Structure of German firms' international capital links at end-1999

Following the dismantling of trade barriers and the lifting of political restrictions, the individual national economies have become a strongly integrated world economy. Globalisation has become a guideline for many enterprises. In the contest for sales markets and production advantages, they are attempting to establish a worldwide presence by setting up branches and subsidiaries abroad and often by taking over existing foreign firms. Even big companies which already have an extensive international presence are now merging into even larger corporate entities with the aim of securing a leading position on the world market. In the wake of these developments the international capital links of enterprises have taken on dimensions that for a long time were unimaginable. Germany's involvement in this development is monitored by means of a survey of direct investment stocks which the Bundesbank carries out once a year on the basis of corporate balance sheet data. These statistics provide a detailed insight into the structure of outward and inward cross-border capital links of larger firms that are based in Germany. The latest figures relating to the situation at the end of 1999 are examined in the following article.

Large direct investment stocks

The stock of primary German direct investment abroad at the end of 1999 totalled € 392 billion. This means it increased nearly

Primary direct investment stocks at end-1999 by type of capital

€ billion

Type of capital	German direct investment abroad		Foreign direct investment in Germany	
Nominal capital	142.3		47.2	
Capital reserves	114.7		83.8	
Revenue reserves and profits brought forward	71.4		16.0	
Profits for the financial year	27.6		14.1	
Losses brought forward	– 29.2		– 24.8	
Losses for the financial year 1	– 15.5		– 9.6	
Equity capital		311.4		126.8
Direct loans	50.8		56.5	
Loans from other affiliated enterprises	30.3		100.3	
Loan capital		81.1		156.8
Direct investment capital		392.4		283.6

1 Including capital losses.

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four-fold in the space of just ten years. This owes much to the activities, particularly in the past few years, of a handful of global players in Germany that are very much in the public eye. At the end of 1999 German direct investment abroad accounted for around one-sixth of the aggregate gross assets of the German economy vis-à-vis non-residents at that time.[1] The inward primary direct investment, i.e. the participating interests in German enterprises held by non-residents, reached the sum of € 284 billion at end-1999; this was more than three-and-a-half times as high as the level ten years earlier. These foreign-held corporate assets made up one-eighth of all German liabilities to non-residents. On balance Germany has for long been a "net creditor" in terms of foreign direct investment (FDI). In other words, German direct investment abroad exceeds foreign direct investment in Germany – such an outward FDI bias is typical of virtually all highly developed industrial countries.

Capital structure of primary German direct investment abroad ...

Of the total amount of € 392 billion of primary German direct investment stocks abroad at end-1999, € 311 billion – that is almost 80 % – was held in the form of equity capital. This participatory capital was largely invested in foreign firms in the form of liable capital, with € 257 billion accounted for by the combined nominal capital and capital reserves attributable to the German shareholders (see table on this page). The € 71 billion of *pro rata* revenue reserves and profits brought forward during recent years indicates that the German corporate shareholders sought to strengthen their foreign firms by reinvesting earnings. In addition, German shareholders had a *pro rata* share in the profits for the financial year disclosed in the foreign firms' balance sheets amounting to € 28 billion. On the other hand, capital was also consumed in a significant number of cases; German equity capital abroad thus shrank by an aggregate € 45 billion net as a result of *pro rata* losses brought forward, losses for the financial year and adjustments to capital accounts resulting from overindebtedness. Primary German equity investment abroad was supplemented by direct loans granted by the German investors totalling € 51 billion and also by additional financial resources made available to the foreign direct

1 See Deutsche Bundesbank, Balance of payments statistics, Statistical Supplement to the Monthly Report 3, Table II, 8(a) "Germany's external asset and liability position".

investment enterprises by other affiliated enterprises located in Germany in the amount of € 30 billion.

