses in the rate of economic growth (a decrease of wealth) are to be feared all along the line?

BERG: The view that a high export rate leads to price increases has been widely expressed in the past few years, when the Federal Republic had a high rate of export growth to record. In my opinion this view is dangerous and false. In many cases exports enabled industry to take full advantage of capacity, and also made possible a reduction in costs. Without exports, industry could not have held its prices stable as it has done in the face of currently rising costs. Moreover, export, which accounts for more than 16 % of the total industrial turnover, is a major factor in the business trend. The success of its exports shows whether Germany is keeping pace with international technical developments. Just now the relevance of exports to the balance of payments problem is seen in the case of Great Britain. The alarm signal sounded by recent developments is not to be ignored when we consider the German balance of payments.

INTERECONOMICS: Exports can be promoted by the use of more or fewer measures. Do present measures suffice, or should they be improved? Or should new ways and means be sought?

BERG: I do not believe that a basic alteration of our export policy is called for. It is sufficient to use the existing regulations to achieve the desired aims. In this connection, industry has welcomed the action of the Federal Bank in increasing the B ceiling of the Export Credit Company, at least as far as it alleviates a proportion of the financial disadvantages: these—for the German exporting industries—arise from the astronomical level of interest rates which now exists. Much remains to be done here. In addition the competitive disadvantages in the tax field must be eliminated at last. As far as the classical means of promoting exports are concerned, the facilities offered by the State are grossly inadequate when they are compared with those of other countries. For years we have been agitating in vain for a larger budget for the support of German Chambers of Commerce, abroad, for German participation in foreign fairs and exhibitions. and for general export publicity.

INTERECONOMICS: You have already pointed out that exporting brings increased risks, and, there-

fore, heavier burdens, to the individual entrepreneurs. Can these burdens be lightened by promotional policy, or is it not true that only an exclusive club of major exporters will be helped, while the mass of medium-sized and small businesses are left out in the cold, even though they might participate in exporting?

BERG: The strength of the German export achievement derives from the fact that it is not dependent on the efforts of only a few large firms but also by what is—in comparison with other countries

—a large number of medium and small firms. They would all benefit from the measures we want for a purposeful export policy.

INTERECONOMICS: Promotion policy is frequently equated with a subvention policy, which, as is being argued, affects overall economic wealth. Is this view valid when applied to German export promotion policy?

BERG: No.

INTERECONOMICS: What is the position of German industry over the unification of promotional

measures in favour of export within the framework of the EEC? What effects can follow from such a harmonisation?

BERG: What I have said generally on the subject applies basically to the EEC. Within a customs- and economic union it is obviously urgent to arrive at an adjustment of competitive conditions of the member countries, and to eliminate distortions of competition. Nonetheless this "harmonising" process should be in accordance with the policies of outside countries.

Deliveries to Developing Countries Calling for Promotion

Interview with Dr Günther Keiser, Director of the Department "Foreign Trade and Development Aid" in the Federal Ministry for Economic Affairs

INTERECONOMICS: Dr Keiser, due to the activity of supra-national organisations and to the inception of the Common Market, export promotion, in contrast to the restriction of imports, is steadily gaining in importance in the field of foreign trade policy. What measures does such a promotion policy encompass?

KEISER: The first things to occur to a straightforward businessman will be export guarantees and securities and what help the State can give him in financing his exports. Alongside these, there is that export promotion which—one might say—has developed in the course of history: for one thing, all countries—including the Fed-

eral Republic of Germany—have commercial departments in their Embassies and Consulates abroad. We try to send highly qualified people to represent us abroad who are capable of advising firms or the Government so as to promote commercial relations with all these countries. On the other hand, we have the recognised Chambers of Commerce, which while deriving from private enterprise, also receive subsidies from the Federal budget. And finally, in the budget for our Ministry you will find this year the not insignificant figure of DM 12 million for the promotion of Exhibitions and Trade Fairs. These funds serve to organise German pavilions and information stands at a great many international fairs and, without giving information about the specific business of firms, help to promote exports in general. And, last but not least, the Bundesstelle für Außenhandelsinformation, BfA (Federal Agency for Information on Foreign Trade). This latter has a budget of almost DM 5 million. So you see, the Federal German Republic is prepared to spend a good deal to give our economy the up-to-date information which may be of use to it in exporting. The Bundesstelle publishes a whole mass of literature: the "News for Foreign Trade" (Nachrichten für den Außenhandel/NfA), which appears daily, the weekly Foreign Trade Service (Außenhandelsdienst)

