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German Investments Abroad and Foreign Investments in the Federal Republic

by Bernhard Klinner, Berlin *

The investments of residents of the Federal Republic of Germany in economic areas abroad and of non-residents in the economic area of the Federal Republic are the subject of the following article. Their development over the last fifteen years is analysed in regard to their geographical location and distribution over the various economic sectors. One of the questions to be examined is whether German investments in foreign countries are an alternative to exports from the Federal Republic or a necessary complement to such exports.

Investments made today are a guarantee of economic growth and job security tomorrow. Data relating to the trend of development and the distribution of recent investments are therefore of great importance for business firms. The present study has the purpose of bringing the development of the nominal direct investments by Germans abroad and of the foreign investments in the Federal Republic of Germany during the 15 years from 1962 to 1976 into focus.

German Investments Abroad

On December 31, 1976 the German direct investments in foreign countries amounted to DM 47.0 bn¹. Europe accounted for 57.3 p.c. of this total, America for 31.9 p.c., Africa for 6.0 p.c., Asia for 4.2 p.c. and Australia for 0.6 p.c. (Table 1). The investments by residents of the Federal Republic in these continents differed widely in the course of the period from 1962 to 1976:

Share (in p.c.)	1962–1966 ²	1967–1971 ²	1972–1976 ²
Europe	67.3	58.8	56.4
America	21.8	31.8	32.1
Africa	6.4	6.3	5.8
Asia	3.4	2.5	5.5
Australia	1.1	0.6	0.1

The decline of the German investments in other European countries from DM 3.9 bn in 1973 to DM 2.1 bn in 1976 (i.e. by 46 p.c.) must be viewed in conjunction with the strong advance of German investment activity elsewhere, and especially in America. The German investments increased between 1973 and 1976 by almost 130 p.c.; in the USA and Canada they rose by 111 p.c. and in Latin America by 164 p.c.

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A striking feature is the recent lapse of interest of German business firms in investments in other European countries. A modest recovery (by 15 p.c.) in 1975 was followed by a substantial decline (by 24 p.c.) in 1976; the investments in EC countries⁴ fell by 16 p.c. and those in EFTA countries⁵ by 27 p.c. The Netherlands were the only EC country in which the Federal Republic made greater investments last year than in the preceding year (+ 119 p.c.), and even here the German investments were 72 p.c. lower than in the boom year of 1973.

Focus on Industrialized Countries

Industrialized countries accounted for 70.6 p.c. of the German foreign investments built up by the end of 1976 and developing countries for 29.4 p.c.⁶. The pattern has changed over the last 15 years:

Share (in p.c.)	1962–1966 ^{2,3}	1967–1971 ²	1972–1976 ^{2,3}
Total	100.0	100.0	100.0
Industrialized countries	74.1	73.6	68.3
of which in Europe ⁷	61.0	52.6	47.1
America ⁸	11.0	18.9	19.0
Developing countries	25.8	26.4	31.6
of which in America ⁹	10.8	12.8	12.4
Europe ¹⁰	6.3	6.2	9.5
Africa ¹¹	5.9	5.4	4.7

¹ Net capital spending on investments (new investment minus disinvestment) since statistics relating to the current German investment activities abroad were first collected (January 1, 1952).

² Five-year averages.

³ Deviations of the totals are due to rounding.

⁴ Enlarged EC.

⁵ Residual EFTA.

⁶ The German investments in the East bloc states on December 31, 1976 amounted to DM 31.3 mn, i.e., 0.07 p.c. of all investments. Because of their relative insignificance they were left out of account in the present study.

⁷ Enlarged EC + residual EFTA + Finland.

⁸ USA + Canada.

⁹ All Latin American countries.

¹⁰ Greece + Malta + Spain + Turkey + Yugoslavia.

¹¹ All African countries except South Africa.

FOREIGN INVESTMENT

Although the developing countries were able to raise their share of the total German foreign investment in 1975 and 1976 to 28.3 and 30.4 p.c. respectively (1972: 42.6 p.c.), German enterprises are still concentrating their investment activities on 12 countries only:

USA	11.4
Belgium-Luxembourg	10.0
France	9.9
Switzerland	9.7
Brazil	7.3
Canada	6.8
Netherlands	6.6
Spain	6.2
(incl. Canary Islands)	7.9)
Great Britain	4.2
Italy	3.5
Austria	3.4

These 12 countries accounted for about four-fifths (79 p.c.) of all the German investments abroad on record for December 31, 1976.