... and of primary foreign direct investment in Germany

The capital structure of the primary foreign direct investment stocks in Germany was very different. The equity capital held in German firms by foreign investors is far smaller than German participating interests in enterprises outside Germany. At € 127 billion, the primary foreign equity capital invested in Germany at the end of 1999 was only two-fifths as large as the corresponding German participating interests abroad. The nominal capital held by non-resident investors amounted to only € 47 billion. The capital reserves allocable to foreign shareholders in the balance sheets of German direct investment enterprises at end-1999 came to € 84 billion. The *pro rata* revenue reserves and profits brought forward were very small in both absolute and relative terms, at € 16 billion. This phenomenon appears to have several causes. Above all, until 1998 it was possible under German tax law to release revenue reserves accumulated in earlier years at a lower rate of corporation tax. Foreign shareholders made abundant use of this facility; in recent years German direct investment enterprises disbursed rather substantial dividend payments to their foreign owners. For the rest, German accounting rules permit a very cautious approach to disclosed earnings which tends to understate the true level of profitability. *Pro rata* losses brought forward and losses for the financial year cut aggregate foreign equity holdings in German enterprises by € 34 billion at end-1999. The principal method by which foreign investors – in contrast to German direct investors abroad – provided financial resources to their corporate holdings in Germany was through the granting of loans. At the end of 1999 direct loans from shareholders totalled € 56.5 billion, while loans from other affiliated enterprises amounted to as much as € 100 billion. The relatively high level of credit financing of direct investment enterprises in Germany by non-residents is explainable not least by the fact that this type of financing attracts more favourable tax treatment than direct capital links.

Primary and secondary direct investment

Primary direct investment in holding companies

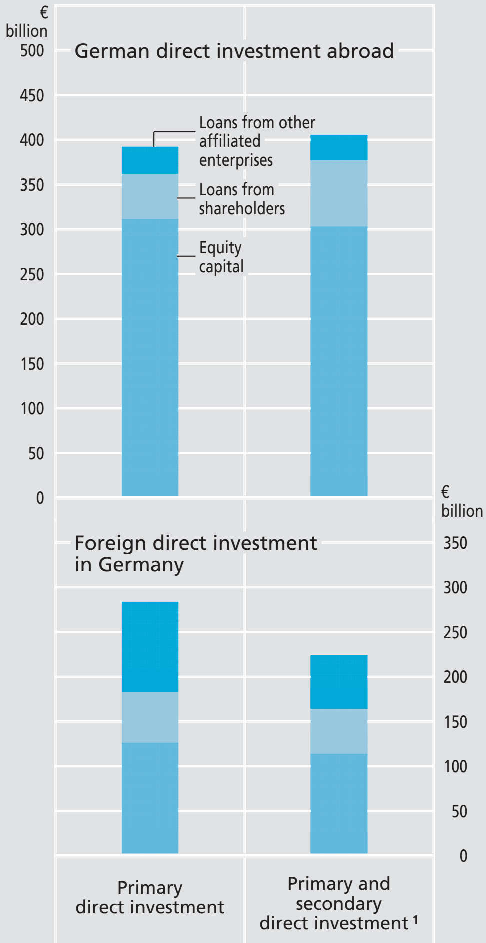
Holding companies play a major role in the structure of large enterprise groups and conglomerates – especially where international links are concerned. The establishment of such an administrative apex focuses the group's management structure and simplifies the logistics; in some cases, tax breaks or other locational advantages also lie behind the establishment of a holding company. Of the primary German direct investment stocks abroad at the end of 1999, more than one-third (€ 144 billion) was concentrated in such holding companies. The role of holding companies in inward FDI is even greater. At end-1999 holding companies accounted for more than 60 % (€ 173 billion) of FDI in Germany.

Consolidation of primary and secondary direct investment stocks

In order to obtain an accurate picture of the composition of direct investment stocks, broken down by firm size, location and business activity, it is useful to "look past" these holding companies by, in effect, disregarding them. For the purpose of these direct invest-

Foreign direct investment stocks, broken down by type of investment

End-1999



1 Excluding primary direct investment in dependent holding companies.

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ment studies this is achieved through a very simple method of consolidation. The equity stakes held via such dependent holding companies are added to the primary participating interests, at the same time, the shares in the intermediate holding companies are ignored so as to avoid duplication. This method of presentation has a drawback, however: it alters the aggregate volume of disclosed corporate assets to some extent. As can be seen from the chart on this page, this method modifies German FDI abroad only marginally, raising the total by € 13 billion to € 405 billion. This is mainly due to the fact that additional financial resources were procured by the foreign holding companies on the international financial markets and then made available to the affiliated enterprises. However, the inclusion of secondary participations instead of the dependent holding companies has a much greater impact on the level of foreign direct investment in Germany. Calculated in this way, non-residents' combined primary and secondary direct investment stocks at end-1999 were € 59 billion smaller than the total based solely on primary direct investments (including in dependent holding companies). One of the main reasons for this discrepancy is presumably that the branches and subsidiaries of the holding company in Germany "paid" higher prices for the acquisition of their domestic participating interests than is reflected in the balance sheets of the subordinate direct investment enterprises. Owing to undisclosed reserves, particularly, the consolidated primary and secondary corporate assets held by foreign shareholders in Germany tend to be understated.

The following analysis is based solely on the consolidated figures for primary and secondary direct investment combined.

