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German Investment Abroad

After the war 5,100 private German investors nerved themselves to move outside their frontiers and made direct investments in 97 countries, to a total value of DM 9,000 million. Europe and North and South America are the territories preferred by Germans investing abroad and almost 90 % of the investments were made in those areas. About one third of West German investment capital went to 76 developing countries.

Taken by themselves, these figures are evidence of a successful, expanding economy, wishing to consolidate its position in competitive markets with good future prospects by direct investment abroad. This hopeful picture of a free enterprise open to the world at large becomes even more convincing when we consider the constant rise in German investment abroad. Whereas German direct foreign investment totalled only DM 3,800 million over the 10 years from 1952 to the end of 1961 inclusive, it rose to about DM 1,000 million in 1962 alone; finally, in 1965, the annual increase in foreign investment climbed to almost DM 1,400 million. It is also remarkable that the funds invested were raised almost exclusively (99 %) from direct sources inside Germany — i.e. not from the distribution and re-investment of profits made abroad. About 80 % of this German investment capital comes from cash payments and remittances, about 10 % stems from contributions in kind and from rights, and 9 % from the settlement of, and/or compensation for, claims (i.e. from exports profits or return on capital).

There is no doubt that — considered in isolation — the facts and figures speak for themselves. But they tell us nothing about the relative position of German foreign investments in the context of other industrial nations. Only when we make an international comparison does the picture we have outlined fall into perspective: If the DM 9,000 million of German investments abroad are compared with America's 180,000 million or Britain's 60,000 million, we see that Germany's export of private capital is very modest, even though Germany is the second most important commercial power in the world. The explanation of this imbalance is to be found, to a great extent, in the political developments of the last fifty years. The effects of two world wars destroyed the German economy, broke down old foreign contacts and prevented any continuity in private investment abroad. Additionally, the widespread discrimination against German foreign investors has been reduced only in part and after much delay.

For instance, only now has the United States been induced to remove, by means of a new Bill, injustices in the taxation treatment of foreigners and foreign companies. The amendment of the Double Taxation Agreement with the Federal Republic, which has been in force since 1954, is intended to give the German investors the same tax concessions as American firms in the Federal Republic have enjoyed since 1954.

The conspicuous shortfall in German foreign investment internationally is obvious. It will be necessary to make great efforts to reduce the gap between Germany and the leader nations. But such efforts are essential in order to safeguard the country's position on the world market. The experience of American and British firms has shown that direct investment abroad certainly does not — as is often alleged — reduce a country's own export business, but provides an important basis for intensifying foreign relations.

Bernd Muldau