International capital links between enterprises from the end of 1993 to the end of 1995

Mutual capital links between domestic and foreign enterprises have been steadily growing as a result of the globalisation and liberalisation of the goods and financial markets as well as the progressive division of labour in the world economy. The opening-up of the markets in the former centrally planned economies in central and eastern Europe as well as in central Asia was a further stimulus to this process at the beginning of the nineties. These factors also influenced developments in 1994 and 1995, for which the corresponding balance sheet figures are now available. There was another significant rise both in German corporate assets abroad and in foreign participating interests in Germany between the end of 1993 and the end of 1995. The following article explains the most recent results of the annual stock survey of cross-border corporate capital links in detail and therefore represents a continuation of the earlier reports on this topic.[1]

Efforts at globalisation

General trend

German investment abroad

Primary German corporate assets abroad, which consist of direct capital interests in for-

1 The latest article on this subject appeared in Deutsche Bundesbank, International capital links between enterprises from the end of 1991 to the end of 1993, Monthly Report, May 1995, page 43 ff.

eign branches and subsidiaries and direct intra-group loans, grew by DM 53 billion to DM 362 billion between the end of 1993 and the end of 1995, which was similar to the increase in the preceding two-year period. Owing to the weakness of some major partner currencies, however, the increase in stocks during the period under review was substantially understated. In Europe it was the pound sterling and the Italian lira which depreciated most against the Deutsche Mark between the end of 1993 and the end of 1995; the value of each fell by more than 10 %. In the case of the US dollar, the depreciation was as much as 17 %. The conversion into Deutsche Mark of the investment capital shown in the balance sheets in foreign currency therefore gave rise to an exchange-rate-related decline in stocks of almost DM 20 billion; at DM 9 billion, the high level of German direct investment in the United States was particularly affected. As a result of the subsequent normalisation of the exchange rate pattern, however, these valuation losses have again been recouped.

Numerous corporate takeovers

The strength of the Deutsche Mark naturally made purchases of enterprises abroad less expensive for German investors in that period. The two-year period concerned was marked by some major one-off transactions and by numerous corporate takeovers. The founding of new enterprises in the industrial countries tended to be the exception. The progressive liberalisation made it possible for multinational enterprises to obtain funds in the international capital markets to carry out these large-scale projects, which were further assisted by low interest rates. Most groups were still in the process of restructuring during the period in question. They developed their more profitable core businesses and increasingly spun off unprofitable business activities. However, demand for services and supplies was increased, and a niche was obtained for other specialised enterprises through outsourcing.

Safeguarding competitiveness

Probably the primary aim of direct investment during the period under review was again the safeguarding of competitiveness and of a presence in growing markets. This means that investment abroad is not necessarily at the expense of investment in Germany because the overall volume of investment constantly varies. In many cases investment actually helped to maintain competitiveness in Germany.

Comparison with the balance of payments

The intensive efforts on the part of German investors to operate internationally in 1994 and 1995 can be seen particularly clearly in the capital transfers made for direct investment as reflected in the balance of payment statistics (see the table on page 65). The unprecedented amount of DM 70 billion net was made available for acquiring participating interests. Despite the large dividend distributions, the favourable earnings position in most countries made it possible in both years to increase the investment capital by DM 6 billion through reinvested earnings. A further DM 10 billion net was made available to foreign subsidiaries through loans, with shareholders and other affiliated enterprises in Germany each contributing one-half of this

Large payments for participating interests abroad

Trend in the stocks of and transactions in primary direct investment from end-1993 to end-1995