Concentration on large-scale investment projects and large shareholdings

Even though international capital links can be established in theory by any kind of entity, in

High concentration on a small number of investors and direct investment enterprises

practice direct investment is a domain of large enterprises. This can clearly be seen if the stock of direct investment is analysed in terms of the respective shares attributable to individual investors and direct investment enterprises. Of the 8,304 German investors in other countries recorded in the statistics at the end of 1999, the ten largest investors alone in terms of investment volume held one-third (€ 137 billion) of all German direct investment abroad. The 50 largest individual investors accounted for more than one-half (€ 230 billion) of the total, while the 100 biggest investors between them made up no less than two-thirds of the aggregate volume of investment in foreign enterprises. With respect to the size of individual corporate investments abroad, too, a heavy concentration on large-scale investment projects is apparent. Thus the ten largest direct investment enterprises abroad accounted for one-sixth of German firms' aggregate FDI, the 50 largest projects made up 30 %, while the 100 largest investment projects had a share of almost two-fifths, or € 157 billion, in total outward FDI of German companies.

A similar structure can be seen in non-residents' direct investment in German enterprises. The ten largest foreign stocks of assets in German firms at end-1999 made up one-fifth of the total, the 50 largest accounted for just under two-fifths (€ 83 billion), while the 100 biggest inward investment projects made up almost one-half (€ 104 billion) of total primary and secondary foreign direct investment in Germany.

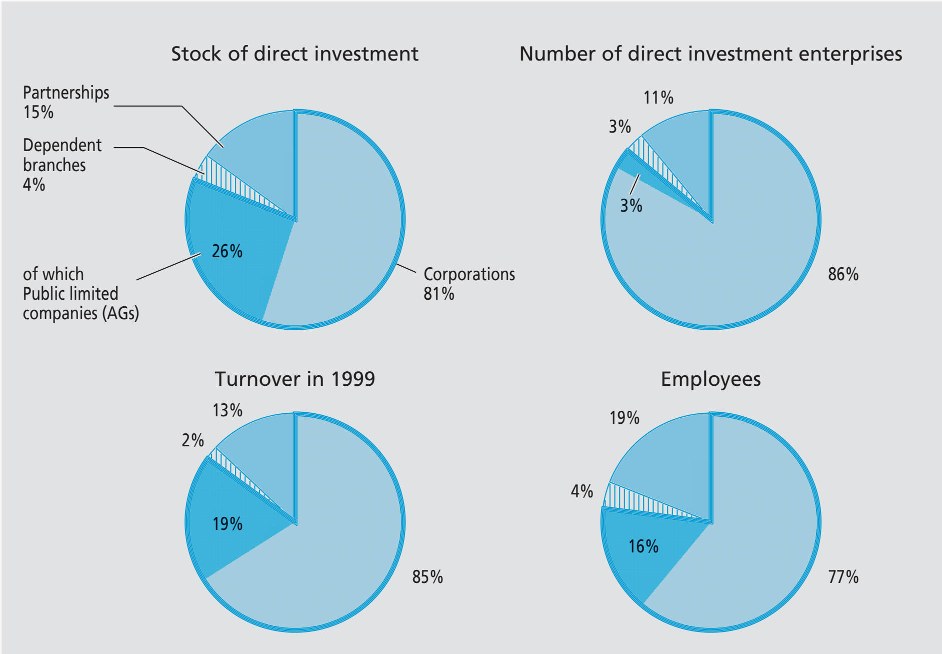
Predominance of majority shareholdings

In the case of direct investment – in contrast to portfolio investment – it is very clear that in the vast majority of cases the investors wish to exert a dominant influence over the direct investment enterprises. At the end of 1999 more than 70 % of German FDI abroad was accounted for by direct investment enterprises which were wholly owned by German companies; similarly, two-thirds of all direct investment enterprises were 100 % German-owned. A further 14 % of the outward FDI stock (and 20 % of the direct investment enterprises) had a German participation of between 50 % and 100 %. Only one-seventh of all cases (and roughly the same proportion of total German direct investment abroad) related to German minority interests in foreign direct investment enterprises, defined as at least 10 % of the capital shares or voting rights. Looking at inward FDI, no less than three-quarters of the direct investment enterprises and around 60 % of foreign direct investment in Germany were solely owned by non-resident investors. Almost 85 % of the stock of inward FDI and 91 % of the number of direct investment enterprises in Germany held by non-residents at the end of 1999 concerned participations of more than 50 % of the capital shares or voting rights.

