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Foreign Investments of German Industrials in South Carolina

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FOREIGN INVESTMENTS OF GERMAN INDUSTRIALS IN SOUTH CAROLINA

by

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This independent study submitted by Eddie C. Hollins in partial fulfillment of the requirements for the Degree of Master of Business Administration from the University of North Dakota is hereby approved by the Faculty Advisor under whom the work has been done.

Advisor

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Whatever reflection of truth is captured in this study is largely due to the individuals I encountered in the course of its preparation. Dr. Bertsch of the University of North Dakota, Mr. Galler of the German Consulate of Atlanta, Mr. Tukey of the Chamber of Commerce of Greater Spartanburg, Mr. Girard of Hergeth, and Mr. Mueller of Menzel all freely contributed their valuable time and unique knowledge.

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TABLE OF CONTENTS

LIST OF TABLES

Table

LIST OF EXHIBITS

Exhibit

ABSTRACT

This study investigates the principles of foreign investment in the context of recent developments in the United States. The case of the German investments in Spartanburg, South Carolina, is taken as an example of the workings of foreign capital. It is observed that the influx of foreign capital has produced effects similar to the familiar investments of American business abroad. The case under study is a practical demonstration that the principles involved in foreign investment are universal.

CHAPTER I

INTRODUCTION

The Returning Wave of Foreign Investment

The fact of the broad diversification of American business interests into foreign countries is a phenomenon which becomes apparent early in the study of business and economic reality. Lessons progress logically through the benefits and implications of power in foreign trade in the development of such concepts as the balance of payments, trade deficits, dumping in a selected market, economic interdependence, spheres of economic influence, the industrialized nation, the underdeveloped or emerging nation, investments in foreign business, and diversification culminating in international trade and world market. Generally the last two generations of Americans have thought of this process as a one-way street travelled by agressive American businesses whose steps marched easily and naturally from selling goods in a foreign market, making an investment in or buying up a foreign business to get closer to the foreign market, setting up an agency or distribution office to improve service, to finally setting up a factory in the country to directly compete in that market.[1] This kind of "economic invasion"[2] is attested by countless examples arising

[1] Roul Tunley, "In Spartanburg, the Accent Is on Business," Reader's Digest, reprinted from the January 1974 issue, p. 1.

[2] Ibid.

from common experience: Coca-Cola bottles labeled in indecipherable languages; American-brand automobiles being made in other countries; American oil companies drilling for oil the world over and erecting their signs over their plants and filling stations abroad; friends travelling overseas for a few years to work in the company's foreign plant. In this process American direct capital investments abroad have reached a total of 94 billion dollars.[1] This is all familiar ground as its problematic aspects are examined in the daily news in reports of nationalization moves and anti-American sentiment: "Yankee, go home!"

The hypothesis of this study is that the economic principle involved in the foreign diversification of American business is universal. This is of course to be expected of any valid principle discovered in the study of business as a science. The proof of this hypothesis is not the main thrust of this study, however, since it is obvious that any country as an economic unit can experience conditions similar to those outlined above culminating in the establishment of its own agencies and factories abroad. It is a fact that, aided by dollar devaluations, the influx of foreign business operations into the United States is accelerating.[2] Examples are becoming more and more abundant. The English are now the second largest manufacturers of newsprint in the United States. The Japanese concerns include airplanes, ball bearings and Thoroughbred horses. The investments of newly

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[1] Ibid.

[2] Ibid.

oil rich Arab governments in United States banking and real estate have been the object of recent news reports. The Germans have more capital invested in the state of South Carolina than anywhere else outside Germany.[1]

As these formerly little known developments have received public attention they have surprised many Americans, and as in the case of the Arab investments their reactions have not always been favorable. The scale of this reverse investment is still smaller than the American measure. Direct capital investments in the United States amount to only 14 billion dollars, or around 15 per cent of the American investment abroad.[2]

The intent of this study is the practical exposition of the hypothesis that the principle of foreign diversification is universal. This can be accomplished in a direct manner by going and seeing the principle in operation in the real world, or more classically, by field research. A good place to start looking is with the German investments in South Carolina. This study is a report on researchand field work done in that area. The value it lends to the validation of the hypothesis is directed toward the ignorance of the developments it predicts in America today.

<ins>Focus: Spartanburg, South Carolina</ins>

The scope of this study has been limited to an investigation of the German investments in South Carolina as a practical example

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[1] Ibid.

[2] Ibid.

of the operation of the principle of foreign diversification. This German foreign development is focused in the city of Spartanburg. This city of 45,000 people in the northwest corner of South Carolina at the foot hills of the Blue Ridge Mountains has attracted more foreign business than any other city its size in the United States.[1] This has been achieved in spite of the fact that Spartanburg is a fair distance from any large American city.[2]

There are some 37 foreign firms from nine countries which have located around the city of Spartanburg. Their investment range includes a ten member sales and service staff and a knitting mill employing 200 workers.[3] At the top of the scale is a 150 million dollar polyester-fiber plant with 3,000 workers.[4] The international community numbers around 1,500. As a result of this development the Greenville-Spartanburg Airport was declared an Inland Port in 1972, which means that the U. S. Customs Service operates at the airport processing passengers from jet airliners from all over the world. It is the first port of its kind in the Southeastern States.[5]

It is therefore appropriate that the field work in this study is focused on the development in Spartanburg. This study

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[1] Ibid.

[2] "European Business People Like Carolina -- And It's Mutual," U. S. News and World Report, June 26, 1972, p. 62.

[3] Ibid.

[4] Tunley, p. 3.

[5] Ibid.

will demonstrate what is actually happening in the returning wave of foreign investment as seen in this sharp focus. As part of the research for this study, a field trip was made to Spartanburg at the beginning of this year. The opportunities for eyewitness experience, for access to research material on this subject of little common knowledge, for interviews and for informational tours were rich and rewarding.

The background material providing the support for the expedition to the field and for the observations drawn from the experience proceeds in large part from another unique opportunity. Mr. Galler of the German Consulate in Atlanta, Georgia was able to direct the thrust of the research effort toward pertinent German language publications and provide invaluable information as to the individual firms of interest by way of introduction.

