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# New Tendencies in Direct Investment

by Dr Otto G. Mayer, Hamburg \*

**German direct investment abroad last year showed a bigger increase than in any previous year. There are signs of certain interesting changes getting under way in regard to the aims as well as the structure of German investment activity alongside this growth. A striking feature is the increased interest shown by German firms in the countries of East Asia.**

According to official data, the total German direct investment abroad at the end of 1973 amounted to more than DM 32 bn. This however is far below the total value of German assets abroad as it is merely an accumulation of the annual flows of finance into direct investments abroad since 1952. Unlike the US and British statistics, for instance, it does not allow for reinvested profits; neither do the following data. For a realistic comparison with the US and British investments at least 30 p.c. should be added to the above total <sup>1</sup>.

After such correction the value of German direct investments is still considerably below the US and British totals; the book value of the US investments is about ten times as large and that of the British investments about double the size of the German ones. The rates of growth in the last few years however show that this "arrear" is relative. Thanks to expansion in the recent past when investments by German firms grew significantly faster than US and British investments, the German investments show a strong tendency to make up for lost time <sup>2</sup>.

## Phases of Investment Activity

The rapid growth of German direct investments emerges clearly from an examination of the yearly net capital outflows for investment abroad since the war (cf. Table 1). Three development phases marked by a distinct increase in capital outflow

between one phase and the next can be discerned <sup>3</sup>.

□ The lifting in 1952 of the general ban on direct investment abroad by German enterprises was followed by a period of slowly increasing capital outflows at an average rate of DM 496 bn a year, which lasted until 1961.

□ Between 1962 and 1965 the average yearly exports of capital more than doubled to DM 1,119 mn.

□ In 1966 there began a phase of strongly rising capital outflows. From DM 1.7 bn in 1966 they rose to DM 3.5 bn in 1970. In 1971 and 1972 they declined to DM 2.8 bn and 2.7 bn, respectively, but in 1973 they soared to DM 5.6 bn. Over 74 p.c. of the total German direct investment at the end of 1973 had thus been carried out in the period from 1966 and more than half — 56 p.c. — in the five years from 1969 to 1973 inclusive.

## Expansion since the Mid-sixties

The relative restraint of German enterprises in the field of direct foreign investment until the middle or late sixties is due to a number of factors:

□ First, it was only from 1959 onwards that the same conditions applied to investment abroad as to investment at home because it was only in 1958 that the DM was made convertible and the restrictions on capital investments abroad were removed.

□ Secondly, in connection with the post-war reconstruction, investments at home were in the

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<sup>1</sup> Cf. Henry Krägenau, *Wie hoch sind die deutschen Auslandsinvestitionen (How Big Are the German Investments Abroad)*, in: WIRTSCHAFTSDIENST, 50th year (1970), No. 11, p. 665.

<sup>2</sup> Cf. Sabine v. Saldern, *Internationaler Vergleich der Direktinvestitionen wichtiger Industrieländer (International Comparison of the Direct Investments of Important Industrialised Countries)*, HWWA Report No. 15, Hamburg 1973.

<sup>3</sup> Cf. Dietrich Kobschull and Otto G. Mayer, *Deutsche Investitionen in Indonesien (German Investments in Indonesia)*, Hamburg 1974, p. 24 f. and M. Holthus (ed.), R. Jungnickel, G. Koopmann, K. Matthies, R. Sutter, *Die deutschen multinationalen Unternehmen (The German Multinational Enterprises)*, Frankfurt 1974, p. 10 f.

**Table 1**  
**German Direct Investments Abroad 1955–1973**  
(in mn D-Mark)

Year	Total	Changes vis-à-vis preceding year
1955	421.1	—
1956	831.0	409.9
1957	1,349.2	518.2
1958	1,858.6	509.4
1959	2,422.2	563.6
1960	3,161.8	739.6
1961	3,842.5	680.7
1962	4,955.7	1,113.2
1963	6,070.8	1,115.1
1964	7,205.1	1,134.3
1965	8,317.1	1,112.0
1966	9,995.3	1,678.2
1967	12,056.8	2,061.5
1968	14,349.0	2,292.2
1969	17,618.3	3,269.3
1970	21,113.2	3,494.2
1971	23,882.4	2,769.2
1972	26,596.1	2,713.7
1973	32,235.0	5,638.9

Source: D. Kebschull and O. G. Mayer, *Ibid.* p. 26; Runderlaß Außenwirtschaft Nr. 17/74: Vermögensanlagen Gebietsansässiger in fremden Wirtschaftsgebieten, Bundesanzeiger Nr. 78 v. 25. 4. 1974.

fifties and early sixties more profitable than expansion abroad, the more so as the progressive liberalisation of world trade created better opportunities for export.

