

Lindner, Wolf Dieter

Article — Digitized Version

Investment climate and private investments

Intereconomics

Suggested Citation: Lindner, Wolf Dieter (1968) : Investment climate and private investments, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 03, Iss. 4, pp. 116-118, <https://doi.org/10.1007/BF02930241>

This Version is available at:

<https://hdl.handle.net/10419/137926>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Moreover, the land tenure system must be such as to favour agricultural development, not hinder it. Farmers cultivating land they do not own must be given leases of sufficient length to reap the benefits of their improvement efforts. On the other hand, it might be appropriate to establish ceilings on rent to be collected by the landowners, especially where these resources are not channeled into productive investment, and to create institutions which help farmers acquire ownership of the lands they are farming. Basic to this is the existence of a viable land registration system in which parcels of land are adequately defined as to shape, size, location, and ownership. As far as farm tools and equipment are concerned, preference should be given in the short run to the introduction of simple tools and the modification of existing ones, rather than to the procurement of sophisticated mechanical implements, which are expensive to acquire and can be operated and repaired only by a highly trained work force.

Marketing the Agricultural Products

The orientation of modern agriculture is toward commercialisation. To bring about the latter satisfactorily requires, beside expanding urban markets, the existence of a material infra-structure geared to the needs of agriculture. All too often the quality of fruit and other agricultural products deteriorates because of slow traffic movement. Moreover, the

development of agriculture requires the building of storage facilities, the organisation of an agricultural credit system, and the formation of cooperatives. The existence of storage facilities, coupled with an effective communications network, might prevent, or would at least alleviate, temporary local food shortages. Besides, the creation of storage centers would greatly facilitate the commercial distribution of agricultural products by permitting the marketing of commodities in larger quantities and of greater homogeneity. Thus, the market position of agricultural producers would be strengthened.

The modernisation of agriculture calls for sizable investments which are beyond the financial resources of the average farmer unless he has access to a credit source. For this reason, agricultural credit institutions are a vital element in economic development. However, in order to avoid wastage of scarce resources and a too heavy indebtedness of the farmers, credit should be extended only for operations which can reasonably be expected to be profitable. This makes close cooperation between credit institutions and the agricultural advisory agencies a necessity. Cooperation among the various producers is also needed. Whether the concern is with production equipment, hydraulic projects, animal husbandry, marketing, or credit, the organisation of cooperatives and other associations can be of tremendous benefit to the participating peasants.

INDUSTRIALISATION

Investment Climate and Private Investments

by Dr Wolf Dieter Lindner, Cologne

OECD statistics about the Western industrial nations' long-term contributions in favour of developing countries subdivide the sum total of \$ 9 to 10 billion yearly also by public and private contributions. The corresponding ratio was consistently about 60 to 40 per cent during the last years. Private contributions to development aid show the following composition:

Direct Investments	approx. 60 per cent
Portfolio investments	approx. 20 per cent
Export credits	approx. 20 per cent

Thus more than three quarters of private funds do not flow to developing countries in the shape of commercial credits but in a form that might be called an investment commitment. This high share of investments is so very important because it is known by experience that private investments make the promptest and most enduring contribution to the developing countries' economic rehabilitation.

Expressed in absolute figures direct investments amounted to \$ 2.4 billion in 1965. In the past years, too, private investors from all over the world in-

vested directly about the same amount in developing countries—i.e. with the intention to exercise direct influence on the operations of enterprises receiving capital. As against this the investors' interest in so-called portfolio investments is not an entrepreneurial one. It concentrates exclusively on returns and security. This should, however, not lead to the conclusion that the private entrepreneurs' considerations regarding security and returns recede into the background in the case of direct investments. These aspects are rather on an equality with the interests that are being pursued with an entrepreneurial direct investment.