CHAPTER II

BACKGROUND

Reports on German Export and Investment

A general discussion of the many factors which influence a business concern to channel financial investment and resources in the form of physical plant into another country would be a fitting topic for a textbook, not this paper. However, general and specific information of the background of German investment in the Southeastern United States can lend some light on the universal considerations involved.

An article in Wirtschaftswoche, a German business weekly, indicated German awareness of the 100,000 million deutschmark balance of trade deficit, carried mainly by Britain, France, and Italy, that the industrial nations of the West incurred in trade with West Germany this last year.[1] This large balance of payments is considered a crisis by German industrialists who anticipate the measures these countries will take in response. Specifically in regard to the United States, the market is protected by penalizing customs tariffs, and further guarded by provision for law suits for "dumping" if goods are imported at a price which is too low.[2]

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[1]"Unpredictable Export Markets," The German Tribune Economic Affairs Review, VII (1975), p. 12.

[2]Ibid.

Since the economy of the Federal Republic is oriented more than any other toward exports, such restrictive measures have an amplified effect as the following statistics would indicate: One-quarter of the revenue earned by German industries proceeds from foreign trade; one German worker in five is producing for foreign markets; close to 30 per cent of the gross national product is earned in foreign trade.[1]

TABLE 1

FEDERAL REPUBLIC EXPORTS AS PERCENTAGE OF GNP[2]

1950	8.5%
1960	15.9%
1970	18.3%
1974	23.1%

Given the importance of foreign markets to German producers, the prospect of emerging price competition would be a serious challenge. A marketing manager for Linde AG, an air conditioning and refrigerating plant company with 30 per cent of its revenue in overseas markets, indicated his fear of increasing price competition when he commented, "It might be more difficult than ever to pass on increased costs to foreign buyers."[3] Faced with cancellations of orders from some of the most important export markets, a company spokesman for Hako-Werke of Bad Osloe concluded,

[1] Ibid.

[2] Ibid.

[3] Ibid.

"Price concessions play an ever more important role."[1] Price considerations create a more serious problem for the Howaldtswerke Deutsche Werft shipyards, where a spokesman admits, "A few contracts are having to be renegotiated at the moment."[2] So the largest shipyard in the Federal Republic has experienced a cutback in demand so severe as to force less favorable price negotiations. Pfaff, in Kaiserlautern, is a sewing machine manufacturer 71 per cent dependent on export trade. Pfaff also is anticipating sharp cutbacks as spokesman Hans Deutsch indicates, "We are receiving more and more requests for price considerations. Also more and more countries are imposing import levies in order to protect domestic industry."[3]

Even Volkswagen has been caught in the vise of increasing price pressure and stiffened sales resistance. Since 1971 Volkswagen has been forced to increase prices five times in the United States, which is its most important export market, because of the perpetual currency fluctuation and revaluation of the deutschmark. Such upward price adjustments mean a reduction of Volkswagen's competitiveness with Japanese and European rivals. An answer to the problem was conceived by the former Volkswagen managing director, Rudolph Leiding. Prompted by the anticipation of renewed changes in parity between the dollar and the deutschmark

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[1] Ibid.

[2] Ibid.

[3] Ibid.

he began plans for the construction of a plant in the United States years ago.[1]

The immediate relevance of these considerations is graphically illustrated by the side by side appearance of two articles in The Wall Street Journal recently, one concerning the West German mark vs. the U. S. dollar and the other concerning the start up of the Volkswagen facility in New Stanton, Pennsylvania. The first article, entitled "U. S. Dollar Weakens As Trading Returns to Normal Overseas," credits gentle but steady upward pressure on the West German mark as leaving the U. S. dollar somewhat weaker in the daily currency market.[2] The article appearing immediate to the left, entitled "VW Delays Start-Up Date at Its Facility In New Stanton: Parts Problems Develop," indicates that Chrysler's lack of parts stamping capacity may lead Volkswagen to make an additional dollar increase in its already huge American investment by building a major metal stamping plant. Nevertheless, Volkswagen officials at the formal ceremonies marking their takeover of the former Chrysler Corporation plant which is to be the nucleus of their U. S. car making operation were optimistic that the long-planned American venture would help the company regain its former place in the American auto market.[3]

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[1] Ibid., p. 13.

[2] "U.S. Dollar Weakens As Trading Returns to Normal Overseas," The Wall Street Journal, LVI (September, 1976).

[3] Terry P. Brown, "VW Delays Start-Up Date at Its Facility In New Stanton: Parts Problems Develop," The Wall Street Journal, LVI (September, 1976).

The articles make the point that currency fluctuations and rising German manufacturing costs had pushed the automaker's U. S. prices up sharply. This contributed to a more than 50 per cent drop in sales from the record 1970 level of U. S. sales and the loss of Volkswagen's leading position among imported cars in the United States. With the cars produced at the New Stanton facility the company hopes to regain at least five per cent of the total U. S. market. Volkswagen indicates that it will still be importing into the U. S. a substantial number of vehicles in addition to those produced at New Stanton.[1]

Volkswagen officials maintain that by producing in the United States they can lower manufacturing costs, neutralize the effect of international currency changes, and attain greater flexibility by directly supplying the American dealers. A spokesman, Toni Schmücker, Volkswagen's management board chairman, noted that, "We have a chance to lower manufacturing costs by ten per cent here. I'm not saying how that might translate into lower retail costs, but we wouldn't be coming to the U. S. if we didn't think we would be more competitive."[2] Mr. Schmücker gave an indication of the magnitude of effort required for such an undertaking in his explanation of the extra three months it took to complete the arrangement to buy the plant: "The tremendous negotiations with the state altered our timetable and with the problem we still face it would be difficult for us to start much before then [1977]."[3]

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[1] _Ibid._

[2] _Ibid._

[3] _Ibid._

Several German sectors have already been put out of world market competition by this price trend. An aspect of the problem of particular interest in this study lies in the former German strength, labor. "Labor costs in the Federal Republic are no longer competitive in broad areas of the clothing industry,"[1] according to Gert Seidenstuker, a shirt manufacturer in Bielefeld. He has already diversified his operations to include plants in Austria, Portugal, Spain, and Switzerland where production costs allow him to be more competitive even in the face of certain political risks.[2]

Many other German textile firms have tried their fortunes abroad in an attempt to avoid taxation and higher costs. One of the first to do this was Alfons Müller-Wipperfürth who relocated most of his production works in Italy and Tunisia.[3] It turns out that a number of the German plants in Spartanburg, South Carolina are textile-related concerns, producing either textiles or machinery involved in the textile production process. The advantages of labor productivity and taxation were two of the commonly given reasons for their presence in the area.