GÜNTHER KEISER

is the present director of the department "Foreign Trade and Development Aid" in the Federal Ministry for Economic Affairs at Bonn. Ministerialdirektor Dr Keiser is no "careerist-official" although in 1927 he started his professional career in the Reich Statistical Office after studying economics and history at Berlin and Jena. Already after two years he left this position in order to join the Institut für Weltwirtschaft at Kiel where he took charge of the administration of an affiliated Institute for Academical-Professional Problems. After the overturn of 1933 he became an economic journalist and worked at Berlin for the Voß'sche Zeitung and the Frankfurter Zeitung. In 1937 he took over the management of "Wirtschaftsgruppe Privates Bankgewerbe" (Economic Group of Private Banking Business) and in this position published the periodical "Bankarchiv" (later "Bankwirtschaft").

Dr Keiser was one of the first economists whom the British Zonal Administration entrusted with the organisation of an economic administration. In more or less leading positions he took part in the establishment of a Federal German Economic Administration in all its phases at Minden, Frankfurt and Bonn. Between 1952 and 1955 he was granted leave to work for a leading German paper-combine, the Feldmühle AG. In 1956 he went to Paris to join the European Economic Council and the later OECD (Organisation for Economic Co-operation and Development) where he was in charge of the section "Trade and Payment Transactions" until 1964.

and pamphlets incorporating data on countries in which individual exporters are interested. This is what is basically thought of today as export promotion.

INTERECONOMICS: Would you also consider the refunding of turnover tax, as under the present system of the "gross all-phase tax" or the coming system of "added value taxation" (Mehrwertbesteuerung) to be a sort of export promotion?

KEISER: Both as a representative of the Government and also as an economist, I am forced to say that I do not think of these as measures to promote exports. Of course, certain circles (mainly in the United States) accuse us of this and say: "What you are doing is covert export promotion and amounts to unfair competition, since we have no comparable turnover tax and consequently no such turnover tax refunding on exports." In OECD, where I have worked for many years, we have studied this question in detail: whether turnover tax refunding is a neutral or a promotion measure. Scientists and practitioners are unable to agree on this question. In fact, I think a majority is of the opinion that such refunding is only intended to cover, where exports are concerned, those taxes which are normally incorporated in prices, or at least should be so in theory. Clearly, this does not always succeed technically; but both OECD and GATT have built-in provisions enabling complaints to be made if a country pays genuine export subsidies, through the refunding of turnover tax. This was the case with Austria and in the end Austria stepped down and introduced a completely neutral turnover tax system.

Ten years ago, of course, we gave genuine tax incentives to promote exports, even here in Germany, in that we gave certain income tax remissions to exporters. But today there is a convention under GATT whereby all the main industrial countries have solemnly undertaken to give no tax privileges, i.e. tax remissions, for export. And this convention is honoured.

INTERECONOMICS: In view of the steps increasingly being taken by foreign countries to promote exports, the demand made by the

Bundesverband der Deutschen Industrie (Federal Association of German Industry) for "fair" export promotion is absolutely comprehensible; however, it remains a moot point whether it is really sensible, in the situations currently obtaining in Germany—we have a positive trade balance, full employment and rising prices—to encourage exports? Do not such measures simply lead to an aggravation of existing imbalances?