DM billion

Type of capital. capital flows	Primary German direct investment abroad		Primary foreign direct investment in Germany	
Direct investment stocks at the end of 1993				
Investment capital	243.3		110.0	
Loans from shareholders	51.2		54.9	
Loans from other affiliated enterprises	13.8		59.2	
Direct investment stocks, total		308.4		224.0
Payments for participating interests, according to the balance of payments statistics				
New investment in participating interests	+ 106.4		+ 37.2	
Liquidation of participating interests	– 36.3		– 19.7	
Balance		+ 70.1		+ 17.5
Changes in the value of stocks as a result of exchange rate fluctuations pe		– 19.5		–
Changes in stocks as a result of the profits of enterprises in which the participating interests are held				
Reinvested earnings pe	+ 6.0		– 7.0	
Memo item				
Reinvested earnings shown in the balance of payments 1	(+ 3.0)		(– 11.0)	
Change in the total sum of dividends provided for profit distribution	– 0.9		+ 1.1	
Balance		+ 5.1		– 5.9
Direct investment in the form of loans				
Long-term loans from shareholders, according to the balance of payments statistics 2				
New loans	+ 13.0		+ 34.5	
Repayments	– 11.5		– 18.2	
Balance	+ 1.5		+ 16.3	
Change in the remaining loans from shareholders 2	+ 3.3		– 8.9	
Change in the loans from other affiliated enterprises	+ 4.9		+ 14.1	
Balance		+ 9.7		+ 21.5
Discrepancies between transaction values and the book values of participating interests, as shown in the balance sheets, and other factors		– 12.1		+ 13.9
Direct investment stocks at the end of 1995		361.7		271.0
Investment capital	286.9		135.4	
Loans from shareholders	56.1		62.3	
Loans from other affiliated enterprises	18.7		73.3	

1 Reinvested earnings appear in the stock statistics in the year that they arise (financial year); however, they are not recorded in the balance of payments until the following year (utilisation of profits). The reinvested earnings recorded in the stock statistics therefore differ from those in the balance of payments for a certain period. — **2** Only the long-term loans granted by shareholders to investment targets are recorded in the balance of payments as direct investment; other loans are classified as short-term financial transactions and trade credits.

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sum. The share of loans in German direct investment abroad actually fell slightly during the period under review and amounted to only 20 % at the end of 1995.[2]

Foreign investment in Germany

Primary foreign direct investment in Germany increased almost as sharply as German direct investment abroad between the end of 1993 and the end of 1995, namely by a total of DM 47 billion to DM 271 billion. It must be remembered here, however, that in contrast to German investment abroad the balance sheet figures for investment in Germany are shown in Deutsche Mark and therefore do not entail any stock changes arising from currency conversion. It must also be emphasised that during the period under review net inflows of capital for the most important direct investment operations, i.e. equity capital in Germany, amounted to only DM 17.5 billion, which is one-quarter of what German enterprises spent in acquiring foreign participating interests during the same period.

Germany's locational disadvantages

There are a number of reasons why foreign investors have tended to be reluctant to acquire participating interests in the German business sector during the past few years. They are essentially the same reasons as those which, conversely, have encouraged German firms to step up their investment abroad. Germany as a business location has evidently become less attractive than other countries. During the period under review its standing as a business location suffered not only from a multiplicity of structural rigidities and a high burden of taxes and levies but also, above all, from the excessive increase in wage costs together with the sharp appreciation of the Deutsche Mark. Another point is that corporate takeovers and restructuring are more difficult to achieve in Germany than abroad. One reason is that the number of listed enterprises is much lower in Germany than in other major industrial countries.

Reduction in previously reinvested earnings

Although rationalisation measures leading to increased productivity were already having a positive effect on the profitability of foreign enterprises in Germany in 1994 and 1995, revenue reserves were reduced by DM 7 billion net during this same period. This was the result of large dividend payments, which in some cases exceeded the profits for the year, and of large losses for the year in the case of some holding companies.

Substantial credit financing

At a total of just under DM 22 billion, credit financing through foreign shareholders and other affiliated enterprises abroad was significantly expanded in 1994 and 1995. Short-term credits were substantially reduced, whereas shareholders' long-term loans (+ DM 16 billion) were taken up to a much greater extent, the most likely reason being the favourable interest rate situation. The trend towards intra-group credit financing in the case of foreign direct investment in Germany was particularly pronounced during the period under review; almost two-thirds of additional credits were provided by other

2 The transaction values recorded in the balance of payments statistics were DM 12 billion higher than the changes in the book values shown in the stock statistics. Not only valuation differences and differences between calendar and financial years but also various fairly substantial acquisitions of participating interests played a role here. Although these were below the 20 % limit for direct investment, they were recorded as such in the balance of payments statistics.

affiliated enterprises abroad. The share of foreign investment capital in total direct investment was 50 % and therefore was virtually unchanged. It was far below the share of investment capital in German corporate assets abroad.[3]