"No other country in the world has seen such increases in wages as the Federal Republic. They have been in the order of 110 per cent since 1967," observed Otto Wolff von Amerongen.[4] This was the reason he gave for the imminent necessity of transferring

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[1] "Unpredictable Export Markets," p. 13.

[2] Ibid.

[3] Ibid.

[4] Ibid., p. 14.

individual areas of production to foreign locations and especially to developing countries. The magnitude of these developments and the import they hold for Germany is indicated in another von Amerongen observation: "I hope that my colleagues in industry will also come to the same realization and accept it. When I spoke on the same subject three years ago in the Düsseldorf Industry Club I almost got a good thrashing from my colleagues."[1]

Opportunities For Investments In the Southeastern United States

Clear insight as to the realization and acceptance of the points Otto Wolff von Amerongen raises is found in an official report of the German Federal Republic Office of Information on the picture for German investments and plant location in the Southeastern United States. The report is titled "Investments in the Southeastern United States" and is only available in German. The information reported below proceeds in a large part from that report translated as part of the research for this independent study.

The report begins with a general economic description of the Southeastern United States and defines that area as the states of Alabama, Florida, Georgia, North Carolina, South Carolina, and Tennessee. In the past ten years, the economy in this area has expanded faster than in the other parts of the United States.[2]

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[1] Ibid.

[2] "Investitionen in den Südoststaaten der USA," Mitteilungen der Bundesstelle fur Aussenhandelsinformation, XXIV (May 1974), p. 1.

The increasing population as reflected in the growing cities, the influx of single persons and families, the rising employment, the greater selection of building alternatives, and the booming attraction of new industry are noted as factors favorable to international undertakings.[1]

For the first time in the history of the Southeastern States serious industrialization has become a fact. Although industrialization was late in starting, its development was rapid and sweeping. The employment in agriculture diminished by almost 50 per cent each year after 1930 while manufacturing employment increased by about the same percentage.[2]

Beginning industry was concentrated around the raw materials which formed its support. Thus the textile industry was established around the cotton growing agricultural base, and the paper industry in the area of the great natural forests. Agriculture gave rise to the foodstuff industry, and a mother vein of iron ore provided the beginning of the steel industry. The chemical industry developed as it was made necessary by the needs of the basic industries like textiles, paper, and food processing. Other industries which followed were the transportation lines, electrical power production, and metal production. All of this followed rapidly from the time when textiles were the single major industry in the area.[3]

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[1] Ibid.

[2] Ibid.

[3] Ibid.

The fact that industrial development in the Southeast is relatively young offers both advantages and disadvantages. Many of the problems of the older industrial states such as obsolescence and enviornmental damage can be avoided. But still the greatest problem which the industrial sector in the Southeast faces is the need for a broader economic base. Textiles are still the most important industrial products in Georgia, North Carolina and South Carolina. In fact this area is so important that it contains 25 to 50 per cent of all the textile plants constructed in the last twenty years.[1]

The structure of the economy of the Southeast is dealt with next. The report notes that except for Alabama the growth rate in the gross economic product for each of these states has been higher than the national average in each of the last 15 years. Still the per capita income of the Southeast has remained below the U. S. average which indicates the 30 year backlog in wage scale parity. By 1980 this situation should be normalized and per capita income in the Southeast will equal or surpass the national average.[2]

Favorable possibilities exist for foreign investments in available industrial sectors. The sectors chosen as favorable are the ones clearly needed and which complement expansion of the established industry. For example, figures for 1972 for the

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[1] Ibid.

[2] Ibid., p. 2.

leading industries in South Carolina are identified in the tables below:[1]

TABLE 2

THE FIVE LEADING INDUSTRIAL SECTORS IN SOUTH CAROLINA

Industrial Group	Employment	Value Added	New Capital
Textiles	139,200	$1,440,100,000	$232,000,000
Chemical Products	24,900	741,700,000	140,900,000
Clothing Sector	42,800	319,100,000	10,200,000
Paper	11,800	275,300,000	28,400,000
Non-electrical Machinery	14,900	192,600,000	72,500,000

TABLE 3

LEADING EXPORT PRODUCTS OF SOUTH CAROLINA

Industrial Group	Total Output	Exported	Per Cent Exported
Textiles	$3,522,100,000	--	--
Chemical Products	817,600,000	51,900,000	6.4
Paper	530,800,000	46,200,000	8.7
Machinery	319,400,000	22,000,000	4.5
Electrical Machinery	257,500,000	11,600,000	3.2

[1] Ibid., p. 5.

The textiles industry in the Southeast is a productive, established, basic sector in the economy. Therefore textile concerns in the Southeast need modern automatic equipment. Businesses which produce for other industrial sectors are not firmly established in the economic region, so the opportunities for capital investment in this area are knocking at the door, and as the field research will show, have been answered. The chemical industry will need to be greatly expanded, and is by its nature a constantly expanding sector. Tourism offers inexhaustible resources. It is noted in conclusion that a favorable situation for foreign investments is aided by the popularity of the Southeast as a vacation and recreational area, by the constantly increasing income, and by the improving proceeds of trade.[1]

The report takes up the interaction of the prospective investing company with the state and federal governments. The first item of note is that there is no individual state regulation of foreign trade. Legal requirements are found in regulations published by the federal government. The publications are supplied by the International Trade Division of the United States Department of Commerce, Washington, D. C.[2]

Most of the Southeastern States have similar regulations and controls over the business sector. Most of these controls over trade and industrial development in the individual states of the Southeast area are concerned with local labor, environmental

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[1] *Ibid.*, p. 6.