Of the total of the German direct investments in other countries as shown for the end of 1976 — DM 47.0 bn¹ — 76.8 p.c. had gone into industry, 20.9 p.c. into the services sector, 1.5 p.c. into private households and 0.8 p.c. into "other" spheres (Table 2). The distribution of the new investments abroad by residents of the Federal Republic in the individual economic sectors varied in the 1962–1976 period.

Share (in p.c.)	1962–1966 ^{2, 3}	1967–1971 ²	1972–1976 ²
Industry	84.8	84.9	69.7
Services sector	6.3	16.0	28.6
Private households	8.8	– 1.8	0.8
Others	0.0	0.3	0.9

The slackening of domestic investment activity in the German manufacturing industry since 1970 has had no parallel in the field of foreign investments. In some industries however the investments abroad lagged greatly behind the high figures recorded for 1973; in the iron and steel producing industry for instance the shortfall was 63 p.c.

Foreign Investments in the Federal Republic

The direct investments of non-residents in the Federal Republic of Germany amounted on December 31, 1976 to DM 45.5 bn¹². Of this total Europe accounted for 54.3 p.c., America for 42.2 p.c., Asia for 3.3 p.c. and Africa for 0.1 p.c.³ (Table 3). The continents shared in these invest-

¹² Net capital spending on investments (new investment minus disinvestment) by non-residents in the Federal Republic since statistics relating to their current investments in the Federal Republic were first collected (September 1, 1961).

ments in the Federal Republic between 1962 and 1976 as follows:

Share (in p.c.)	1962–1966 ²	1967–1971 ²	1972–1976 ²
Europe	53.2	47.1	60.3
America	46.5	51.9	32.7
Asia	0.3	1.0	6.7
Africa	0.0	0.0	0.2
Australia	0.0	0.0	0.1

The investments of other European countries in the Federal Republic declined from close on DM 4 bn in 1973 to not quite DM 2 bn in 1976 (by 51 p.c.). (For purposes of comparison it may be mentioned that the German investments in other European countries decreased over the same period by 46 p.c.). After a marked investment lull in 1975 (– 47 p.c.) the new investments by European non-residents increased once more in 1976 (+ 39 p.c.). The EC countries⁴ in particular last year invested 48 p.c. more than in 1975 although they did not regain the investment level of previous years; Belgium-Luxembourg and Great Britain alone did not step up their investments. The EFTA states⁵ raised their new investments in the Federal Republic in 1976 by 30 p.c.

The pattern of the foreign investments in the Federal Republic resembles the distribution of the German investments abroad in that most of them came from other industrialized nations. The major contributors to the total foreign investment on record for December 31, 1976 were:

USA	39.3
Switzerland	16.0
Netherlands	12.8
Great Britain	9.7
France	5.7
Belgium-Luxembourg	5.4
Japan	2.2
Sweden	2.1
Canada	1.2
Italy	1.1
Austria	0.5

Precisely 96 p.c. of all foreign investments in the Federal Republic thus emanated from these 11 countries.

Distribution by Economic Sectors

Of the total direct investment of non-residents of the Federal Republic on record for the end of 1976 — DM 45.5 bn¹² — industry had attracted 75.1 p.c., the services sector 24.4 p.c. and "others" 0.5 p.c. (Table 4). As in the case of the German investments in foreign countries, the share of industry receded during the 15 years' period under review while that of the services sector grew larger:

FOREIGN INVESTMENT

Table 1
German Direct Investments Abroad
Divided by Continents, Groups of Countries
and Selected Countries

(in DM mn)

	1962 to 1966 ¹	1967 to 1971 ¹	1972 to 1976 ¹	State at Dec. 31, 1976 ²
Total	1,177	2,757	4,654	47,048
Europe	792	1,622	2,626	26,948
incl. EC ³	517	1,009	1,632	16,422
of which Belgium-Luxemb.	232	282	404	4,697
France	135	321	438	4,675
Netherlands	47	199	355	3,088
Great Britain	36	96	250	1,965
Italy	53	94	156	1,652
incl. EFTA ⁴	196	440	574	7,018
of which Switzerland	158	270	394	4,581
Austria	18	126	76	1,604
incl. Spain	58	144	358	2,898
America	256	876	1,496	15,029
incl. North America	129	522	906	8,577
of which USA	48	303	654	5,366
Canada	80	219	252	3,211
incl. Latin America	127	353	590	6,452
of which South America	103	211	411	4,537
incl. Brazil	49	153	361	3,451
Africa	75	175	272	2,836
Asia	40	68	255	1,964
Australia	13	16	5	272