KEISER: To start with, we must differentiate between what I called export promotion measures which own their growth to historical reasons and those which are probably most in your mind: guarantees and securities and the financing of exports. As far as this latter category is concerned, you must not forget that over 95% of such transactions relate to trade with developing countries and with the Eastern bloc and that the whole of this trade together does not amount to more than 20% of our total foreign trade. 80% of our foreign trade is unaffected by such measures. But trade with developing countries is a special case. It is impossible simply to propose to a firm that it should export to most developing countries unless some sort of institution—whether private or under the State—assumes at least part of the risk. In view of the current financial and political situation in the majority of developing countries this is an absolute necessity. Furthermore, the buyers in such countries, particularly in large-scale transactions like those with which we are primarily concerned, are either the State or large, semi-State corporations which do not dispose of sufficient funds and consequently demand credit terms which, considered cumulatively, are way above the capacities of most firms, so that they have a certain justification in demanding State support to finance such transactions. The same goes, naturally, for trade with the East. Who could be expected today to take on credit risks with credit terms of seven or eight years for export to Bulgaria or Rumania if he is given no guarantee!

This type of export credit guarantee to developing countries and in the East, and also State aid for financing long-term deals, is something done by every country and all countries are forced into

this because of the special character of the market. It is regrettable that such deals contain an element of unfair competition with regard to credit terms and other conditions and that, even with the help of the Berne Union and other agreements, we have not yet been able to restrict such competition. But we shall not give up trying and some time or other we shall get a grip on these things. However, the whole promotion policy is really a procedure forced upon us because of the structure of our foreign trade, but is not a factor which exerts any very decisive influence upon the extent of this foreign trade. Apart from this, it must not be forgotten that although our trade balance is again—thank God—an active one, our balance of payments was, up to last month, passive and will probably remain so as long as Germans are so eager to rush abroad and we are forced to increase our labour force by employing foreign workers.

INTERECONOMICS: Is it not true that measures intended to lessen risks and accommodate developing countries are used in such a way that they conflict with other aims—for example, the stabilisation of prices? For even if these amounts are marginal, it may still be held that it is precisely from such margins that disruptive influences emanate.

KEISER: In a certain sense, that is correct. But, looking back over the last few years, you will see that, according to the cyclical trend, we have been sometimes more generous, sometimes less. In the period when we had a real export and balance of payments surplus, the conditions upon which export finance, export guarantees and securities were granted were considerably more severe. For example, at that time we raised the percentage of damages for which the contractor himself is responsible—the so-called "exporter's risk". Today we are faced with the question of whether we need to change our attitude in order to maintain the competitiveness of our industry. From the balance of payments aspect it would certainly be the right thing to do at this time. And as far as the relationship with domestic trade is concerned, we are glad, from the point of view of trade policy, that we have been able to incite our in-

dustry to export by placing restrictions upon domestic trade, thus forcing industry back into true international competition. In our opinion, this will have very positive effects upon the level of domestic prices.

INTERECONOMICS: In other EEC countries, Italy and France, for example, export promotion policies are deliberately used to achieve objectives of the domestic economy, as e.g. the promotion of certain lines of business or regions. Are such objectives set in the framework of German export promotion policy too?

KEISER: I do not think so, anyway not regional aims. As for the promotion of certain sectors, there is one case to which I can refer, i.e. the shipyards, to which we do give somewhat preferential treatment, since this is done by everyone, on an international scale. All we have done is to play along a little. But this is the only case I know about.

INTERECONOMICS: So we have now worked out various targets. Dr Keiser, are these targets laid down by law or have they developed over time?

KEISER: They have developed due to circumstances, in the same way as it cannot be said that the German Government follows a consciously massive policy of export promotion. We really tend more to copy what other countries do, but are not particularly insistent upon such a policy.

INTERECONOMICS: The Federal German Government is at present concentrating on measures to lessen risks, to facilitate export financing and the so-called classic promotion of exports. Without a doubt these measures will be of great importance also in the future. Are there other fields where the State will also become active or will some measures be abandoned in the first of these sectors?

KEISER: There will certainly be no relaxation, since our balance of payments position currently forces us to be much more careful in these fields. We can no longer afford to accept losses on our foreign trade. In future, therefore, we shall tend increasingly to favour combining capital aid to developing countries with the normal instruments of export promotion—

such as guarantees and securities—in order somewhat to improve the position of our industry vis-à-vis large-scale projects, mainly in Latin America. With regard to restrictions upon credit, we shall also have to do a lot of thinking about how we can prevent credit restrictions from prejudicing too greatly the financing of exports. This, after all, is not the intention.