[2] *Ibid.*

protection, taxes, and financial considerations. Of particular interest are the new laws which the Southeastern States and the federal government have passed within the last five to ten years to protect the air, water and land from the sort of contamination experienced by the older industrialized areas in the northern states. The intent and enforcement of these regulations still is being worked out in the daily relationships of government and business, but it is observed that the more strongly established industrial sectors, such as the metal industry, have been able to work out more favorable standards for their continued operation through the strength of the established labor unions.[1] On the other hand, the textile industry now operates under less favorable requirements.[2]

In regard to the further promotion of trade, it is common for managerial associations, branches of city government, and industrial organizations to act together to develop the economic infrastructure of an area. The prime example of such cooperation are the many chambers of commerce, one of which will be shown to have played a leading role in the case under consideration in this study. A public service office, the Public Service Commission, and the region wide trade board, the U. S. Interstate Commerce Commission, exist to aid in finding answers to problems that businesses encounter.[3]

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[1] Ibid.

[2] Ibid.

[3] Ibid.

A recent government survey of over 2,500 companies indicated that transportation along with labor are the most important factors in locating a site for a new factory.[1] Promoters attempting to convince business concerns to invest their resources in the Southeast can point to well developed transport systems as a necessary and valuable asset. The Southeast has the airport with the second largest passenger traffic in the United States in the William B. Hartsfield Airport in Atlanta, Georgia. The world's largest loading crane for containers is operated by the port authority in Savannah, Georgia. All six southeastern states have options for similar large capacity transportation for land, sea and air freight. Deep water ports are found at Miami, Jacksonville, and Tampa in Florida, at Mobile in Alabama, at Charleston in South Carolina, and at Savannah in Georgia. The greatest railway serving the area is the Southern.[2]

Each mode of transport carries its advantages and will, therefore, continue to play a part in the foreseeable growth of the region. Railways still carry more heavy bulk freight than any other conveyance. Trucking has the advantage of the use of a well developed interstate highway system and as a result can deliver most goods to loading docks anywhere in the Southeast within one day. Air freight is constantly increasing; many of the airports in the Southeast now dispatch air freight. Shipping

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[1] "Varied Transportation In Area, State Helps Attract Industry," <u>The Spartanburg Herald-Journal Business & Industrial Review</u>, March 1, 1975, p. E4.

[2] "Investitionen in den Südoststaaten der USA," p. 7.

still holds its place against air freight with the help of lower costs and many ports.[1]

When attention is drawn to the total transportation network in the state and city which serve as the focus for this study, reasons for the movement of industry into the area become apparent.

South Carolina has a network of five interstate highways which connect it with the Southeast, the Deep South, the Mid-Atlantic, the Northeast, and the Midwest. Using the system of roads and highways are more than 25 intrastate and 75 interstate truck lines which can provide overnight service to cities as far away as Baltimore, Maryland, and Portsmouth, Ohio.[2]

Trucks are the basic means of freight transportation for industry in South Carolina. Although 55 per cent of the 837 communities in South Carolina do not have rail service, most of these communities are no further than 30 miles from an interstate highway. This proximity to the interstate system is apparently more important than railway access, since such communities have been very successful in attracting new and expanded industry. Such new industries handle about 80 per cent of their traffic by truck. Locations near an interstate are in demand.[3]

As a result of the growth of such industry, trucking is expanding. There are nearly 250 freight terminals in the state serving industry, with major terminal distribution centers within

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[1] Ibid.

[2] "Varied Transportation In Area, State Helps Attract Industry," p. E4.

[3] Ibid.

the state at Aiken, Anderson, Charleston, Columbia, Florence, Greenville, Greer, and Spartanburg.[1]

Rail freight is carried by two major lines, the Seaboard Coast Line and The Southern Coast Line, and by thirteen independent and affiliated railroads. There are 3,150 miles of railroad in operation in South Carolina, which equates to 1.1 railroad miles per ten square miles of area, one of the highest ratios of service in the South.[2] Containerized freight is fast becoming prevalent as it facilitates the interface between railway and steamship.

Charleston is the thirteenth largest port in the United States and the leading port on the South Atlantic in containerized freight. Charleston is an ideal port for industries serving an international market because of its location and facilities. It is geographically closer to 61.3 per cent of the U. S. population and 87.6 per cent of the U. S. land area than is New York City. Charleston's revival as a great port is due to the railroad lines and efforts of the state legislature and the State Ports Authority which invested millions of dollars modernizing the facilities.

The State Ports Authority owns and operates two other seaports at Georgetown and Port Royal. But the key is the Port of Charleston which is the major interface between steamship traffic and the system of rail lines radiating from Charleston. The cargo crane operated by the Port Authority is a 400 ton monster.[3]

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[1] *Ibid.*

[2] *Ibid.*

[3] *Ibid.*

Another advantage is the system of airports in South Carolina. The three major airports of Columbia, Charleston and Greenville-Spartanburg and the five secondary airports are served by five major passenger airlines and several air cargo lines. There are 72 other airports serving communities in the state.[1] The Greenville-Spartanburg Airport serves as an Inland Port for overseas flights and handles some seaborne shipment processing instead of Charleston with a resultant saving of time and money. It is also operated by the South Carolina State Ports Authority. It can handle cargo from most commercial aircraft, including containerized cargo up to 150,000 pounds.[2]

Labor conditions are a prime consideration for the establishment of new industry in the Southeast. Although the unemployment quota in the Southeast has been lower than in other parts of the United States, unskilled laborers and skilled laborers in smaller numbers are easier to obtain. The employment search is aided by such services as the Department of Industry and Trade computerized listings of the available community skills in many states, classified as to distance radius from the community, sex, industrial skills, untrained and trained crafts, and educational levels.[3]

The lawful working conditions as defined by safety directives, the weekly work time, vacation time, overtime, Sunday and holiday work compensation, and child labor are reasonably similar in the

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[1] Ibid.

[2] "Piedmont Inland Port: Greenville-Spartanburg," Brochure published by the South Carolina Ports Authority, 1975, p. 1.

[3] "Investitionen in den Südoststaaten der USA," p. 7.

individual states. Topics of interest in this area are child labor and equal opportunity laws; federal law has superior jurisdiction here.

One of the factors contributing to the availability of skilled workers is the technical training given in the high schools and the various vocational schools supported by the states. These schools offer full time instruction, evening classes, special courses and in response to the wishes of prospective employers offer some short courses.[1] The Spartanburg Technical College is a specific example of the great influence these institutions and their graduates can have.