¹ Five-year averages. ² Total amount since Jan. 1, 1952. ³ To ensure comparability, all figures relate to the enlarged EC including Denmark, Great Britain and Ireland. ⁴ Corresponding to footnote 3, all figures relate to the residual EFTA, i.e. excluding Denmark and Great Britain.

Note: Deviations of the totals are due to rounding.

Source: Federal Ministry of Economic Affairs, Bonn; author's own calculations.

Table 2
German Direct Investments Abroad
Divided by Selected Economic Sectors
and Industries

(in DM mn)

	1962 to 1966 ¹	1967 to 1971 ¹	1972 to 1976 ¹	State at Dec. 31, 1976 ²
Total	1,177	2,757	4,654	47,048
Industry	998	2,340	3,233	36,153
incl. Chemical industry	165	794	664	8,801
Electrical engineering and electronics	138	309	439	4,948
Mechanical engineering	70	222	413	3,769
Iron and steel production	97	94	463	3,760
Oil production and processing	15	90	402	3,001
Road vehicle production	174	202	149	2,912
Services	74	441	1,330	9,829
incl. Banking and insurance	26	224	665	4,585
Transportation	13	29	104	873
Commerce	13	22	107	624
Private Households	104	- 49	39	713
Other Sectors	1	25	40	354

¹ Five-year averages. ² Total amount since January 1, 1952.

Note: Deviations of the totals are due to rounding.

Source: Federal Ministry of Economic Affairs, Bonn; author's own calculations.

Table 3
Direct Investments by Non-Residents
in the Federal Republic
Divided by Continents, Groups of Countries
and Selected Countries

(in DM mn)

	1962 to 1966 ^{1, 2}	1967 to 1971 ¹	1972 to 1976 ¹	State at Dec. 31, 1976 ³
Total	2,126	2,992	3,986	45,518
Europe	1,130	1,410	2,405	24,728
incl. EC ⁴	727	983	1,480	15,951
of which Netherlands	222	252	696	5,849
Great Britain	252	330	299	4,409
France	81	197	237	2,578
Belgium-Luxemb.	121	167	201	2,444
Italy	45	25	28	492
incl. EFTA ⁵	401	421	876	8,489
of which Switzerland	352	363	737	7,261
Sweden	46	46	99	952
Austria	3	8	33	220
America	989	1,552	1,303	19,224
incl. North America	959	1,497	1,232	18,440
of which USA	898	1,473	1,208	17,893
Canada	61	24	23	546
incl. Latin America	30	55	71	785
of which South America	-	29	19	275
Asia	6	29	266	1,507
Africa	1	1	6	39
Australia	0	0	3	21

¹ Five-year averages. ² The months from September to December 1961 have been included for statistical reasons. ³ Total amount since September 1, 1961. ⁴ To ensure comparability, all figures relate to the enlarged EC including Denmark, Great Britain and Ireland. ⁵ Corresponding to footnote 4, all figures relate to the residual EFTA, i.e. excluding Denmark and Great Britain.

Note: Deviations of the totals are due to rounding.

Source: Federal Ministry of Economic Affairs, Bonn; author's own calculations.

Table 4
Direct Investments by Non-Residents
in the Federal Republic
Divided by Selected Economic Sectors
and Industries

(in DM mn)

	1962 to 1966 ¹	1967 to 1971 ¹	1972 to 1976 ¹	State at Dec. 31, 1976 ²
Total	2,126	2,992	3,986	45,518
Industry	1,908	2,423	2,519	34,190
incl. Mineral oil processing and coal derivatives	560	593	149	5,954
Mechanical engineering	237	385	199	4,106
Electrical engineering and electronics	85	208	521	4,073
Chemical industry	196	404	161	3,807
Road vehicle production	193	98	170	2,306
Iron and steel production	10	41	400	2,260
Food, drinks and tobacco processing	133	91	160	1,919
Services	210	547	1,451	11,118
incl. Holding companies	21	323	643	4,935
Banking and insurance	54	153	493	3,503
Commerce	30	41	71	713
Transportation	67	- 14	43	479
Other Sectors	8	22	15	210

¹ Five-year averages. ² The months from September to December 1961 have been included for statistical reasons. ³ Total amount since September 1, 1961.