Inward FDI in German plcs

If the German firms that are subject to foreign influence are broken down by legal form, it becomes apparent (as can be seen in the chart on page 64) that four-fifths of inward FDI stocks at the end of 1999 was invested in corporations, of which just under one-third were *Aktiengesellschaften* (AGs), Foreign direct investment in Germany, broken down by enterprise form

End-1999



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i. e. public limited companies (plcs)[2]. At € 8 billion, the amount of foreign direct investment in dependent branches in Germany was relatively insignificant. € 33 billion, or 15 % of inward FDI, was invested in partnerships. If the relative numbers of direct investment enterprises are considered, it becomes clear that foreign participating interests in German public limited companies were only of minor importance owing to the small magnitude of stock market capitalisation in Germany. At the end of 1999 only 407 out of a total of 12,597 enterprises in Germany with foreign capital involvement were organised in the form of plcs. On the other hand, they collectively generated nearly one-fifth of the turnover of all German firms featuring foreign ownership.

Geographical structure of foreign direct investment

German FDI in EU countries

Cross-border direct investment links exist first and foremost among industrial countries. That holds true for Germany as well. At the end of 1999 84 % of German FDI abroad was invested in industrial countries. A large part – € 180 billion – of these capital links was accounted for by EU countries; the most prominent target countries were the United King-

2 Public limited companies are especially significant in calculating FDI stocks. At the international level it is desirable to value cross-border corporate assets on the basis of "market prices", which are very hard to determine for companies. In Germany the direct investment stocks are calculated on the basis of the *pro rata* direct investment positions derived from the balance sheets of the direct investment enterprises, which thus represent realistic and current values. However, public limited companies that are listed on stock exchanges are to be valued additionally in future according to current stock market prices.

dom (€ 40 billion), France (€ 23 billion) and the Netherlands (€ 21 billion). The sectoral profile of the corporate assets in the EU region held by German investors was disparate. Whereas the financial industry was the sector favoured most in the UK, Belgium and Luxembourg, direct investments in the manufacturing or wholesale/retail trade sectors predominated in Austria, France and Spain.

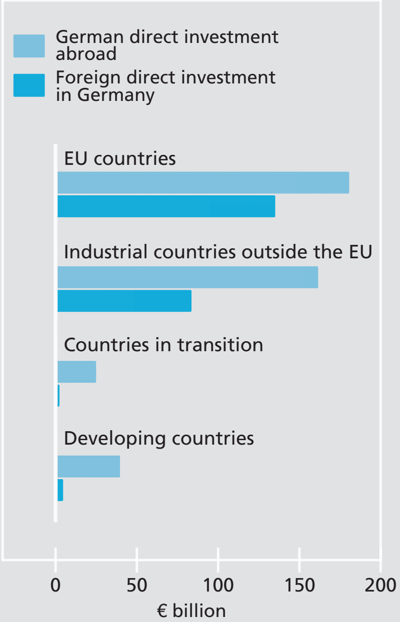
In international discussions – as well as in the GATS[3] talks of the World Trade Organisation – key data of direct investment enterprises (number, turnover, number of employees) are assuming increasing importance, especially with respect to assessing the degree of "openness" of economies. For example, the number of direct investment enterprises in the individual direct investment countries shows that, despite the trends towards globalisation, geographical proximity still plays an important role for German investors – above all for the vast number of small and medium-sized enterprises. Of the more than 29,000 foreign firms with German capital links recorded at the end of 1999, almost 10 % alone were located in Germany's immediate neighbour France. The turnover and number of employees in French direct investment enterprises were likewise the highest within the group of EU countries (see table on page 66).

Investors from EU countries

Three-fifths of all inward FDI (€ 135 billion) was held by investors from EU countries. The predominance of investors from the Netherlands was very striking in this context: their assets in German firms added up to € 45.5 billion, which was one-fifth of total FDI in Germany held by non-residents. This is doubt-

Direct investment stocks, broken down by group of countries

End-1999



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less attributable to the importance of the Netherlands as a location for international holding companies. Many investors – including some domiciled outside the EU – have group headquarters in the Netherlands which manage corporate holdings worldwide. This becomes evident if FDI is assigned to the country of domicile of the ultimate beneficial owner rather than that of the primary foreign investor (see table on page 68). On this view, the stock of FDI accounted for by investors domiciled in the Netherlands falls dramatically by more than half to € 21 billion. This means that at end-1999 the participating interests of Dutch firms in German direct investment enterprises were smaller in the aggregate than

3 GATS: General Agreement on Trade in Services.

Key data on German direct investment stocks abroad at end-1999, broken down by country