□ Thirdly, psychological inhibitions impeded greater investment activities abroad since German property abroad had twice been expropriated in consequence of wars.

#### Motives of German Investors

These obstacles were only slowly overcome during the sixties. The pioneers were to be found among the major enterprises who were the first to be able and willing to accept the risks and uncertainties involved in foreign commitments. As a rule these enterprises operated in growth and export orientated industries — e.g. the chemical industry — with the result that they appreciated relatively early that foreign markets could only be held or serviced better if they embarked on the venture of producing abroad. Protectionist policies in foreign countries, especially in developing countries, were frequently a spur.

An enquiry of the HWWA Institute among enterprises involved in 1969 clearly showed that such considerations were the dominant factor for investments in developing countries. Nearly 70 p.c. of the replies received indicated that the most important motive for direct investments in developing countries was the aim of reaching markets which could not be served adequately if at all

through exports but were thought to be of great importance for the future<sup>4</sup>. The answers from German firms in Indonesia which were consulted in 1973 gave virtually the same result<sup>5</sup>. A difference emerged insofar as lower wage costs played a relatively greater role than in the earlier enquiry.

Since the end of the sixties some further factors seem however to have come to the fore<sup>6</sup>. The strategic aim is extending more and more beyond the wish to safeguard exports and beyond “defensive” investments. Labour market problems and cost pressures at home and more intensive competition by foreign firms both at home and abroad seem to play an increasingly important part, especially for medium-sized enterprises and certain industries like mechanical engineering and textiles for example. Exchange rate movements, e.g. as a result of the DM revaluations and the \$ devaluation, appear to have aided decisions in favour of investing in foreign countries in the recent past.

#### Regional Distribution

Some interesting trends may also be noted in regard to the regional distribution of German direct investments. The share of other industrialised countries (70 p.c. against 30 p.c. in developing countries) has remained almost constant over the last few years, but the focal points within these groups of countries have shifted (cf. Table 2). In the last three years German firms have concentrated even more than previously on the neigh-

<sup>4</sup> Cf. on details, Dietrich Kebschull, *Motive für deutsche Direktinvestitionen in Entwicklungsländern* (Motives for German direct investments in developing countries), in: *Probleme der Arbeitsteilung zwischen Industrie- und Entwicklungsländern, Beihefte der Konjunkturpolitik*, No. 19 (1973), p. 17 f.

<sup>5</sup> D. Kebschull and O. G. Mayer, *Deutsche Investitionen in Indonesien*, *Ibid.* p. 96 ff.

<sup>6</sup> Cf. *Veränderte Motive für Auslandsinvestitionen* (Changed Motives for Foreign Investments), in: *Handelsblatt*, 29th year, No. 89, May 9, 1974.

**Table 2**  
**Regional Distribution of German Direct Investments Abroad**  
(in mn D-Mark)

Region	1965	1970	1971	1972	1973
Europe	4,473	12,015	13,821	15,572	19,506
North America	1,349	3,473	4,048	4,375	5,064
Latin America	1,579	3,664	3,502	3,714	4,081
Africa	481	1,191	1,473	1,768	2,108
Asia	296	561	692	910	1,214
Oceania (incl. Australia)	139	208	245	259	261
Total <sup>1</sup>	8,317	21,113	23,781	26,597	32,235

<sup>1</sup> Deviations from the sum are traceable to roundings off.

Source: *Bekanntmachungen des Bundesminister für Wirtschaft, Runderlaß Außenwirtschaft, Vermögensanlagen Gebietsansässiger in fremden Wirtschaftsgebieten*; several publications from 1966 to 1974.

bouring states in Europe. The percentage rate of investments in these countries rose from 57 p.c. of the total German direct investment abroad at the end of 1970 to nearly 61 p.c. at the end of 1973. The USA and Canada — 15.7 p.c. at the end of 1973 against 16.4 p.c. at the end of 1970 — barely maintained their share of German direct investments, while Latin America with its share declining from about 17 p.c. at the end of 1970 to 13 p.c. at the end of 1973, lost in importance as an investment area. As German investment in Latin America is absolutely enormous however, this region is likely to hold its position as the third most important investment area for German firms, after Europe and North America, in the near future.