Labor unions have not been very widespread in the Southeast as shown by the figures in the table below:[2]

TABLE 4

LABOR UNION MEMBERSHIP

State	% Of Work Force In Unions
Alabama	20.3
Florida	13.9
Georgia	16.2
North Carolina	7.8
South Carolina	9.6
Tennessee	20.6

[1] Ibid.

[2] Ibid.

This fact is coupled with the "Right to Work" laws passed by the individual states as provided under the provisions of the federal Taft-Hartley Act of 1947 to provide a situation favorable to employers. Generally these laws provide that union membership cannot be required as condition of employment nor can the payment of union dues be required. These provisions are constantly contested.[1]

As indicated by Mr. Schmücker's comments as Volkswagen management board chairman in regard to the negotiations required with the state, foreign companies making a direct investment in the United States face a challenging task in complying with the many regulations governing business operations, notably the tax laws. The problem is complicated by the extension of the power to levy taxes through the federal government to the states, incorporated territories, counties, cities, municipalities, and townships. As many political aspirants in the United States maintain, there is no uniform tax structure, no complete system governing individuals or corporate entities. In recognition of the condition some territories and states restrict themselves to the levying of individual taxes, while others have no individual income tax.

In general, a German enterprise which does business in the Southeastern States becomes subject to the following income taxes which may be alternative or cumulative:

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[1] *Ibid.*, p. 8.

EXHIBIT 1

BUSINESS TAXES IN THE SOUTHEASTERN STATES

I. German Tax Statutes

II. U. S. Federal Tax Regulations

III. German and U. S. federal tax regulations limiting double tax liability through diplomatic agreement between the German Federal Republic and the United States.

IV. The tax laws in the individual states where profits are earned, including:

A. Property Tax
B. Intangible Property Tax
C. Corporate Tax
D. Sales and Use Tax
E. Unemployment Insurance
F. Workmen's Compensation
G. Corporate License Tax
H. Corporation Registration Tax

Provisions exist to resolve the taxation conflicts which German undertakings may encounter depending upon the nature of their business. Where federal taxes apply as well as state taxes, the state taxes can be credited. The individual state sales and use taxes are deductible from the federal and state income taxes.[1] A major concession exists in the German-American double taxation agreement on the profits of a permanent commercial German establishment in the United States. Such profits are exempt from German federal income and excess profits taxes. The advantage here of course lies in the fact that tax rates in the United States are lower than the rates in Germany.[2]

[1] Ibid., p. 9

[2] Ibid.

CHAPTER III

CASES AND INDIVIDUALS

German Companies With Facilities In Spartanburg, S.C.

The field research phase of this study was the most interesting and the most difficult part of the paper. The first step was a letter written to Mr. Harry Galler, consul for the German Federal Republic in Atlanta, Georgia. An interview with him followed and this was the point of initial contact for the field research. Since Mr. Galler's duties as consul included liason between the German firms in South Carolina and the German government, he was able to provide much background information as well as to suggest leads for the pursuit of the research. The letter of introduction included in Appendix I to this study was the instrument for contact with the individual German companies in Spartanburg. An unexpected opportunity came when Mr. Tukey, one of the main characters in this Spartanburg story, came in early to his office in the Chamber of Commerce for an interview before he departed for a business trip.

The third institutional element in the Spartanburg Formula are the area colleges. Tours of Woffard, Converse, and the Spartanburg Technical College were informative but except for the direct interaction between the technical college and the Spartanburg industry, a discussion of the merits of American education are beyond this study.

According to latest report there are now 37 foreign companies representing nine countries located in the focal area of this study. The first such firm to settle in Spartanburg was Reiter Machine Works, Ltd., a Swiss company. They were followed by another Swiss company, Sulzer Brothers, Ltd. The third foreign company and the first German company in Spartanburg was Menzel Machine Works.[1] Ten other German companies now have operations in the Spartanburg area.

A complete list of the international firms represented in Spartanburg is provided in Appendix II. A list of the German firms operating elsewhere in South Carolina is given in Appendix III.

Included below are three brief company histories of German firms which have facilities in Spartanburg.

HERGETH

The Hergeth Firm KG was founded on November 8, 1947 by the engineers Adolph Hergeth, Sr., and his sons Herbert and Adolph Hergeth in Dülmen. This company is the continuation of the former factory owned by Adolph Hergeth, Sr. in Ketten, which was the Adolph Hergeth and Company Machine Works and Iron Foundary. The new company engaged exclusively in the development and production of textile machinery.[2]

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[1]Tunley, p. 3.

[2]"Tragende Säule der heimischen Wirtschaft," Kulturelles Leben, No. 218 (September 20, 1975), p. 2.

The old factory was lost after the war and the Hergeth family had to start over in an old barracks building with a saw, an old lathe, and a drill press. The first textile machinery was built largely by hand.[1] Later the development program was expanded to include cotton fiber processing machinery. Through equipment modernization and further research efforts, the company grew by leaps and bounds. Synthetic fibers offered further possibilities.

Only ten years after the founding of the firm, a third of the machines produced were being consigned to export. Implements produced by Hergeth in Dülmen were being used in South America, India, South Korea, Afghanistan, Pakistan, South Africa, Egypt, and in the neighboring European countries.[2]

In 1960 it became necessary to expand Hergeth operations to a new factory in Billerbeck. Another plant was established in Haltern in 1969. Also in 1969 Hergeth owners in recognition of the importance of the United States market decided to establish a sales office in the U. S. to ensure its market share. At that time Hergeth machinery was sold through this office from Dülmen and as produced under license by Crompton & Knowles in the U. S. The office in Spartanburg also handled machinery produced by the Ohara Iron Works and Torigoe Spinning Machine Manufacturing Company in Osaka, Japan. The plant constructed in Spartanburg is now a production facility employing about 40 workers. It

[1]"Am Anfang stand eine alte Baracke," Kulturelles Leben, No. 218 (September 20, 1975), p. 3.

[2]"Tragende Säule der heimischen Wirtschaft," p. 2.

is an independent operation for manufacture, sales, and service.[1]

Today Hergeth machinery is sold all over the world, and the company has its representatives in almost every country.

MAHLO-AMERICA, INC.