Group of countries/country	Primary and secondary direct investment (€ billion)	Number of direct investment enterprises	Turnover in 1999 (€ billion)	Number of employees in the direct investment enterprises (thousands)
All countries	405.4	29,357	1,078	4,000
EU countries	180.3	13,859	459	1,418
of which				
Austria	11.9	1,797	53	195
Belgium	18.6	874	32	81
France	23.1	2,697	106	297
Italy	15.7	1,401	53	130
Luxembourg	15.7	323	4	13
Netherlands	20.6	1,605	35	113
Spain	11.4	1,309	47	166
United Kingdom	40.1	2,039	84	242
Other industrial countries	161.2	6,910	457	1,082
of which				
Canada	5.8	482	29	56
Japan	7.4	409	29	67
Switzerland	12.6	1,676	33	82
United States	129.0	3,398	347	792
Countries in transition	24.6	4,489	71	774
of which				
China [1]	4.3	523	10	104
Czech Republic	5.3	1,044	16	163
Hungary	5.7	825	17	154
Poland	5.4	1,169	16	170
Russian Federation	0.8	177	2	47
Developing countries	39.3	4,098	92	725
in Africa	3.5	618	12	128
in America	21.5	1,506	49	310
of which				
Argentina	2.3	202	5	25
Brazil	7.1	498	18	166
Mexico	4.7	273	20	81
in Asia and Oceania	14.3	1,974	31	287
of which				
Hong Kong	2.6	348	7	19
India	1.1	239	5	111
Korea, Republic	2.0	154	4	23
Singapore	3.2	383	6	20

1 Excluding Hong Kong.

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those of French corporate shareholders, who held € 25 billion.

Graded by the number of participating interests held, Dutch investors had a stake in 2,577 enterprises in Germany at end-1999 (but only in 1,784 enterprises when classified according to the ultimate beneficial owner), which corresponds to approximately one-third of all FDI in Germany by investors from EU countries. The associated direct investment enterprises employed a total of 439,000 (254,000) people, which works out at almost one-quarter of the total workforce of firms in Germany with foreign capital links. Investors from France and the United Kingdom, taken together, operated about the same number of direct investment enterprises in Germany, employing a combined workforce of 347,000 persons.

Direct investment links with industrial countries outside the EU

Among the group of industrial countries outside the EU in which German firms had invested, the United States was by far the most preferred nation (accounting for € 129 billion of German FDI), which is a consequence not least of some recent very large mergers. The German investors focused on the US manufacturing sector (€ 54 billion) – within that sector mainly on motor vehicle manufacture (€ 21 billion) and the chemical industry (€ 20 billion) – and on the financial intermediation sector (€ 50 billion). German firms held participations in the United States, which is the world leader in information and communication technology, in 3,398 enterprises employing 792,000 people. In 1999 German investors earned one-third of their total turnover from foreign corporate holdings from US firms.

Similarly, the lion's share of inward FDI emanated from the United States (€ 52 billion); US investors held interests in just under 2,000 direct investment enterprises in Germany employing a total of nearly ½ million people. If inward FDI is classified by the country of domicile of the ultimate beneficial owner, the industrial nations outside the EU, at € 100 billion, accounted for a larger share of corporate assets in Germany than did investors from EU countries (€ 95 billion). Once again, US investors account for the bulk of this total; their aggregate FDI in Germany was € 13 billion higher according to this definition.

German direct investment ...

... in the EU accession countries

Those nations which are candidates to join the EU in the coming years – known as the EU accession countries[4] – merit special attention in this study because foreign direct investment can considerably improve their infrastructure and provision with production capital. The transfer of technical and commercial know-how will enable their national productivity to grow rapidly. In this way foreign direct investors are helping the EU accession countries to catch up with the EU economic standard. However, the widely diverging current level of development of the individual candidate countries is also reflected in varying attractiveness for foreign investors. German investors had direct capital links with

4 The EU accession countries are: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovak Republic, Slovenia and Turkey. Malta and Turkey are classified as industrial countries outside the EU, Cyprus to the developing countries in Asia and Oceania, and the other EU accession countries to the group of countries in transition.