German Investments Abroad

The German share in the total of about \$ 2.5 billion that at present are annually invested directly in developing countries by all Western enterprises is quite moderate. Although it has a rising trend, in 1966 German direct investments did not amount to more than \$ 106 million or \$ 155 million, respectively, including the reinvestment of profits. All told, compared with the foreign investments (not only in de-

veloping countries) of the United States to the amount of \$45 billion and of Britain to the tune of \$15 billion, the bringing-in value of German capital assets totals but \$2.6 billion. This amount does not include reinvested yields, therefore the current value of German capital assets is to be assessed at a considerably higher level. Nevertheless German private investments abroad are minor as compared with Germany's position in the world economy.

The reasons for Germany's small investments abroad are mainly to be found in the fact that 1950 the German economy had to begin all over again and during its rehabilitation period had a great home demand for capital and labour. In addition there are the cautious restraint due to the bitter experiences in the past of a twice repeated loss of German assets abroad and the frequently not very inviting investment climate.

Besides, many regions in the world are—partly owing to the former colonial powers' still dominating position—largely unknown to the German entrepreneurs so that for this reason the risk of investments appears to be too high to them. Traditionally good trade relations since the time before the war, e.g. with Latin America, on the one hand, and insufficient familiarity with former colonies, on the other, even today are reflected by the regional distribution of direct investments in developing countries.

The following table shows the regional distribution of German private investments and the developing countries' share in them (approx. 30 per cent).

Private Capital Investments Abroad
(cumulative from 1951 on, in million DM)

Region	Volume on Dec. 31, 1965	Volume on Dec. 31, 1966	Volume on Dec. 31, 1967
Europe	4,473	5,710	5,890
EEC	2,107	2,870	2,969
EFTA	1,910	2,249	2,294
Developing Countries	396	523	555
Africa	481	597	666
Developing Countries	396	490	557
America	2,928	3,172	3,328
USA	534	578	588
Canada	815	858	954
Latin America	1,579	1,736	1,787
Asia	296	351	360
Developing Countries	242	287	295
Australia	139	165	169
Total	8,317	9,995	10,413
Including Develop- ing Countries	2,613	3,036	3,194
Increase	+252	+423	+158

In order to ease somewhat the German investors' cautious reserve and to make allowance for their particular susceptibility to risks, the Federal Government gradually has taken a series of promotional measures. This in the meantime increasingly completed set of instruments serving investments in developing countries is designed to alleviate the political and economic risks. A particular importance is

to be attributed in this connection to the Development Aid Tax Law, the guarantees linked with the bilateral agreements on the protection of creditors, the credit facilities of the ERP-programme and participation chances of the German Development Company.

Investment Chances and Risks

However, the incentives given by the German Government can only make the investor's decision to invest easier or expedite it, respectively. At long last the entrepreneurial plans are decisive. With most of the extensive investments such a decision is to be taken by managers, who in general work with "outside" funds belonging to shareholders and therefore have a special responsibility. Since, however, businessmen do not invest on the basis of deliberations taking the overall economy and development policy into consideration, but rather intend to make profits in the long run, the host country's investment climate is decisive for them. Determining factors for the selection of the country, where the investor decides to engage himself, are therefore the chances offered and the risks existing there. In this investment decision the private entrepreneur lets himself be largely guided by his assessment of the present investment climate and how he judges its future development. He will not invest his capital in a country where his free disposal of it is limited. It is one of the basic conditions that the entrepreneur is able to operate his business according to the rules of private enterprise and that his scope for entrepreneurial decisions is not so much limited that the operation of his enterprise is impeded or even made impossible.

The investment climate is also influenced for instance by limitations of participation quotas in joint enterprises as well as by discriminating measures. Here the complete legal and social framework is relevant within which the economic process is taking place. In this connection considerable practical importance is to be attributed to regulations pertaining to labour legislation, stipulations that in many countries frequently render a flexible operation of an enterprise more difficult. Naturally the supply of production with foreign commodities and auxiliary material as well as spare parts, etc.,—which due to the shortage of foreign exchange is often problematic in less developed countries—plays also a major part. But an attractive investment climate requires even more. The foreign investor must be offered incentives that are suited to counter-balance the risks which are higher than at home.