Note: Deviations of the totals are due to rounding.

Source: Federal Ministry of Economic Affairs, Bonn; author's own calculations.

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Share (in p.c.)	1962–1966 ²	1967–1971 ²	1972–1976 ²
Industry	89.7	81.0	63.2
Services sector	9.9	18.3	36.4
Others	0.4	0.7	0.4

Whereas the foreign investments in German industry rose by 4 p.c. in 1976, foreign investors increased their new commitments in the services sector in the same year by nearly 70 p.c. In both sectors however the investment activity showed a decline compared with 1973 – by 44 and 57 p.c. respectively.

Over the 1962–1976 period as a whole the German investments abroad increased at an average of 17.2 p.c. a year and the foreign investments in the Federal Republic of Germany at an average rate of 10.9 p.c. How outward and inward investments have grown at different rates is shown in the following table:

Average annual rate of change (in p.c.)	1962–1966	1967–1971	1972–1976
German investments abroad	20.6	12.0	19.6
Foreign investments in the Federal Republic	20.4	12.3	1.7

The low average growth of the direct investments by foreign enterprises in the Federal Republic in the 1972–1976 period (1.7 p.c. per annum) is chiefly attributable to the contraction of the capital influx in 1974 (–27 p.c.) and 1975 (–44 p.c.).

The divergent growth trends of the inward and outward investments can also be illustrated by indices using 1962 as the base (1962 = 100). By 1976 the index of the German investments abroad had increased to 598; in 15 years the outward investments had thus risen sixfold or by nearly 500 p.c. The foreign investments in the Federal Republic advanced over the same period to 220; with an overall increase of 120 p.c. they thus more than doubled in the period under review.

In 1976 the German outward investments exceeded the foreign investments in West Germany by approximately DM 2 bn. This was the first surplus since 1973. On December 31, 1976 the total of

Surplus (+) or deficit (–) of German investments abroad (in DM mn)	1962–1966 ^{2, 3}	1967–1971 ²	1972–1976 ²	State on Dec. 31, 1976
Total	– 949	– 235	+ 668	+ 1,530
Europe	– 338	+ 212	+ 221	+ 2,220
America	– 733	– 676	+ 193	– 4,195
Africa	+ 74	+ 174	+ 266	+ 2,797
Asia	+ 34	+ 39	– 11	+ 457
Australia	+ 13	+ 16	+ 2	+ 251

the German investments abroad exceeded the total of the non-resident investments in the Federal Republic by DM 1.53 bn.

At the end of 1976 the German investments showed large outward surpluses in the capital exchanges with Brazil (+ DM 3.4 bn), Spain (+ DM 2.8 bn) and Canada (+ DM 2.7 bn). The German investment surplus in EC countries ⁴ stood at DM 471 mn while the exchanges with EFTA states ⁵ showed an adverse balance of nearly DM 1.5 bn. – On December 31, 1976 the outward investment shortfall with DM 12.5 bn was largest in relation to the USA: German direct investments in the USA of DM 5.4 bn compared with US investments in the West German economy of DM 17.9 bn. The outward investments also fell short of the inward investments in relation to the Netherlands (– DM 2.8 bn), Switzerland (– DM 2.7 bn) and Great Britain (– DM 2.4 bn).

It emerges from the following table of "coverage ratios" that on an average of the years from 1962 to 1966 – selected here as an example – not much more than half the direct investment of non-residents in the Federal Republic was "covered" by comparable German investments in other countries:

Coverage ratio (in p.c.)	1962–1966 ²	1967–1971 ²	1972–1976 ²	State on Dec. 31, 1976
Total	55	92	117	103
incl. Europe	70	115	109	109
America	26	56	115	78
Asia	667	234	96	130

The German investments in Africa and Australia/Oceania are several times larger than the investments in the Federal Republic from these two continents.