Key data on foreign direct investment stocks in Germany at end-1999, broken down by country *

Broken down according to the country of domicile of the primary foreign investor and of the ultimate beneficial owner

Group of countries/country	Primary and secondary direct investment (in € billion) according to the country: of the primary foreign investor	of the ultimate beneficial owner	Number of direct investment enterprises according to the country: of the primary foreign investor	of the ultimate beneficial owner	Number of employees in the direct investment enterprises (thousands) according to the country: of the primary foreign investor	of the ulimate beneficial owner
All countries	224.1	219.5	12,597	12,513	1,849	1,821
EU countries	135.1	94.8	7,528	6,833	1,048	907
of which						
Austria	6.1	3.8	709	662	82	70
Belgium	4.4	3.1	388	330	56	43
France	23.0	25.3	1,258	1,246	226	233
Italy	6.3	10.3	371	431	30	35
Luxembourg	13.9	1.6	298	218	54	41
Netherlands	45.5	21.4	2,577	1,784	439	254
United Kingdom	21.9	17.8	1,025	1,179	121	146
Other industrial countries	83.3	100.0	4,712	5,211	821	920
of which						
Switzerland	20.5	20.1	1,910	1,853	255	256
United States	51.6	64.2	1,990	2,356	493	567
Countries in transition	1.4	1.3	251	254	17	12
Developing countries	4.3	23.4	451	508	40	51

* Key data on enterprises with foreign capital participation from various countries are allocated to each country in full. The aggregation of the figures for individual countries may therefore differ from the aggregate for the group of countries.

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the EU accession countries totalling € 20 billion at end-1999. This FDI was distributed between 3,934 registered direct investment enterprises and between a disproportionately large number of investment projects – i.e. including medium-sized and smaller projects. These enterprises together employed 635,000 people at the end of 1999. The vast bulk of the capital links held by German investors related to just three accession countries: the Czech Republic, Hungary and Poland.

... in the countries in transition

Since the political and economic opening-up of the ex-socialist countries in the early nineties, German FDI in the countries in transition has been a particular focus of interest. At the end of 1999 German FDI invested in this group of countries added up to a nominal € 25 billion; this was only 6 % of the total outward FDI of German companies, however. In this group, too, investment was noticeably highly concentrated on a handful of countries; besides the three aforementioned principal recipients among the EU accession group, China[5] merits special mention with over € 4 billion of direct investment from Germany. Investment in Russia remained very restrained on account of the difficult political situation, the lack of a land reform, the perceived widespread reluctance of Russian business partners to honour contractual obligations properly, and a high local tax burden.

... and in the developing countries

At the end of 1999 German firms had direct investments in developing countries totalling

5 Excluding Hong Kong.

€ 39 billion. This made up less than 10 % of their total outward FDI. Less than one-tenth was held in African developing countries. German FDI in the (Latin) American developing countries was far larger. More than half of German direct investment in this category of nations was invested in countries belonging to this geographical group. In Brazil alone there were 498 enterprises at end-1999 in which German partners had an aggregate involvement of € 7 billion. In Mexico German investors made use of the country's open policy towards foreign investors and free-trade agreements (such as NAFTA). At the end of 1999 their direct investments in Mexico totalled € 5 billion and were distributed between 273 firms, mainly in the manufacturing sector.

Almost half of the direct investment enterprises in developing countries in which German investors were involved were located in Asia (including Oceania); the volume of funds invested in the region at the end of 1999 was € 14 billion. A particularly noticeable feature was the high number of employees (111,000) in the 239 enterprises in India which had German capital links. Similar relations can be seen in some other developing countries in which comparatively low wage rates encourage labour-intensive production methods.

Breakdown by economic sector

A widespread tendency that has been evident of late is that the management bodies of international corporate groups have reoriented their business policy. They have increasingly abandoned strategies aimed at diversification and instead are focusing on their core business. This is mirrored in the field of FDI activity by the preference shown for horizontal mergers, meaning that investors mostly acquire capital stakes, including abroad, in firms in the same economic sector. Given the ever-shorter product life-cycles, this enables them to market new goods faster worldwide; in this way the high research and development costs can be amortised more rapidly. In the field of industrial manufacture, concentration within one branch of industry permits a high unit output; intermediate products can be manufactured at the cheapest location in each case and then brought together for final assembly at a site near the customer – as is widespread practice in motor vehicle manufacturing.

FDI of German investors mostly in same sector

This explains why nearly two-thirds (€ 100 billion) of the total FDI of German manufacturers (€ 158 billion) at end-1999 was invested in foreign industrial enterprises. A further € 23 billion was appropriated for distribution outlets (which are far less capital-intensive) and € 26 billion was invested in "other financial intermediaries". At the end of 1999 the collective direct investments abroad of German credit institutions totalled € 55 billion – virtually exclusively through equity links with credit institutions in other countries (€ 42 billion) and with other financial institutions abroad (€ 10 billion). By contrast, little more than two-thirds of the € 15 billion in corporate assets outside Germany held at the same juncture by German insurance enterprises was placed in foreign insurance companies.