Priorities of Investment Policy

Different orders of priorities may be set up for capital investments of a German enterprise. To begin with those investments of one's own enterprise have first priority, that serve the strengthening and securing of competitiveness. In this context it has to be pointed out that the German industry's basic capital resources are relatively small as compared with its competitors and that therefore the expansion of an

enterprise's basis of existence has precedence. In the second place would then come the comparatively riskless capital investments in the Federal Republic, e.g. in another branch in order to expand one's own production programme. With the foundation of the European Economic Community private entrepreneurs' investments in other member states of the EEC acquired third priority. The Common Market's customs union will be completed by mid-1968 and the further development of EEC to an economic union similar to a domestic market is the next target. Investments in EFTA-countries hold fourth place for the German investor—e.g. in order to bridge the European "tariff-ditch"—and the same applies to investments in other countries outside EEC.

In the fifth place finally come investments in developing countries. Although here the special political and economic risks have impeding effects, they can partly be neutralised by the Federal Government's already mentioned promotion measures. With-

in this fifth category, on the other hand, the German investor will select those countries with which he already maintains trade relations and whose investment climate appeals to him.

It is quite obvious how much is depending on the investment climate in a country that wants to attract private capital of German entrepreneurs. It is therefore all the more incomprehensible that some developing nations—which according to their economic position and also according to the statements of their leading politicians are urgently requiring private capital—refuse assurances in respect of the treatment of foreign property. Bilateral and multilateral agreements might create more security. The reference to the practice of many years' standing and to the country's constitution is not always convincing completely. A favourable investment climate does also contribute quite considerably to keeping capital in the country and to enabling its use for the acceleration of the domestic development process.

DEVELOPMENT PLANNING

Aid Management in India

by M. S. Dabke, Bombay

Improving the aid climate is a special objective, both a long-term and a short-term one. While the long-term objective is to assess the prospects of foreign assistance to India during future years, the immediate task is to dispel misgivings abroad over India's achievements and future potential of growth. Confident declarations that India would be able to dispense with foreign aid after 10 to 12 years without jeopardising its prospects for future growth, are meant to allay public fears in other countries. Although India has completed three five-year plans, its growth rate has not been satisfactory. The hope of attaining a take-off stage is still eluding it. Particularly in the sixties, the Indian economy found itself enmeshed in great difficulties. The Chinese aggression in October 1962, was no doubt of a short duration. However, it has since kept India's northern frontiers tense and defence expenditure mounting. The flare-up with Pakistan in October 1965 was a calamity that ran concurrent to a severe drought. Crops failed again in 1966 and the desperate devaluation of the Indian rupee in June 1966, did not improve the balance of payments position.

The Problem of Aid Utilisation

As against this, the aid pool in the world is shrinking. About a decade ago, there were only a couple of countries wanting foreign assistance. Today, the number of claimants for aid is high. With the exception of France, India's traditional sources of aid in the West are drying up fast. The growing involvement of the United States in the Vietnam war has

made American public opinion on aid to other countries rather reluctant. Britain and West Germany, too, are engulfed in their own monetary and budgetary troubles. While thus the prospects of future aid are bleak, the problem of utilisation of aid already sanctioned assumes a special significance. Better utilisation of aid on hand is, perhaps, the surest way of getting a maximum out of the assistance other countries have been rendering to India.

There is one more reason why utilisation of aid must assume top urgency. That reason is to be found in India's mounting burden of repayment obligations. In the initial stage of planning in India, the volume of aid was modest. More than 50 per cent of India's industries depends directly on agriculture. The satisfactory crop position enabled a reasonable increase in the industrial production as well as in exports. In the British regime, there was no industrialisation worth the name and the Indian economy was almost virgin. As a result, the inputs in terms of Indian and foreign currencies led to an upward production curve. However, this trend proved to be short-lived and the economy was again on the descend. In an attempt to arrest the falling growth rate, the rulers contracted heavy external debts and made huge investments in the public sector. India's public sector lived up to the notoriety public sector ventures have earned elsewhere. It was the same story of massive investments and meagre or no yields at all. On the one hand, there was no exportable surplus. On the other, Indian goods started getting out-priced in the world markets due to their higher costs of production.