Africa and, especially, Asia have improved their position as investment areas comparatively substantially. Africa's share of the total German direct investment rose from 5.7 p.c. at the end of 1970 to 6.5 p.c. at the end of 1973. Even more importance appears to attach to the increase in investment activity in Asian countries, and this for three reasons. First, the value of the investments has more than doubled over the last few years, raising the continent's share in total German investment abroad from 2.7 p.c. at the end of 1970 to 3.8 p.c. at the end of 1973; secondly, Asia is the only region in which investment activity in the last three years proceeded even at a faster rate of growth than between the end of 1965 and the end of 1970; and thirdly, the investments in this region increased in the past three years at more than twice the average rate of overall investment growth.

#### **Development in the ASEAN**

Within the group of Asian countries there has been remarkable progress in the ASEAN states (Thailand, Indonesia, Malaysia, Singapore, Philippines) (cf. Table 3). German investment activities in this region have grown at a substantially faster rate since the end of 1966 than either German total investment or investment in any other region. Two factors however must be borne in mind for a correct assessment of this development: in the first place, it must be pointed out that German investment activity in this region is still at a very low level compared with other regions (except Australia and Oceania); Asian developing countries at the end of 1973 accounted for no more than 11 p.c. of total German direct investment in developing countries, and the share of ASEAN states was only 2 p.c. although it had doubled since the end of 1970. Secondly, Singapore alone accounts for almost 50 p.c. — and together with Indonesia for nearly three quarters — of the German investment in the ASEAN.

An examination of the annual growth rates in recent years suggests however that the relative importance of Singapore as an investment area is slowly declining while Indonesia, and Malaysia even more, hold or add to their attractiveness. Investments in Thailand, on the other hand, are viewed with circumspection, apparently because of the new, stricter investment legislation, while investment activity in the Philippines is almost stagnating or increasing only slowly.

#### **Future Tendencies**

It is difficult to judge whether this tendency towards increased commitments in East Asia, and more particularly in the ASEAN, will continue because many factors are at work here and the overall trend of German direct investments must be taken into account.

The first point to bear in mind is that until now there has been a relatively heavy concentration of German direct investments on the neighbouring countries of Europe and the industrialised states generally. A strong concentration on a few countries is also seen in the group of developing countries: six countries — Spain, Brazil, Argentina, the Netherlands Antilles, Libya and Mexico — have absorbed nearly three-quarters of the German investments in developing countries. From this fact it may be concluded that, owing to the market orientation which has been predominant in the investment activity of German enterprises until now, preference is given to countries which combine a relatively high level of development with stable political and economic conditions and a friendly attitude towards foreign investors. From this point of view the future developments in the South East Asian countries will thus depend on the measure of success achieved

**Table 3**  
**German Direct Investments in Asia**  
(in mn D-Mark)

Region	1965	1970	1971	1972	1973
ASEAN:	12.1	49.5	84.3	124.6	186.1
Singapore	—	5.3	27.1	53.7	92.6
Indonesia	2.6	16.2	21.9	31.2	46.2
Thailand	5.0	13.8	17.0	20.5	23.4
Malaysia	2.5 <sup>a</sup>	7.6	11.3	12.1	16.2
Philippines	2.0	6.6	7.0	7.1	7.7
Taiwan	0.2	6.2	8.2	9.3	12.1
Japan	54.4	120.7	130.2	149.1	173.7
India	125.9	170.0	181.3	180.3	170.8
Others	103.5	214.4	287.6	446.8	671.5
<b>Total</b>	<b>296.1</b>	<b>560.8</b>	<b>691.6</b>	<b>910.1</b>	<b>1,214.2</b>

<sup>a</sup> Including Singapore.  
Source: See Table 2.

in their industrialisation efforts in the first place and secondly on the conditions which they offer to foreign investors. A relatively optimistic view may be taken of the first point; the second one is more complex<sup>7</sup>.