Mahlo-America is a subsidiary of Mahlo KG of Sall-Donau, West Germany. It is one of the leading producers of electronic controls and measuring devices for the world textile industry. The company first erected facilities in Spartanburg in 1969. In 1975 it opened a new office and service complex in the quadrant of the Interstate interchange and a surface road.[2]

HOECHST FIBERS, INC.

The big break for Spartanburg came in 1965 when Hoechst Fibers, Inc. was established alongside Interstate Highway 85. It is a subsidiary of West Germany's Farbwerke Hoechst AG, one of the world's largest chemical companies. Hoechst Fibers is now a 200 million dollar plant that has grown to become the fourth largest producer of polyester fiber in the United States.[3]

The plant is still expanding. Recently 60 million dollars of expansion was under way at the Spartanburg site. Much of this investment is toward the support of the production of the polyester

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[1] "Hergeth," Company brochure, 1975, p. 9.

[2] "$300,000 Office, Service Unit Completed by Mahlo," The Spartanburg Herald-Journal Business & Industrial Review, March 1, 1975, p. D10.

[3] Tunley, p. 2.

"Trevira" and toward the expansion of pollution abatement facilities.[1]

The company employs nearly 2,000 workers in the Spartanburg area which makes it one of the area's largest employers.[2] Hoechst Fibers President Gerald P. Elder had a different and successful approach for dealing with the textile production cutbacks that followed the country's general economic recession:

> We suffered severely during November, December and January but reacted to the decline in business activity not by a mass lay-off of our people, but rather by reducing work hours providing everyone with at least some financial stability during these difficult times.[3]

Personal Interviews with Company Executives

INTERVIEW WITH MR. LAWRENCE GIRARD
HERGETH, INC.

Mr. Girard is an American of French background. He has been with Hergeth for fifteen years. He introduced this line of textile machinery into the United States fifteen years ago. Hergeth has grown from a small company to 700 people in 30 years' time. This rapid growth is one reason Hergeth moved to the United States.

Question: How did the Hergeth plant here in Spartanburg get started?

Mr. Girard: We went from my home to this building five years ago. Our operation here is under contract with the company in Germany. Both companies are owned by the Hergeth brothers.

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[1]"New Construction Work Continues At Growing Hoechst Fibers Plant," The Spartanburg Herald-Journal Business & Industrial Review, March 1, 1975, p. C15.

[2]"European Business People Like Carolina--And It's Mutual," p. 62.

[3]"New Construction Work Continues At Growing Hoechst Fibers Plant," p. C15.

That is to say, Hergeth in Germany does not own this company but the Hergeth brothers do.

Question: What does your operation here involve?

Mr. Girard: We import and sell machinery from Germany. Our market position is at the very beginning of the textile process. We take the fiber from bales and bring it to the first semblance of yarn. Other companies produce the machinery to reduce the fiber to smaller yarn. There are in all 200 processes for the fiber to go through.

Question: Who then are your customers?

Mr. Girard: We sell to the carpet industry, the non-woven field and the short staple industry, which is the spinning industry.

Question: How do you reach these customers?

Mr. Girard: All of the international companies operate under agencies. The only way to move is to have someone in the country to represent them since:

1. The agent speaks the language.
2. A local man can move with the people. He can understand the politics and business climate and he can establish the roads to businesses in the community. In many companies throughout the world this is not the case.

Question: What territory does your company cover?

Mr. Girard: We serve the North American continent out of here.

Question: Why did you locate your plant in Spartanburg?

Mr. Girard: First it is where I lived. Secondly, the center of the textile industry is here. Third, five years ago we needed to start a reverse investment program in the United States. The lieutenant governor at the time had the foresight to suggest that the reverse investment be started in South Carolina. There are several convincing reasons:

1. It is the center of the textile industry.
2. The climate is favorable.
3. The people already living here are an asset.
4. Unions are a disadvantage in other areas.
5. People to hire were here--people who knew textiles.

Question: How did this promotion operate?

Mr. Girard: South Carolina encouraged companies to invest. Mr. Richard Tukey, of the Chamber of Commerce, was involved with the program of encouraging companies to come to South Carolina.

Question: Wasn't this plant expanded from your former sales office?

Mr. Girard: Yes. Hergeth imports machinery and with the profits built this building which they now use to build very simple machinery they had formerly been importing. At this time we are producing three different machines.

That is the expansion cycle: you sell, manufacture, and hire some more people. The overhead goes up, so you build another building andhire more people.

Question: How widespread are your company operations?

Mr. Girard: Our company here has agents in Mexico, Canada, and some other Central American countries. Our machines sell for approximately $100,000, so calls are not that frequent.

Hergeth worldwide has two more companies in Japan. But our markets here are the East, North and South America, and Europe.

Question: How do your international transactions work? Have you reached the point already where your machinery from this plant goes other places? You mentioned a European market...

Mr. Girard: There is the possibility of competition with the parent company. This competition is on a financial, or price basis. As far as our sales here, one of the requirements of the reverse investment program is that the money earned must be spent in the U. S.

Question: Could you explain how that works?

Mr. Girard: If the United States gave Turkey money to establish a textile plant, they would have to buy from U. S. mills. So the machinery for the plant will be coming from the United States, which was the country that supplied the money for the purchase of machinery in the first place.

Question: Does this agreement limit your sales in any way?

Mr. Girard: No. We can ship overseas. We have a job right now going into Bražil.

Question: How do the reverse investment requirements tie in with the possibility that you could be competing with your parent company?

Mr. Girard: It works a little like Russia and the grain sale. If you buy X amount of machinery, we will sell you X amount of grain. We are competing with the German company in this way.

Question: How has your organizational structure changed from your house to this plant?

Mr. Girard: In a small growing company like we are, the organizational structure tomorrow will be different from today. We have attempted to establish that with whomever we hire; we make it very clear that we may be hiring them to do a special job, but they will have a job overlap. Above all, each employee is responsible for maintaining the prestige of the Hergeth name.

Question: Job overlap?

Mr. Girard: When a person comes to work here, they have to realize that if no one else is here, they have the full responsibility. We hire through necessity.

Question: What is your relationship to your regular customers?

Mr. Girard: Once you have a customer you are married to them. We sell, install the machinery, provide technical knowledge and service, and we do the repairs.

