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Promotion of Private Investment

Private German direct investments in developing countries continue to increase. In 1968 they amounted to DM 718.3 mn net which was 65 p.c. more than in the previous year, and this sum represented almost one-third of total German investments abroad. The development politicians comment with satisfaction that this investment volume already equalled 11 p.c. of German development aid. For, generally, the direct investments are looked upon as virtually the ideal form of development aid.

It is by and large assumed that they do not only bring about additional employment and higher incomes but also have, on the strength of improved technology and imported know-how of management, the effect of initiators, and multipliers, of growth processes. Contrary to credits and loans, moreover, no direct repayment liabilities arise from them. They tend to facilitate the creation of a wider export range and also the substitution of goods up to now not produced in the country concerned, and therefore imported by it. All these reflections thus seem to make it rather sensible to concentrate development policy more than in the past on the promotion of private direct investments.

The Federal Republic of Germany has in recent years already taken quite a number of promotion measures to broaden the flow of private investments in developing countries. There are state aids in the shape of advantageous conditions for the financing of such investments, possibilities for guarantees, tax relief as well as a number of arrangements aimed at the promotion of investments, and double-taxation agreements. Obviously, however, these incentives are not yet sufficient to stimulate the "big jump ahead" really effectually: namely an activity in the sphere of investments abroad comparable to that prevailing in the United States or Great Britain and which would in size have a better relation to the size of the export of goods and merchandise.

If the principle observed heretofore, according to which all financial aids and measures to reduce involved risks should ensure the free play of market forces and the orientation of the investments in accordance to the level of profit margins, be upheld, then, two ruling aspects for an intensification of future promotion offer themselves. Firstly, it would be necessary to extend substantially German economic diplomacy in the developing countries with a view to assisting potential investors. In the second place, financial means, which at the same time would not put an unduly great strain on the overall financial latitude of the companies, should be made available to a far greater extent. It seems that the Federal Government is willing to take active notice at least of the latter point to a larger degree than before. The plans at present discussed in the Ministry of Economics aimed at the setting-up of a risk carrying body embracing all parties involved are clearly to be taken as endeavours towards the creation of new financial resources entailing relief for the entrepreneurs.

All the same, though, it would be as well not to overestimate the effects of additional investments. After all, the measures towards promotion are matters solely stemming from development policy meant to subordinate the aspect of individual striving for profits to the effects of development policy. Other aims, currency aspects in the first place, will hardly be achieved in this manner. Furthermore, it would be dangerous to believe that every investment in a developing country must, as a matter of course, be good and beneficial. The failures of the USA in Latin America are an example that the isolation of the investments and the unduly high rate of profit transfers, above all, do not stimulate the aspired world-wide integration but rather and foremostly give air to small-state nationalism. German investors should be careful not to repeat this mistake.

Dietrich Kobschull