INTERECONOMICS: The Federal German Government has not itself undertaken the execution of such measures, but has delegated them to a wide variety of institutions—mostly private ones—the consequence being that the Government can no longer intervene directly in their administration. Why did this delegation take place and what controls does the Federal German Government have at its disposal?

KEISER: In fact, we are very proud of having built up our export promotion in this way and we believe that just because we have introduced non-bureaucratic institutions we are able to operate much more satisfactorily and more rapidly and can achieve much better results. Incidentally, all these institutions are 100%, or nearly 100%, State-owned. This is true of Hermes-A.-G. and also of the Kreditanstalt für Wiederaufbau (Reconstruction Loan Corporation). They are controlled by their Supervisory Boards, upon which are represented officials and Secretaries of State, whose words swing decisions. I can tell you from practical experience that our cooperation with these institutions works very smoothly and, where public funds are made available to these authorities, such funds are naturally supervised by the State Auditors too.

INTERECONOMICS: Why are the decisions of such institutions not made public? Would that not be a good thing for an effective policy of export promotion?

KEISER: It is my feeling that those sectors of the economy which are involved would react to such a thing with mixed feelings: gladly, on the one hand, because it would enable them to gain insight into the business practice of competitors; but reluctantly, where their own business was concerned. For basically, no one wants competitors to know exactly with whom a deal has been concluded and upon what conditions.

INTERECONOMICS: Very often, the granting of export promotion facilities is hedged around with tedious formalities of application. Is there not a danger that the main beneficiaries of the State policy of promotion may be certain very experienced firms—mainly very large ones?

KEISER: Naturally there have to be formalities, but so far I have not really heard many complaints about this. HERMES has no less than 20 offices on Federal territory trained to advise firms with no experience in this field. The Kreditanstalt für Wiederaufbau, KfW (Reconstruction Loan Corporation) and the Ausfuhrkredit-Aktiengesellschaft, AKA (Export Credit Company) work together with the large banks and here, too, everybody can participate, for every enterprise has its bank. But it is right to say that, in certain circumstances, it is easier for large firms to carry out their proportionately larger operations. They come to Bonn and visit the Ministries. But this is only so for a few really large deals which are necessarily restricted to such firms.

INTERECONOMICS: What do you think of the thesis that the State, by its policy of promoting exports, is merely subsidising exporters since most firms would carry on their export business even without such assistance and that essential promotional measures could well be left to private institutions?

KEISER: A clear line must be drawn here. As far as the historical or classical promotion of exports is concerned, this can really only be done by the State under these conditions. As far as export guarantees are concerned, I have already told you that these are mainly connected with trade with developing countries. And incidentally—these guarantees are not cheap. They are by no means subsidies. Over the last years HERMES has even made a profit. So it is not true that the State has made large contributions. It is only that, in this field, the State takes over certain risks and the operation is thus spread over a broader basis. Private insurance companies could scarcely accept this type of risk, particularly political risks like those mainly involved. As to the view that firms would export even without State aid, it can also be

said that firms quite obviously have an urgent need to insure. And as far as financial assistance is concerned, the State only intervenes because—and if—no other means are available.

INTERECONOMICS: Is it not true that certain insufficiently developed conditions—as, for example, the HERMES credit ceiling—often act as absolute obstacles to any increase in exports?

KEISER: That is hardly so. The establishment of ceilings for individual countries has proved valuable to both creditors and debtors. On the one hand, it avoids excessive indebtedness on the part of any one purchasing country and, on the other, the contractor is, in a way, protected, since he participates in any loss to the extent of the "exporter's risks".

INTERECONOMICS: What do you think of German promotional measures compared with those in use internationally?

KEISER: There is no doubt that hitherto the German Government has been prudent and moderate in

its measures. On the other hand, however, the HERMES guarantee of DM 17,000 million is a considerable part of the budget. I think, by and large, we steer a good middle course.

INTERECONOMICS: On what basis do you arrive at this conclusion?