Question: I noticed that you fly the German flag outside your plant. Is that Hergeth policy?

Mr. Girard: We were the first to put up the German flag alongside the American flag in Spartanburg. We were delighted with how well the gesture was received.

Question: Just to clarify the subsidiary relationship again, you said the company in Germany does not own this plant?

Mr. Girard: We are completely independent from the German company.

Question: What is your most pressing interest at this time as far as your business is concerned.

Mr. Girard: I think our goal is to expand the company and take on new challenges: machinery-wise, manufacturing-wise, and agency-wise, all with the common goal to protect the Hergeth name. In the future there is the challenge of expansion and taking on new products in the textile field. But we would not go out of this field.

INTERVIEW WITH MR. MUELLER
MENZEL, INC.

Mr. Mueller is a German. He has been here eleven years with Menzel in the United States and Canada.

Question: What is the Menzel factory's place in Spartanburg, South Carolina?

Mr. Mueller: Menzel makes finishing equipment in the textile industry, in particular dyeing equipment. South Carolina is the center of the textile market in North America.

Question: Is that why you decided to locate here?

Mr. Mueller: It was the company's decision to locate here. The Chamber of Commerce was very helpful.

Question: What reasons did the company have for locating in Spartanburg?

Mr. Mueller: Well, they are training people for us all the time at the technical school. But the market is the most important reason.

Question: What kind of market do you serve here?

Mr. Mueller: We sell dyeing and bleaching equipment. We have 70 per cent of our customers here. Everything we sell is manufactured here.

Question: What is the relationship between you and your parent company?

Mr. Mueller: They are the owners.

Question: How did the company get started here in the beginning?

Mr. Mueller: The business started in my house. I was selling and talking to people. We discovered there was a demand and on that demand built the company. Only two years passed between the business started in my house and the building of this plant.

Question: How large is the operation now?

Mr. Mueller: We have 50 people working here. There are 38 in the shop, four on the road, and five designing.

Question: Do you manufacture a different product here than is produced in the German plant?

Mr. Mueller: The machinery made in Germany is not identical to the equipment made here.

Question: You mentioned that 70 per cent of your market was right here. Where is the rest of your market concentrated?

Mr. Mueller: Fifteen per cent of our sales are in Canada.

Question: Has the necessity for expansion or increased capacity come up yet?

Mr. Mueller: No. The problem is not in manufacture; the problem is in selling.

Question: What is your most pressing interest for the company right now?

Mr. Mueller: Making more product and selling.

Question: How old is the company in Germany?

Mr. Mueller: It started in Czechoslavakia in 1946 or 1947.

Question: What degree of autonomy do you have in operating under the owners in Germany?

Mr. Mueller: I don't make the decisions. We go with whatever they decide in Germany.

Question: You have identified your market as the United States and Canada, a large area. Who covers other markets?

Mr. Mueller: We only have manufacturing facilities here and in Germany. The other agencies sell equipment made in Germany.

Question: How direct is the control of this facility by the owners in Germany?

Mr. Mueller: There is only one German working here besides myself. There is normally no correspondence between here and Germany except the figures we send monthly.

Question: You mentioned the Chamber of Commerce was very helpful in the process of locating your plant here. In what way?

Mr. Mueller: Mr. Tukey was the main contact. He has been with the Chamber of Commerce for 25 years. He started encouraging companies to come to South Carolina.

Question: In our plant tour you said that you will probably remain here in Spartanburg when you retire rather than return to Germany. Why is that?

Mr. Mueller: I have already been here for eleven years. I would remain for the cultural and social benefits in the area as well as the financial benefits.

fibers.[1] It is the geographical center of the United States textile industry with most of the customers of these foreign companies lying within 200 miles.[2] Transportation facilities, in particular the two interstate highways that run through the area, have already been mentioned. Other factors include the large tracts of cheap land available, no inventory taxes on manufactured finished goods warehoused in the state, a five-year moratorium on most property taxes, little unionization, a right-to-work law, and a unique series of state supported technical schools that can provide a pool of trained labor for specific jobs at no cost to the companies.[3]

The close coordination between the technical school system and industry in Spartanburg is a practical and successful arrangement. Spartanburg Technical College lies directly across from the highly concentrated industrial boulevard where many of the German plants are located along Interstate Highway 85. From its original one course in welding, Spartanburg TEC has progressed to courses in 29 curriculum areas in its twelve years of operation. In addition it offers adult education, manpower development training, community courses, special schools for industry, along with workshops and seminars related to various segments of the community.[4] The original concept of technical education in South

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[1]Tunley, p. 3.

[2]"European Business People Like Carolina--And It's Mutual," p. 62.

[3]Tunley, p. 3.

[4]"People Mark TEC Growth," The Spartanburg Herald-Journal Business & Industrial Review, March 1, 1975, p. C6.

Carolina was to train available people for available jobs. In the face of continuing industrial expansion and the demand for new skills in Spartanburg, the curriculum has had to remain flexible at Spartanburg TEC. Thus college president Joe D. Gault notes that "some departments are now conducting classes continuously from 7:00 or 8:00 A.M. to 10:15 P.M. to accomodate the new students requesting training in those skills."[1] When production cutbacks and layoffs occurred in the recent recession, many of those people decided to upgrade their skills or re-train at Spartanburg TEC. Gault says:

> At no time in the history of Spartanburg TEC has the college been more important to the people of this area than it is right now. More adults are seeking new skills to increase their value in the job market. More persons are aware of the distinct value of one or two year's training for a career. And these people are turning to Spartanburg TEC to find the answer. Our current enrollment is at an all time high and our classrooms and labs are crowded. Right now we are urging high school seniors who plan to attend TEC in September to register early in order to be assured of acceptance.[2]

Secondly, the effect of development on the Spartanburg community must be considered. This side of the coin is as bright as that of the foreign industry. Unemployment in Spartanburg, which at 5.2 per cent ten years ago was close to the national average, has been lowered to 2.1 per cent.[3] Jobs are plentiful, and full employment has been achieved in practical terms because of foreign operations. Ten per cent of the Spartanburg work force is

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[1] Ibid.

[2] Ibid.