Holding companies and secondary participating interests

Involvement of holding companies

As has been observed for some time, a large part of the new direct investment operations with non-residents was again handled through holding companies from the end of 1993 to the end of 1995. Holding companies accounted for almost 30 % of the rise in Germany's stock of primary direct investment abroad and for as much as 84 % of new foreign direct investment in Germany. However, the capital structure of the direct investment resources additionally provided differed considerably in both cases. Whereas German enterprises supplied DM 12 billion in investment capital and only just under DM 4 billion in additional loans to holding companies abroad, foreign shareholders invested DM 18.5 billion and therefore less than one-half in the equity capital of these enterprises and financed DM 21 billion within the group in the form of outside capital.

At the end of 1995 about one-quarter, or DM 92 billion, of primary German direct investment abroad and one-half, or DM 133 billion, of foreign direct investment in Germany were invested in holding companies. This is the result of developments during the past few years when large groups undertook substantial restructuring and were organised increasingly under the roof of a holding company or whole holding chains. Like the Netherlands and Switzerland, Germany has now become a major international location for holding companies.

Tax advantage

Both the extensive financing of subsidiaries in Germany by their foreign parent companies and the tendency to involve holding companies in cross-border participating interests are often due to tax considerations, too. Debt interest paid on intra-group loans can, in principle, be claimed as a tax allowance in Germany; this tends to encourage the financing of German enterprises through outside funds. Internationally operating enterprises can use this advantage to increase their earnings by using interest expenditure in countries with high taxes to reduce taxes while the interest income is generated in countries with lower taxes. However, the possibility of paying tax-reducing interest to shareholders instead of dividends from taxed profits is limited in Germany. In certain circumstances debt interest must be devoted to dividends for tax purposes. There are greater restrictions here on production plant than on holding companies. The latter can offset debt interest on outside funds up to nine times instead of up to three times the corresponding amount of capital. These different limits for shareholders' debt financing stem from

3 The transaction values for foreign direct investment in Germany recorded in the balance of payment statistics were DM 14 billion lower than the corresponding changes in the book values of foreign participating interests (including other factors) in the two years under review. A major reason for this was the liquidation of primary foreign participating interests for which German investors paid sums which were considerably above the participation values shown in the balance sheets and which were reflected as decreases in the stock survey.

an amendment to the Corporation Tax Act in the course of drafting the Industrial Location Protection Act. The main result of this Act, however, is that since 1994 the "additional charge" on foreign earnings which were distributed by German incorporated enterprises to other German corporations has been abolished, with the result that a locational disadvantage for holding companies in Germany has been removed. This also explains the change in the structure by economic sector in the case of foreign direct investment in Germany during the past few years. Many participating interests in the producing sector which were formerly held direct have been acquired by holding companies which are domiciled in Germany but which are majority-owned by non-residents. These companies are simply administrative and financing centres; the actual entrepreneurial activities take place in other sectors and in some cases in quite different locations.

Primary and secondary corporate assets

In the statistics on international capital links between enterprises secondary participating interests via dependent holding companies are also taken into account. To avoid double-counting of the invested capital the primary participating interests in dependent holding companies are excluded when aggregating the primary and secondary participating interests.[4]

Owing to the additional financial resources of dependent holding companies abroad, Germany's primary and secondary corporate assets abroad at the end of 1995 were DM 14 billion greater than the primary participating interests alone and amounted to DM 376 billion. The rise, at just over DM 54 billion compared with the end of 1993, was almost identical to the growth in primary capital (+ DM 53 billion).

The situation looks quite different in the case of foreign direct investment in Germany. The aggregate of primary and secondary foreign direct investment at the end of 1995 was almost DM 39 billion less than primary investment alone. This is mainly due to the restructuring already mentioned. For the acquisition of secondary participating interests holding companies were given more financial resources from abroad than was consistent with the balance sheet values of the enterprises acquired. Primary and secondary foreign corporate assets in Germany rose by no more than DM 32 billion from the end of 1993 to the end of 1995, which was DM 15 billion less than the primary assets.