Reference has already been made to the policy of Thailand; Indonesia's policy may be said to warrant a "sceptical view"<sup>8</sup> while Malaysia appears to have quite an open mind about foreign capital. The attitude of Singapore is similar but calls for a few words of comment. Given its relatively stable conditions and sound infrastructure Singapore has attracted the interest of German firms mainly because of its relatively low wage costs for export orientated types of production and not so much as a market<sup>9</sup>. As wage costs rise and labour becomes scarce, Singapore is likely to prove a more difficult location for such types of production, especially if neighbouring Malaysia and Indonesia offer increasingly favourable conditions in this respect.

### Structural Factors

A second important factor is the structural development of German direct investments in the future. Until now the big companies and some specific industries were chiefly responsible for by far the major part of German direct investment; one per cent of the German firms investing abroad, of which there were over 10,000, accounted for nearly 65 p.c. of the value of German investments, and the individual investors included in this one per cent each accounted for capital investments abroad of DM 50 mn or more<sup>10</sup>.

These investments were chiefly undertaken by industry (77 p.c. of the total at the end of 1973). The chemical, electrical engineering, iron and steel, mechanical engineering and automobile industries, as well as oil production and processing were the main industries involved (cf. Table 4). Together they accounted for about three-quarters of the industrial investments although their regional focal points differ widely<sup>11</sup>.

As regards East Asia the situation is in brief outline as follows: Seen against the background of the German overall engagement, the chemical industry is relatively well represented with pro-

<sup>7</sup> Cf. on details, R. Sutter and K. W. Menck, *Investieren in Südostasien (Investing in South East Asia)*, Hamburg 1973.

<sup>8</sup> Cf. D. Keschull and O. G. Mayer, *Deutsche Investitionen in Indonesien*, *ibid.* p. 73 f.

<sup>9</sup> The most topical and cogent example is Rollei's experience with the manufacture of cameras. Cf. M. Holthus (ed.) et al., *Die deutschen multinationalen Unternehmen*, *ibid.* p. 134 f.

<sup>10</sup> Cf. Federal Ministry of Economic Affairs, *BMW Tagesnachrichten*, No. 9203, May 2, 1974, p. 5.

<sup>11</sup> Cf. on details, M. Holthus (ed.) et al., *Die deutschen multinationalen Unternehmen*, *ibid.* p. 30 ff.

**Table 4**  
**Industrial Distribution of German Direct Investments Abroad, End of 1973**

(In mn D-Mark)

Sector Industry	All Regions	Developing Countries
Agriculture	223.0	38.0
Manufacturing:	24,979.2	6,467.7
Chemical Industry	6,202.5	1,607.6
Electrical Industry	3,497.7	842.1
Iron and Steel Industry	2,776.4	440.8
Automobile Industry	2,303.2	944.2
Engine-building	2,353.9	550.2
Crude oil production and -refinement	1,436.3	626.1
Services:	6,529.3	3,078.2
Trade	494.7	195.1
Transport	580.1	251.9
Banks and Insurances	2,650.6	728.9
Others	503.5	65.7
<b>Total</b>	<b>32,235.0</b>	<b>9,649.6</b>

Source: Bekanntmachungen des Bundesministers für Wirtschaft, Runderlaß Außenwirtschaft Nr. 17/74, Vermögensanlagen Gebietsansässiger in fremden Wirtschaftsgebieten, Bundesanzeiger Nr. 78 v. 25. 4. 1974.

duction plant in these countries; the electrical and automobile industries are only represented to a moderate or slight extent and the other industries scarcely or not at all. This is in part because these industries – mechanical engineering is a typical example – have hardly any big enterprises but consist mainly of medium-sized firms and for this reason find it difficult to engage in risky investments in other countries far from their home locality. They are, on the other hand, thanks partly to the presence of relatively many German merchant houses in these countries, still in a position to supply these markets through exports<sup>12</sup>. Especially crucial for the development of German investment activity in the countries of South East Asia is therefore the question of how quickly these countries will become attractive also for medium-sized firms and other industries than those mentioned.

As a third factor the oil shock and the general uncertainty about raw materials may of course attain significance for future developments. Considering that the Federal Republic has made hardly any direct investments with a raw material orientation yet, it is however scarcely possible to judge the effects which the likely increase in investment activity in the oil producing countries of the Middle East and any intensification of the policy of safeguarding raw material supplies for the Federal Republic will have on investments in the countries of South East Asia.

<sup>12</sup> On the connection of exports and investment activity cf. Ingo v. Jacobi, *Direktinvestitionen und Export (Direct Investments and Exports)*, Hamburg 1972, especially p. 74 ff.