KEISER: Both through the Berne Union and also through EEC and OECD, we look very carefully to see where we can glean important information on a government level. However, it is extremely difficult to make an international comparison as this is only possible in actual individual cases.

INTERECONOMICS: Is there not a good case for endeavouring to obtain uniformity of the measures for the promotion of exports in force in various countries—at least inside EEC?

KEISER: It would be very sensible to do so, provided this is done to prevent exaggeration by individual countries. Precisely because of the weakness of the Berne Union, EEC should be a very

suitable instrument for achieving such uniformity on government level. But until such final harmonisation is achieved—and in spite of certain successes in individual sectors—a great many more attempts will have to be made.

INTERECONOMICS: Would the Federal German Government abandon its export promotion policy completely if the main competitor countries on the world market were to do the same?

KEISER: Here, too, we must differentiate between different categories of measures. There would be no sense in abandoning the so-called classic export promotion, and even in the field of guarantees, securities and financial assistance, State support is absolutely essential if trade with the developing countries and those of the Eastern bloc is not to fall away. It is therefore inconceivable that these should be abandoned. The only question is how to reach a better adjustment in the adoption of such measures, and this is really more in the sphere of international uniformity.

Results more than Satisfactory

Interview with Professor Dr Antigono Donati, President of the Italian Foreign Trade Institute

INTERECONOMICS: Professor Donati, over the last few years Italian exports have risen constantly. Last year alone exports increased by a good 20%. Exports to EEC countries rose by 28% and those to the Federal German Republic by as much as 35%. But in spite of this striking success, Parliament will now pass a law dealing with the insurance and financing of exports which considerably extends the provisions of the currently valid Law No. 635 of 5th July, 1961. What do you consider to be the reason for such a measure?

DONATI: The reasons for the new draft bill on the insurance and financing of export credits spring from the widespread desire to adapt insurance provisions as far as possible to those of the other, better developed, industrial countries, EEC member states in

particular. The work being done by the Community which is endeavouring to achieve conformity in the insurance systems of the countries involved shows that the provisions current in Italy give our exporters less protection, whether with regard to the extent and the content of the risk coverage or in respect of coverage percentages and the technical aspects: establishment of damages and compensation for such damage.

The new bill also takes into account the urgent demand for larger funds to finance credit terms granted by our exporters to foreign buyers, and it attempts to improve the system's operation by including measures aimed at more effective and rapid action by medium-term credit institutes.

INTERECONOMICS: Small and medium-sized firms, in particular, are expecting to get considerable

advantage from this new arrangement. How far will the new law fulfil their expectations?

DONATI: Small and medium-sized firms should really find that insurance opportunities are improved, due in particular to anticipated State action regarding guarantees on short-term commercial risks. The bill provides that the State shall act as reinsurer for the private sector and thus makes use of private insurance companies when particularly profitable situations arise or can limit itself to promoting exports vis-à-vis certain markets.

We know that on the basis of the present Law No. 635 of 5th July, 1961, the State does not intervene to cover normal commercial risks. In the new bill it is laid down that the State shall cover such risks directly, where medium-term credits are involved. The

introduction of a global policy is certainly aimed at improving insurance opportunities for the smaller firms. At present, insurance guarantees are only granted for certain delivery contracts which have to be concluded with every foreign client separately.

INTERECONOMICS: Will firms in Southern Italy obtain special facilities for financing and insuring exports through the Istituto Nazionale delle Assicurazioni, INA, (National Insurance Institute) and the MEDIOCREDITO?

DONATI: The new provisions are sure to be useful also to firms in the South, but they apply to all exporting firms in Italy, irrespective of where the firm is located.

INTERECONOMICS: The insurance and financing of exports, which is generally considered to be one and the same thing, has been passed in Italy to a variety of institutions—INA, MEDIOCREDITO and ICE—and some of these have yet other tasks. Would it not be more practical, for the success of our export promotion policy, to have one central institute?