Regional distribution

German direct investment abroad in clearly selected areas

Integration of the markets

The integration of the world economy has continued during the past few years. Not least as a result of evermore efficient communication networks, the scope for protecting home markets from outside competition has increasingly narrowed. At the same time, liberalisation measures have made it easier to

4 In the following sections on the regional distribution and sectoral breakdown of direct investment only the aggregate of primary and secondary corporate assets will be taken into consideration.

shift centres of production. Furthermore, lower transaction costs are enabling internationally operating groups to locate their intra-group production in countries where costs are most favourable. The continual decline in the importance of national borders is reducing the scope of national policy makers. Differences in the level of taxes and levies are playing an increasingly important role as locational factors. Overall, global competition is fostering the international division of labour and improving the chances of greater growth in the world economy.

German direct investment ...

German enterprises are facing up to the increase in competition and are trying to adjust to the change in circumstances by organising their production plant and sales outlets on an international basis. This can be seen quite clearly from the way in which they are concentrating their direct investment operations regionally. The closest links through direct investment are formed between the industrial countries with which they have the greatest exchange of goods.

... in EU countries

The other 14 countries of the European Union accounted for more than 70 % of the DM 39 billion rise in German direct investment abroad from the end of 1993 to the end of 1995. The stock of direct investment in these countries increased to DM 208 billion and at the end of 1995 amounted to more than one-half of Germany's total investment abroad (see the table on page 71). Despite the exchange-rate-related decline in the value of direct investment in the United Kingdom, mentioned at the beginning, it was here that the largest amount of new investment, at DM 16 billion, was recorded. At the end of 1995 the United Kingdom – which accounts for one-tenth, or DM 37 billion, of Germany's total investment abroad – therefore stood ahead of France and Belgium as the favourite foreign location for German investors within the EU. There were not only a few large-scale transactions but also a large number of fairly small takeovers. Overall, 84 investment targets more than at the end of 1993 were statistically recorded. Investment was concentrated on the financial sector as well as on motor vehicle manufacture. The United Kingdom started to deregulate and to privatise nationalised concerns sooner than other countries. In addition, British wage and salary levels in many sectors are significantly lower than their German equivalents. More flexible working hours, short periods of notice and fewer holidays have likewise had a favourable impact. German corporate holdings in the Netherlands – mostly in financial institutions – were increased by DM 6 billion to DM 25 billion, which was significantly behind those in the United Kingdom.

... in other industrial countries

At DM 5 billion, the rise in direct investment in the remaining industrial countries was comparatively low during the period under review, although this, again, is essentially due to the aforementioned valuation changes arising from exchange rate movements. Nevertheless, the United States, with more than one-fifth, or DM 81 billion, of German investment abroad at the end of 1995, accounted for three-quarters of the increase. At just under DM 8 billion, German investment in Japan remained very low; there was little change in either of the two years under review. The high cost of entering the Japanese market together with high real estate prices and a highly regulated financial sector probably continued to make it difficult for German investors to gain a foothold.

... in the countries in transition

At the end of 1995 German corporate holdings in the so-called countries in transition reached a total value of DM 12.5 billion, which was twice as much as at the end of 1993. Most of the investment here came from the manufacturing sector, although there were considerable differences in the trend from one country to another. Direct investment in the Czech Republic rose by more than DM 2 billion to just under DM 4 billion, while in China, Hungary and Poland it rose by about DM 1 billion in each case. By contrast, the political and economic trends in Russia and in the other successor states to the former Soviet Union were not very promising in the period under review and proved to be little attractive for German investors (+ DM 0.5 billion).

Despite a relatively high reporting threshold,[5] a further 840 enterprises in which German residents held participating interests were statistically recorded in the countries in transition during the two-year period (see the chart on page 72). This was 56 % of the total increase in German investment targets abroad; it is likely that German branches and subsidiaries in these countries will continue to expand dynamically. Another point is that, in contrast to those of the industrial countries, enterprises here were more frequently located on greenfield sites. The number of employees in the enterprises in the countries in transition with German capital interests rose by just under 150,000. That is as much as two-thirds of the increase in all German branches and subsidiaries abroad.