German direct investment ...

If the sectoral breakdown of the German direct investment enterprises abroad is analysed, it is conspicuous that at the end of 1999 less than 40 % (€ 152 billion) of German investors' outward FDI in a total of 9,345 enterprises abroad was invested in manufacturing firms (see table on page 72). At over € 500 billion, these enterprises generated around half of German corporate investors' aggregate foreign turnover. Almost 2.5 million persons were employed in this sector. The chemical industry was a focal point of German investors' interest, accounting for € 45 billion of direct investments. German investors have traditionally shown a marked preference for investing in foreign manufacturers of chemicals and chemical products, not least so that they can make better use of research capacities worldwide but also in order to take advantage of locational advantages abroad where, for example, environmental protection standards are less rigorous than in Germany.

... in the manufacturing sector

The manufacture of motor vehicles abroad has acquired great significance within the framework of German foreign direct investment; € 37 billion was invested in this industry at the end of 1999, while 640,000 people were employed in the around 700 foreign automobile firms with German capital participation. The foreign direct investment enterprises of German investors also included a sizeable share of manufacturers of electrical machinery and apparatus (with an FDI stock of € 16 billion) and of machinery and equipment (€ 12 billion); together they also accounted for a large number of foreign branches and subsidiaries (nearly 2,200). They had a combined workforce abroad of more than ½ million.

... in the wholesale and retail trade

The relative importance attached by investors to enhancing the opportunities to sell their own products abroad when making their FDI decisions can be gauged to some extent from the volume of assets invested in the wholesale and retail trade sector. At € 55 billion, 14 % of German outward direct investment was placed in distribution outlets abroad at the close of 1999. With over 11,000 direct investment enterprises, this sector was a key area of German FDI in terms of the number of investment projects. The German wholesale and retail trade enterprises abroad generated turnover worth € 393 billion, or more than one-third of the total turnover of all direct investment enterprises abroad.

... in the financial sector

In the financial sector new opportunities for direct investment were created through electronic banking and e-commerce. Additional market potential is emerging – especially in the industrial countries – from new systems of old-age provision for the population. In this field, in particular, the provision of insurance services is closely linked to maintaining a local presence, as fairly widely differing national legal regulations have to be observed. The liberalisation of financial markets has also made it easier for German investors to acquire enterprises abroad. For example, a substantial stock of German FDI was accumulated up to the end of 1999 in foreign financial intermediation enterprises amounting to € 136 billion, which made up one-third of total German FDI stocks abroad. € 63 billion of this sum was invested in "other financial intermediaries" and € 44 billion in "credit institutions". At end-1999 some 2,146 foreign branches and subsidiaries engaged in financial intermediation were wholly or partly under German ownership, including 850 "other financial intermediaries", almost 500 "insurance companies" and nearly 450 "credit institutions".

... in the services sector

At the end of 1999 German investors had interests worth € 42 billion in the services sector[6] of other countries spread across more than 3,900 enterprises, which indicates a growing significance of this sector. There was a German involvement in 1,400 real estate firms and more than 1,300 firms carrying out "other business activities" and employing 86,000 people. At € 13 billion, the amount of FDI funds invested in these two sub-sectors was comparatively small, however.

Inward FDI ...

... in the manufacturing sector

One noticeable feature of foreign direct investment in Germany is that inward investment in the German manufacturing sector has a relatively small share (see the adjacent chart), especially if it is remembered that Germany is one of the leading industrial nations. On the other hand, it should be borne in mind that Germany has for long been a very open economic location with comparatively low commercial barriers, so that having a local production base is not absolutely essential for foreign firms wishing to sell their products in this country. Moreover, the stock of foreign industrial assets in Germany as shown in corporate balance sheets is probably understated as they mostly relate to old established enterprises with considerable undisclosed reserves. At € 79 billion, little more than one-third of inward FDI was invested in the German manufacturing sector at end-1999 in a total of 3,300 enterprises; however, they accounted for almost half the turnover of firms in Germany with foreign capital links and employed more than 1 million persons. The stock of foreign direct investment in Germany was more widely dispersed across the individual manufacturing industries in Germany than was the case for German FDI abroad. But for foreign investors, too, FDI in the chemical industry was of major importance, accounting for € 19 billion of assets at 371 production sites; at € 47 billion, the firms in this industry generated the highest turn-

Direct investment stocks, broken down by the economic sector of the direct investment enterprises

End-1999

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6 The services sector is defined here as sector K of the Europe-wide harmonised NACE rev. 1 system of industrial classification: "Real estate, renting and business activities".