Cross Investments

There is a close correlation between the level of German exports to certain regions and countries and the intensity of the German capital engagement there: exports lead to investments, and these investments regularly result in larger sales of German export goods, as is illustrated by the following table:

Share (in p.c.)	C 1	T 1	C 2	T 2
Total	100	100	100	100
incl. EC ⁴	37	45	35	48
EFTA ⁵	14	16	19	9
USA + Canada	18	9	40	11
EC, EFTA, USA + Canada	69	70	94	68

C 1 = German direct investments abroad

T 1 = German exports

C 2 = Foreign direct investments in the Federal Republic

T 2 = German imports

In the 15 years under review the EC of the Nine absorbed on average 45 p.c. of all German exports (T 1); in the same period (1962–1976) 37 p.c. of all German investments abroad (C 1) were attracted to this economic area. A similar relationship exists on the import side: other EC countries supplied 48 p.c. of all imports (T 2) and 35 p.c. of the investment inflow (C 2).

An analysis by economic sectors also reveals striking parallels:

Share (in p.c.)	C 1	T 1	C 2	T 2
Total	100	100	100	100
incl. Chemical industry	19	13	8	7
Electrical engineering	10	9	9	5
Mechanical engineering	8	19	9	5
Iron and steel	8	7	5	5
Road vehicle production	6	14	5	4
Total of specified industries	51	62	36	26

There is clear evidence here of a connection between German investments abroad and German exports and similarly between foreign investments in the Federal Republic and German imports.

Motives

The basic requirement of successful engagement by German firms in any foreign country is a modicum of safety from expropriation, arbitrary interference by the authorities and oppressive restrictions, e.g. on profit transfers. No wonder therefore that — as shown — the German foreign investments have for the most part gone into western industrialized countries with basic political and economic orders corresponding in great measure to that of the Federal Republic of Germany.

This is seen especially clearly in the capital transactions with the USA: More than one-tenth of all German investments in foreign countries went to the USA, and the USA was the source of two-fifths of all foreign investments in the Federal Republic. That both are high-wage countries did not impede at all the capital flows in either direction. The fact that the German investments in the USA in 1975 and 1976 for the first time exceeded the US investments in the Federal Republic is due to the considerable changes in the dollar-deutschemark cross rate. The consequent worsening of the competitive position of German products in the American market has hastened the decisions of German firms in favour of setting up branch factories in the USA which give them a chance to hold an important market while limiting coincidentally the adverse repercussions of exchange rate variations on the level of employment at the German parent company. Investments by enterprises of the Federal Republic in other industrialized countries are thus certainly a necessary complement to the German export trade.

A large portion of the German investments in developing countries must be viewed against this background. The availability of a favourable source of raw materials is no doubt an important motive for such investments but not necessarily the most common one. The establishment of subsidiaries or acquisition of a capital interest in enterprises in these countries has in many cases a market orientation and not an import orientation. Most of the developing countries are too poor to be able to afford imports of industrial goods in the quantities desirable for speedy development of an efficient economy. This is why the choice for them is often not between internal production or imports but between production by a firm operating in their own country or doing without the goods in question. To give an example: If the subsidiary of a German firm is making trucks in Brazil and selling them in this or other countries of Latin America, it does not thereby diminish German export opportunities or deprive anybody in the Federal Republic of his job; on the contrary, it will create an additional demand for German products because its manufacturing activities depend upon deliveries from Germany for which there would otherwise be no call.

Outlook

As regards the discussion about the effects of German direct investments abroad on the labour market situation it may be said that while jobs may be put in jeopardy on the micro-level — e.g., in an enterprise with a very narrow production programme — the effect on the macro-level of the particular industry as a whole or the entire German economy will be that a resultant partial export shortfall will be offset or overcompensated by increased exports of other products. The principal motives for German investments in other countries — improved market coverage from a location nearer at hand, cost advantages in production and transportation, avoidance of import restrictions by consumer countries — are likely to retain their stimulating effect in future.

In view of the present changes on the social scene it is open to doubt whether the same is true of the foreign investments in the Federal Republic. Cyclical factors certainly carry some weight in this respect. Similarly the situation will be affected if a saturation point is reached. Of relevance is also probably the fact that administrative regulations (e.g. on the protection of the environment), which are fairly strict in the Federal Republic, and imponderable factors connected with worker participation may deter potential investors from credit commitments in the near future.