Direct investment benefited both sides. On the one hand, the lower wage costs resulted in an increase in the imports of predominantly labour-intensive intermediate goods from these countries, which meant that production costs in Germany could be reduced overall. On the other hand, German direct investment fostered economic change in the countries in transition and was responsible for the transfer of technical and business know-how. Through their links to their German shareholders the enterprises established in the countries in transition also acquired easier access to western markets. Finally, these economies benefited from the fact that the need to borrow abroad was thereby reduced.

... and in developing countries

German corporate investment in the developing countries rose by no more than DM 4 billion to DM 38.5 billion. The growing markets in Latin America and in Asia, including Oceania, each accounted for about one-half of this sum. Capital investment in African countries was insignificant. There was a particularly strong rise in the number of targets in which German investors had interests in Asia and Oceania (+ 124). As a rule, the developing countries are particularly interested in local value added and do not wish to meet their needs only through imports. Although on-site production reduces exchange rate risks, the sales motive necessary for carrying

5 Only investment targets with a balance sheet total of over DM 1 million are recorded.

Primary and secondary direct investment stocks by group of countries and major country at end-1993 and end-1995

DM billion

Group of countries/Country	German direct investment abroad			Foreign direct investment in Germany		
	End-of-year level		Change	End-of-year level		Change
	1993	1995		1993	1995	
All countries	321.4	375.8	54.4	200.5	232.3	31.8
EU countries 1	169.0	208.0	39.0	95.8	116.0	20.2
of which						
Austria	12.3	14.2	1.9	4.9	6.2	1.3
Belgium	27.2	28.1	0.9	3.6	3.5	– 0.1
France	26.4	30.3	3.9	15.8	21.8	6.0
Italy	13.4	15.4	2.0	3.0	4.0	1.0
Luxembourg	12.6	15.7	3.1	2.6	4.1	1.5
Netherlands	19.2	25.1	5.9	40.4	48.0	7.6
Spain	11.4	12.8	1.4	1.1	1.0	– 0.1
Sweden	2.4	3.6	1.2	6.8	7.7	0.9
United Kingdom	21.3	37.2	15.9	13.0	14.4	1.4
Other industrial countries 1	111.9	116.9	5.0	96.5	105.7	9.2
of which						
Canada	7.7	6.1	– 1.6	2.8	2.9	0.1
Japan	8.0	7.7	– 0.3	15.3	15.5	0.2
Switzerland 2	13.0	15.5	2.5	24.4	28.2	3.8
United States	77.2	80.8	3.6	51.7	57.1	5.4
Countries in transition	6.3	12.5	6.2	2.1	2.9	0.8
of which						
China	0.7	1.5	0.8	0.1	0.1	0.0
Czech Republic	1.8	3.9	2.1	0.2	0.1	– 0.1
Hungary	2.2	3.3	1.1	0.1	0.1	0.0
Poland	0.6	1.7	1.1	0.3	0.2	– 0.1
Russia	0.1	0.6	0.5	0.8	1.7	0.9
Developing countries	34.2	38.4	4.2	6.1	7.7	1.6
in Africa	4.0	4.1	0.1	0.1	0.2	0.1
in America	22.0	23.9	1.9	2.6	2.5	– 0.1
of which						
Argentina	2.0	2.1	0.1	0.5	0.4	– 0.1
Brazil	10.6	12.1	1.5	0.1	0.2	0.1
Mexico	4.1	2.9	– 1.2	0.0	0.0	0.0
in Asia and Oceania	8.2	10.4	2.2	3.4	5.0	1.6
of which						
Singapore	1.9	2.9	1.0	0.0	0.1	0.1
South Korea	0.7	1.0	0.3	1.0	2.2	1.2

1 To improve the comparison the figures for Austria, Finland and Sweden at the end of the two years concerned have been listed under EU countries. — 2 Including Liechtenstein.