Key data on direct investment stocks at end-1999, broken down by the main economic sectors of the direct investment enterprises

Economic sector	Primary and secondary direct investment (€ billion)		Number of direct investment enterprises		Turnover in 1999 (€ billion)		Number of employees in the direct investment enterprises (thousands)	
	German direct investment abroad	Foreign direct investment in Germany	German direct investment abroad	Foreign direct investment in Germany	German direct investment abroad	Foreign direct investment in Germany	German direct investment abroad	Foreign direct investment in Germany
All economic sectors	405.4	224.1	29,357	12,597	1,078	644	4,000	1,849
Manufacturing	152.2	78.5	9,345	3,330	506	314	2,458	1,070
of which								
Manufacture of chemicals and chemical products	44.6	19.2	1,594	371	100	47	395	149
Manufacture of machinery and equipment	11.8	8.0	1,411	632	33	31	226	157
Manufacture of electrical machinery and apparatus	16.0	3.1	764	214	43	11	301	61
Manufacture of radio, television and communications equipment and apparatus	4.6	8.0	248	105	14	26	77	72
Manufacture of motor vehicles, trailers and semi-trailers	37.0	5.2	694	122	194	45	640	152
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	55.2	32.0	11,226	4,917	393	212	774	356
Transport, storage and communication	7.9	2.9	1,202	479	59	20	223	69
Financial intermediation	136.2	38.3	2,146	447	63	23	175	52
of which								
Credit institutions	44.4	13.7	437	174	–	–	89	28
Other financial intermediaries	63.1	17.6	862	63	12	1	20	2
Insurance companies	24.6	6.7	476	144	49	21	60	19
Real estate, renting and business activities	41.7	68.0	3,938	2,722	24	55	123	147
of which								
Real estate	6.9	4.8	1,397	690	2	3	2	2
Other business activities	6.2	6.8	1,334	1,110	13	14	86	81
Holding companies	26.2	52.0	692	475	1	18	2	5
Other economic sectors	12.2	4.4	1,500	702	33	20	247	155

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over share in the manufacturing sector. Some 632 firms in the mechanical engineering industry in Germany had a foreign capital involvement (with an inward FDI stock of € 8 billion). At € 45 billion, foreign investors recorded their second largest turnover in the manufacturing sector in Germany in the motor vehicle industry.

... in wholesale/ retail trade outlets

Wholesale and retail trade outlets were important for foreign investors in Germany, too. They held participating interests in almost 5,000 direct investment enterprises in this sector which, at € 32 billion, accounted for 14 % of inward foreign direct investment. Distribution establishments in Germany with foreign capital links generated a turnover in 1999 of € 212 billion, which (as in the case of German FDI abroad) made up a third of the total turnover of foreign branches and subsidiaries.

... in the financial sector

At € 38 billion, foreign involvement in the financial intermediation sector in Germany at the end of 1999 was very low both absolutely and relatively. This involvement was stretched across just under 450 enterprises in the financial sector.

... and in the services sector

At the end of 1999 inward FDI in the services sector totalled € 68 billion and ranked second after the manufacturing sector; in terms of the number of investment enterprises (2,722), the sector accounted for over one-fifth of all foreign capital participations in German firms. With a volume of € 52 billion, foreign direct investment in the almost 500 holding companies in Germany was particularly significant. These holding companies had no equity interests in Germany that were subject to reporting requirements, so they were not included in the consolidation process described at the beginning of this article. In recent years Germany has become a popular location for foreign holding companies for tax reasons; one of the key attractions was doubtless that operating losses made by foreign-owned plants in Germany could be offset against German tax. However, this facility is being abolished by the new Tax Relief Act. But other categories of service enterprises in Germany were also of interest to foreign investors since local personal contacts are often deemed necessary for the provision of services. Thus foreign corporate investors held over 1,100 direct investment enterprises in the services sub-sector “other business activities” in Germany, in which 81,000 people were employed. The real estate sector likewise attracted many foreign investors, with 690 direct investment enterprises.

Ongoing dynamic trend expected in FDI stocks

A further steep increase in both outward and inward FDI links is already becoming apparent through recent corporate takeovers, although these have only been recorded so far in the direct investment transactions captured by the balance of payment statistics for the year 2000.

Note: A new edition of the Special Statistical Publication 10, International capital links (German original), appeared on the Bundesbank’s website (www.bundesbank.de) in May. However, only the headings and explanatory notes for the data contained in the German originals will soon be available in English. It contains more detailed statistical information broken down by type of capital link, asset and liability position, operating variable, country and economic sector 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 2001.