[3] Tunley, p.2.

employed by firms from overseas.[1] As a result the average income of local workers has increased rapidly, and has in fact doubled in the last decade.[2]

Annual payrolls for the foreign firms in the area total about 30 million dollars.[3] Local taxes from these companies have broadened the community's tax base so that schools and other public services have been sharply upgraded.[4] Last year's annual report of the South Carolina State Tax Commission recorded Spartanburg as having a larger property tax assessed valuation on manufacturing plants than any other county in the state for the first time. An example was the Hoechst Fibers Industries assessed valuation of 11.8 million dollars, the second largest in the state, not even counting the 60 million dollar expansion mentioned above. The Hoechst assessment is larger than the total assessment in 36 of the 46 South Carolina counties.[5]

A summary of Spartanburg's industrial growth is presented in the table below:

EXHIBIT 2

SPARTANBURG COUNTY MARKET GROWTH
1960-1974

*Over 750 million dollars in industrial expansion.

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[1]"European Business People Like Carolina--And It's Mutual," p. 62.

[2]Tunley, p. 2.

[3]"European Business People Like Carolina--And It's Mutual," p. 62.

[4]Tunley, p. 2.

[5]"Fountain of Progress," The Chamber of Commerce of Greater Spartanburg Newsletter, October, 1975, p. 2.

*Effective buying income jumped 227.6 per cent from 232 million dollars to 760 million dollars.

*Retail sales leaped 225.1 per cent from 138 million dollars to 448.4 million dollars.

*Industrial property tax assessments climbed 204.5 per cent from 14.6 million dollars to 44.4 million dollars.[1]

Further statistical information on the economic growth of Spartanburg is provided in Appendix IV to this paper.

The last reservation a skeptic might have regarding the Spartanburg development lies in the area of human relations. Might not a cultural shock occur when an influx of foreigners settles in a small community?

There is certainly a new cultural flavor to the town. The first thing which catches the eye of the traveller as he approaches the city will probably be the flags of Austria, Canada, England, Italy, South Africa, Switzerland, and West Germany flying alongside the United States flag by Interstate 85.[2] Upon investigation the prevailing attitude in the community is overwhelmingly favorable. In the words of Hubert Hendrix, associate publisher of The Spartanburg Herald-Journal, the newcomers fit in: "Our experience in this area has been totally positive."[3] This development has contributed to a decidedly cosmopolitan atmosphere. Actually the thrust of this international development has never been to bring in large numbers of foreigners, but on the contrary to utilize local workers. In all, about 1,500

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[1] Figures published by the Chamber of Commerce of Greater Spartanburg, August 1975.

[2] Tunley, p. 2.

[3] "European Business People Like Carolina--And It's Mutual," p. 63.

foreigners, most of them Swiss or German, have settled in this community of 45,000.[1]

On the other hand the foreign families have been able to adjust well to the local life. They are widely dispersed in the area's residential subdivisions, and they have become involved in all aspects of Spartanburg life. Most of them enroll their children in public schools instead of private schools. Local merchants have begun to carry dark breads, German sausages, and more foreign wines.[2] Even local eating habits have changed. Charles A. Jones, the manager of a Community Cash supermarket comments on a Sunday breakfast: "I figured I'd get eggs, grits, country ham and red eye gravy. What did I get? English tea, Vienna rolls and Swiss black cherry jam."[3]

There are some negative aspects to the American experience for the internationals in Spartanburg, however. Most feel that restaurant food, bread, and health care are superior in Europe, and that higher education in the United States is too expensive.[4]

Comments from Local and State Levels

On the local level the prime mover in the story of Spartanburg's foreign industrial development is the executive vice president of the Spartanburg Chamber of Commerce, Richard E. Tukey. When he moved to the area from New York, he immediately

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[1] Tunley, p. 3.

[2] "European Business People Like Carolina--And It's Mutual," p. 62.

[3] Tunley, p. 2.

[4] *Ibid.*, p. 3.

realized that the foreign companies which sell machinery and supplies to the textile industry should have branches close to their customers. Mr. Tukey has made frequent trips to Europe selling Spartanburg's favorable aspects to prospective companies. For example he could demonstrate that industrial sites costing as much as 120,000 dollars an acre in Germany would cost only 2,000 to 3,000 dollars an acre in South Carolina. His role is instrumental even after the contracts have been signed. He checks on the progress of new plants, aids foreign employees in their search for housing and makes their transition to life in the local community easier.[1]

On the state level John C. West, then Governor of South Carolina, noted the developments as "a formula for economic success that will surely become the textbook of development for the rest of the nation."[2]

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[1] Ibid., p. 2.

[2] Ibid.

CHAPTER V

CONCLUSION

<u>Prospects</u>

Mr. Tukey of the Spartanburg Chamber of Commerce and others in South Carolina still expect to attract foreign investors in the future. As a state with a labor force of 1.3 million, South Carolina has done an amazing job in attracting foreign investment dollars to achieve fourth place among the fifty states in international development.[1]

Before the campaign to attract foreign investors, South Carolina claimed 79.6 million dollars total investment from abroad. When the state launched its first overseas Reverse Investment Mission in 1969, these investments had grown to 585.5 million dollars. Foreign investments have since grown to 785.7 million dollars.[2]

The effort is continuing with Trade and Investment Missions going to Japan, Taiwan, Hong Kong, and Korea. The State Development Board maintains permanent offices in Tokyo and Brussels, and a number of magazine print ads are run in European business magazines each month.[3]

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[1] "State Still Attracts Foreign Investors," <u>The Spartanburg Herald-Journal Business and Industrial Review</u>, March 1, 1975, p. E6.

[2] <u>Ibid</u>.

[3] <u>Ibid</u>.

Summary of the Study

This study has been a practical demonstration that the principles involved in the diversification of a firm's investments and operations abroad are indeed universal. The wave of reverse investment of foreign concerns into this country exemplified by the German business operations in Spartanburg, South Carolina, result in developments as advantageous to the foreign firms and the local area as have been achieved by American firms diversifying abroad. The prevailing conditions as to market, currency parity, worker productivity, and tax structure found in America combined with the local incentives and promotion in Spartanburg have produced a dynamic situation where benefits increase as growth continues. This situation is a "textbook case" whose lessons may assume national significance as the trend of foreign capital investments in the United States continues.

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