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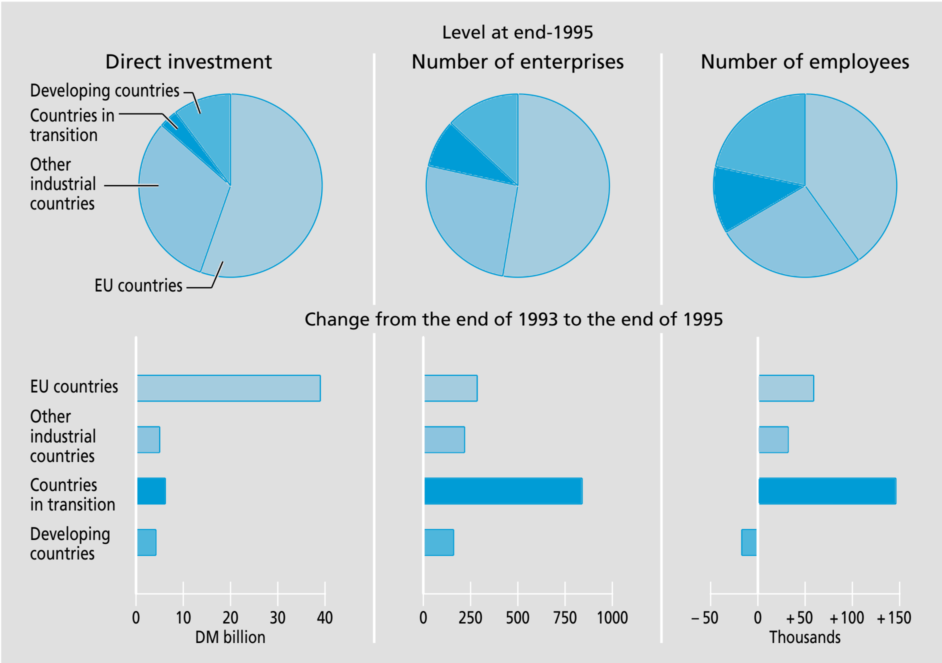
Primary and secondary German direct investment abroad



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out extensive investment has been absent owing to the low per capita income in many countries. This has resulted in German corporate investment being concentrated on only a few fairly high-income developing countries and relatively favourable locational factors.

Brazil alone accounted for almost one-third, or DM 12 billion, of German corporate investment in the developing countries at the end of 1995. Owing to the depreciation of the peso, direct investment in Mexico declined – despite new investment – by just over DM 1 billion to DM 3 billion. In South-East Asia 100 % participating interests are possible mainly in manufacturing; access to the financial and services sectors is often more highly regulated in this region. Singapore benefited from its less extensive capital controls and saw a rise of DM 1 billion in German direct investment to DM 3 billion.

Foreign corporate assets in Germany

Just under DM 20 billion of the increase in foreign direct investment in Germany (+ DM 32 billion) came from investors within the European Union, which, at DM 116 billion, accounted for one-half of foreign direct investment in Germany at the end of 1995. With a rise of DM 7.5 billion, enterprises in the Netherlands invested most in Germany and at the end of 1995 had provided one-fifth, or DM 48 billion, of the total foreign corporate capital. French shareholders increased their investment in Germany by DM 6 billion to DM 22 billion.

The corporate assets of other industrial countries in Germany rose by DM 9 billion to DM 106 billion. The United States accounted for just over one-half of the increase. At DM 57 billion, it still had the largest foreign corporate holdings in Germany at the end of 1995. As a result of the favourable economic situation in the United States, US enterprises spread their investment in Germany widely over a large number of economic sectors. Direct investment emanating from Switzerland and Liechtenstein – mostly in a few holding companies in Germany – also grew considerably, with a rise of DM 4 billion to DM 28 billion. This means that they have now provided the third-largest volume of foreign corporate assets in Germany. Investors in the countries in transition and the developing countries were relatively insignificant with a rise in their direct investment in Germany of only DM 2.5 billion.

Regional breakdown by country of domicile of the parent company

A somewhat different geographical breakdown of foreign capital interests in Germany emerges if one analyses the aggregate amounts not only according to the country of domicile of the primary investor but also according to the country of domicile of the ultimate shareholder; this means in the case of fairly large groups that the country of domicile of the parent company or the principal company in the group is considered (see the adjacent table). A considerable shift is noticeable, particularly in the case of the Netherlands. The stock of direct investment attributable to shareholders from that country in Germany was DM 22 billion lower at the end of 1995 than the level when classified according to the direct investor. Many countries – mainly those outside the EU – manage their foreign participating interests through holding companies in the Netherlands.