DONATI: I think I should state briefly here what the tasks of INA, MEDIOCREDITO and ICE are under the current system of insuring and financing export business. Incidentally, the new law does not change these tasks. ICE is responsible for examining insurance applications made by exporting firms

and passes these on to a special inter-Ministerial committee for decision; the administrative office of this committee is located within ICE. ICE also acts as secretariat for this committee. Decisions reached by this inter-Ministerial committee are then put into practice by INA, which deals with issuing insurance policies on behalf of the State.

Based on Law No. 635, MEDIOCREDITO is allowed to make available funds to the medium-term credit institutes up to 75% of the amount which each such institute has made available for financing in favour of Italian exports. MEDIOCREDITO, which works exclusively with funds derived from the State budget, is an institute of "second instance", i.e. it has no direct contact with exporters. In order to obtain finance, exporters have to apply to institutions which arrange medium-term credits—such as the Istituto Mobiliare Italiano, Efibanca, Mediobanca, Centrobanca ICIPIU, Interbanca, etc. MEDIOCREDITO's intervention increases the funds available for financing export credits and this also means that it is possible to enforce a monetary policy which leaves our exporters competitive in respect of payment of interests costs.

The receipt of funds for financing export credits from MEDIOCREDITO and the other institutions mentioned is conditional

upon assignment by the exporter of all rights under the State guarantee.

The present system appears to accord perfectly with this organisation and, so far, it has worked extremely well.

INTERECONOMICS: The new bill also contains a great many detailed provisions, and since it attempts to cover every conceivable case of insurance and financing, is very difficult to summarise. It also seems difficult for such hard and fast provisions to provide satisfactorily for short-term requirements of commercial policy. Do you not think that simple statutes are more effective—as, for instance, those of the German HERMES-Kreditversicherung—since they leave more to the discretion of the administrative committee?

DONATI: It is a characteristic of Italian laws that they go into very minute detail and therefore give very limited discretion to the executive bodies. This is a problem which has been widely discussed by economists. But if the new arrangement is compared with the old law, I must say that the latter provides that many of the basic insurance provisions can be determined or amended by administrative decision; in addition, the afore-mentioned inter-Ministerial committee has certain powers in this connection.

INTERECONOMICS: The guarantee against price increases during the period of production—apart from Italy, such a guarantee only exists in France—is to be retained in the new law. Does this give Italian exporters definite competitive advantages on the world market?

DONATI: This guarantee against increases in production costs has never been used in practice; Italian exporters do not consider this guarantee to be of advantage to them, due to the restrictions in the law itself, and in the general conditions under which the policy is issued.

INTERECONOMICS: What type of consignments are normally insured and financed, and to whom?

DONATI: Law No. 635 has been used so far for the export of industrial plant, machines and equip-

ANTIGONO DONATI

is President of the Italian National Institute for Foreign Trade (ICE). He was born in Rome in 1910. After his graduation to doctor of jurisprudence and political sciences he took over a professorial chair of commercial law in 1939. Today he still practices his educational work at Rome University, whose faculty dean he has been since 1954. Among his numerous publications his work on insurance law comprising three volumes is best known, for which he became an honorary doctor of Hamburg University. In Italy's political and economic life Professor Donati holds many official positions. Among others he is President of the Commission for Labour, Social Welfare and Co-operation in the National Council for Economics and Labour (CNEL), and President of the Institute for Documentation and Legislative Studies as well as advisor of numerous national organisations. His steady initiative within the framework of international economic relations is reflected by his presidentship of the Committee for International Technical and Economic Co-operation in the Ministry for Foreign Affairs, the Committee for Technical Co-operation of the OECD in Paris, the Institute for Economic Development (ISVE) and the International Association for Insurance Law in Luxembourg. Professor Donati has numerous important Italian and foreign decorations.

ment. Plant for mining, the petroleum industry, the metal and mechanical industries and the chemical and synthetics industries, in particular, have taken advantage of the opportunities for insurance and medium-term finance. And a great number of machines for the electrical and electro-mechanical industries and the textile and clothing industries have also benefitted from these promotional measures. The main countries to receive consignments insured and financed in this way are Argentina, Yugoslavia, Brazil, Indonesia, USSR, India, Mexico, Turkey and Peru.