Foreign corporate assets in Germany by investor country at the end of 1995

DM billion

Group of countries/Country	Primary and secondary foreign direct investment in Germany by country of domicile		
	of the direct shareholder	of the parent company 1	Difference
All countries	232.3	230.0	– 2.3
EU countries	116.0	99.6	– 16.4
of which			
France	21.8	25.5	3.7
Italy	4.0	5.9	1.9
Luxembourg	4.1	2.6	– 1.5
Netherlands	48.0	26.1	– 21.9
Sweden	7.7	9.2	1.5
United Kingdom	14.4	15.9	1.5
Other industrial countries	105.7	115.0	9.3
of which			
Japan	15.5	19.3	3.8
Switzerland	26.9	24.2	– 2.7
United States	57.1	63.3	6.2
Countries in transition	2.9	2.9	0.0
Developing countries	7.7	12.5	4.8

1 In the case of dependent enterprises abroad. DM 2.3 billion is provided by parent companies domiciled in Germany and in this classification must be deducted from foreign direct investment in Germany.

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Number of participating interests declines

The number of statistically recorded investment targets in Germany with foreign capital interests declined by more than 400 from the end of 1993 to the end of 1995. Swiss investors alone gave up more than 200 participating interests subject to reporting requirements during that period. However, the number of investment targets in the new Länder, including Berlin, increased by approximately 100. Primary and secondary foreign direct investment rose in the new Länder (and Berlin) by just under DM 5 billion to DM 17.5 billion. Many investors – especially in the EU and particularly in France – regarded the new Länder as a springboard for gaining access to the markets in central and eastern Europe.

Breakdown by economic sector

New industrial classification

The trend in direct investment stocks by economic sector cannot be very accurately described from the end of 1993 to the end of 1995 because the standard industrial classification (NACE Rev. 1) was applied within the European Union for the first time in 1995. Almost all economic sectors have been redefined, with the result that changes from previous years are largely due to the new definitions. For that reason this analysis will refer only to the most important structural conditions at the end of 1995 after the introduction of the new classification of the economic sectors.

German direct investment abroad

Sector of the German investor

German investors in the manufacturing sector held DM 166 billion, or 44 %, of Germany's primary and secondary corporate assets abroad at the end of 1995 (see the table on page 75). Shareholders in the chemical industry accounted for about one-third of this. Particularly in the past few years the chemical industry has been in the news as a result of a few spectacular takeovers abroad. It is precisely in this sector that great efforts are being made to concentrate and accelerate research and development work because, owing to the fierce competition, delays lead to considerable losses in market shares and profits.

At DM 30 billion, the German motor industry contributed one-fifth of the investment made by the manufacturing sector at the end of 1995. Shorter and in some cases less flexible working hours in Germany compared with those abroad and the consequent shorter machine running times push up the cost of capital, with the result that the high capital intensity of the sector encouraged German motor manufacturers to shift a substantial part of their production to other countries. As part of their efforts to globalise production they reduced the costly variety of individual parts in the various models at the same time, and by manufacturing locally it has become possible to react more quickly to customers' wishes in the countries concerned. Two-thirds of this sector's investment was made in EU countries at the end of 1995, but the countries in transition are also becoming increasingly important, especially through the production of parts for the manufacture of motor vehicles.

At the end of 1995 30 % of German corporate assets abroad was in the hands of holding companies which were domiciled in Germany and which to a large extent should actually be classified under manufacturing owing to the activities of their subordinated companies. Investors belonging to financial intermediation accounted for DM 58 billion, or approximately 15 %, of participating interests held abroad; German banks accounted for DM 42 billion of this.

Economic sector of the foreign investment target

If German corporate assets are examined in the light of the sectors to which the investment targets abroad belong, it becomes clear that, at DM 145 billion, no more than just under 40 % of German external assets was to be found in the manufacturing sector abroad at the end of 1995. DM 62 billion of this was invested in countries in the European Union, DM 52 billion in other industrial countries and DM 31 billion in the countries in transition and in developing countries. German enterprises had invested large sums, especially in enterprises belonging to the chemical industry and in the manufacture of motor vehicles, where their investment amounted to DM 50 billion and DM 24 billion, respectively.

Almost one-third of German direct investment was concentrated on foreign enterprises involved in financial intermediation (DM 115 billion). Countries in the European Union, between which there is freedom to provide services, accounted for almost three-quarters of this. By contrast, in non-European countries the financial sector, in particular, was still subject to substantial restrictions. With corporate participating interests amounting to just over DM 54 billion, investment in financial institutions played an important role. Enterprises in the manufacturing sector or holding companies in Germany accounted for almost 80 % of this investment, which was used for intra-group financing.

Insurance enterprises accounted for DM 21.5 billion of German direct investment abroad at the end of 1995; just under one-half of this was invested in enterprises in the EU where on July 1, 1994 the single European market was also created in the field of insurance. The range of products expanded as a result. Further growth in this sector is therefore likely not least because in many countries state provisions through social security funds are being reduced and many enterprises are transferring company retirement pension schemes to insurance enterprises. Owing to different currencies and statutory provisions as well as language barriers in the case of the complicated contract texts, cross-border insurance transactions have tended to be rare so far, with the result that these services are offered mainly through branches and subsidiaries in the country concerned.

Direct investment stocks by economic sector at the end of 1995

DM billion

Economic sector	Primary and secondary direct investment by German enterprises abroad, by economic sector of the investor	German enterprises abroad, by economic sector of the investment target	foreign enterprises in Germany, by economic sector of the investment target
All economic sectors	375.8	375.8	232.3
Manufacturing	165.7	145.1	97.6
of which			
Food and drink industry	2.8	3.4	7.9
Manufacture of coke and refined petroleum products	2.6	0.1	6.2
Chemical industry	57.4	49.9	19.3
Glass and non-metallic products	3.5	6.3	3.7
Mechanical engineering	19.1	14.4	11.0
Manufacture of electrical machinery and apparatus	26.1	15.6	4.9
Manufacture of motor vehicles	30.0	23.8	9.3
Distribution	12.4	60.4	52.3
Financial intermediation	58.1	114.7	27.3
of which			
Credit institutions	42.0	37.8	19.3
Other financial institutions	1.3	54.4	1.0
Insurance enterprises	14.7	21.5	6.7
Holding companies	113.2	21.4	30.7
Other economic sectors	26.4	34.2	24.4

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While in the industrial countries the drive to increase sales is quite an important motive for direct investment and therefore these countries accounted for more than 90 % of the DM 60 billion investment by German enterprises in distribution abroad at the end of 1995, it was probably cost considerations that constituted the main criterion for direct investment in the countries in transition and in the developing countries.

Foreign direct investment in Germany

Investment targets in Germany

At just under DM 98 billion, more than 40 % of foreign corporate assets in Germany at the end of 1995 was invested in enterprises in the manufacturing sector. If the direct investment capital – amounting to DM 31 billion – in holding companies in Germany, which for the most part likewise belong to the manufacturing sector, is taken into consideration, foreign investment in German industry, which amounted to 55 % of the total, was in relative terms actually higher than the corresponding German investment abroad (44 %). Foreign investment was more evenly spread over the various industries in Germany and concerned primarily the chemical industry (DM 19 billion), mechanical engineering (DM 11 billion) and the manufacture of motor vehicles (DM 9 billion). While manufacturing enterprises abroad with primary or secondary German capital interests recorded fixed assets to the amount of 37 % and financial assets of only 7 % of the balance sheet total, the share of fixed assets which these enterprises in Germany with foreign capital interests recorded was appreciably lower, at 27 %, whereas, at just over 17 %, it was 2 ½ times as high in the case of financial assets.

Distribution, at DM 52 billion, accounted for a very large share of foreign corporate assets in Germany at the end of 1995. Owing to its high per capita income and relatively large population, Germany is an interesting market. The financial intermediation sector accounted for as little as just under 12 % of foreign direct investment at the end of 1995; at DM 19 billion, more than two-thirds of this was provided in the form of investment capital to banks in Germany. Financial institutions are still uninteresting for foreign investors.

Note

A new edition of the Special Statistical Publication 10, International capital links, will appear in a few days. It contains more detailed statistical information broken down by type of capital link, asset and liability position, operating variable, economic sector and country as well as methodological notes. The special publication will be enclosed with the Statistical Supplement to the Monthly Report 3, Balance of payments statistics, May 1997.