INTERECONOMICS: When insuring export credits, it is also possible to insure credits which—independently of Italian exports—are given purely for the economic development or reorganisation of the recipient country. In view of the amounts necessary for this and the credit insurance funds which are made available, does this have any particular significance or are these provisions merely formal ones?

DONATI: It must be remembered that there is no provision in the Italian budget for this type of financing credit; this is mainly due to the budget difficulties deriving from the large amounts required to reorganise the structure of the national economy. For this reason, these institutes grant medium-term State financing credits using funds raised on the domestic capital market. Under the said law, the State gives a similar guarantee to the credit institutes. In practice, the sum total of credits intended for the economic development and reorganisation of beneficiary countries has not reached a very high figure since the available funds are allocated to those countries which do not appear to be in a position to transfer punctually the credit instalments due. The intention of the Italian Government to grant facilities to developing countries by granting delivery credits without strings is restricted by the possibilities of the domestic capital market and, in particular, by the demands upon the budget.

INTERECONOMICS: You, Professor Donati, are President of ICE, which is celebrating its fortieth anniversary this year. Only this

year the ICE administration has been given new directives. What is it expected to achieve thereby?

DONATI: If we consider the basically positive results of the last few years—in the period from 1960 to 1965 our exports rose from Lire 2,280 to 4,493 million, i.e. by around 97%—and taking into consideration the practically unanimous approval of manufacturing firms and other organisations in this field, we can feel certain that the best possible type of promotion has been achieved.

It is true that over these years international trade as a whole has greatly expanded. We should therefore consider the adaptation and perfecting of those technical instruments which allow us to achieve a general increase in trade, rather than new tendencies in promotional policy. The new ICE measures are also intended to achieve this aim.

INTERECONOMICS: What do you think of the successes achieved by the activities of ICE during the last few years—particularly in the developing countries and in those of the Eastern bloc?

DONATI: As I said, we can be more than satisfied with the results of ICE's activity over the last few years.

As far as the developing countries are concerned, any policy of promotion has to take into account the special characteristics of each individual market. Many of these countries only gained their independence after 1960 or suddenly found themselves involved in far-reaching processes of internal structural changes. For this reason, ICE's activity has been concentrated in particular upon studying these markets in the wake of such changes, in order to facilitate an effective and suitable market penetration. The first results can already be seen—the increase in trade by 58.2% between 1960 and 1965 testifies to this—but future results will be even better. The effects of our promotional activity will show over time. As far as the Eastern bloc countries are concerned, the position is quite different. In their case, Italian promotional activity has had to adapt itself to the new trend in trading. Thus, our entry into the Chinese

market was supported by the opening of an ICE office in Pekin, and in Eastern Europe an office has been operating for some time in Warsaw. Naturally, the extremely good results which have been achieved in this area—the volume of exports to the Eastern bloc rose in the period from 1960 to 1965 by 82.3%—are an incitement to intensify yet further our promotional activity in these markets by extending the network of ICE offices.

INTERECONOMICS: Can the effects of Italian promotion be stated quantitatively?

DONATI: As you can easily imagine, it is not possible to state the results of our promotional policy in quantitative terms; because trade tends to become more and more interwoven and it is impossible to isolate those transactions which are owed to any specific piece of export promotion.

There is no doubt that our promotional policy has had a great influence upon the constant growth of our exports—as I said, these have doubled between 1960 and 1965. On the other hand, it is also possible that certain transactions are owed to incentives other than promotion by ICE.

INTERECONOMICS: Would Italy abandon its promotion schemes if the other important trading countries of the world were to do the same?

DONATI: If you mean that promotion embracing measures to acquaint foreign countries with a certain product, there is absolutely no question of any country abandoning this type of promotion. On the contrary, in a market such as ours, where specialisation is increasing, trade expanding and competition becoming more severe, it is essential for "promotion" to be intensified. If you are referring to measures in support of exports—as, for example, credit insurance and financing—this is also a process which cannot be reversed. On the other hand, it is possible that as international trade tends increasingly to overlap, other measures—such as the refund of turnover tax and other duties, or special rail rates—will be covered by multi-lateral agreement or that such measures may even be abandoned or amended.