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**Article**

# German prism

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# GERMAN PRISM

**The Economic Position of the Federal Republic in 1970**

The growth margin of the gross domestic product in real terms will be smaller than in 1968 and 1969. Moreover, the decline of the growth rate should be less pronounced in the first half of 1970. For the whole of the year, however, a growth rate of the gross domestic product in real terms of a good 5 p.c. is still to be expected.

In 1970 demand is more influenced by consumption than in 1968 and 1969. In comparison, although investments should increase distinctly once more they will not show the dynamics of the preceding year. Finally, vis-à-vis 1969 a reduction of the external contribution (+ DM 13 bn) will have to be anticipated due to the DM revaluation and restrictive measures abroad. In the aggregate this development of demand will lead to an increase of the GNP at current prices by 9.4 p.c. At the same time a price increase of the GNP by 4 p.c. must be expected.

While gross wage and salary increases will be able to maintain their previous year's growth rate (+ 12.5 p.c.), gross incomes of entrepreneurs and from property, it is true, will still register a rising trend (+ 4 p.c.), but they will not reach the preceding years' growth rate.

**Private Investment Abroad Increased**

Private investment abroad of German industry generally, and particularly in developing countries, has grown again during the first nine months of 1969. On September 30, 1969, the total volume of private capital investment abroad had reached about DM 16.4 bn and thus had grown by DM 2 bn as compared with the beginning of the year. During this period the developing countries' share in these capital investments increased from 28.8 p.c. to 29.5 p.c.

German industry believes in the urgency of a continuous intensification of investment activities abroad, and mainly in less developed countries, for world-economic, national economic and operational reasons. On the one hand, it thus contributes to an equalisation of the balance of payments, and, on the other, it widens its production base by the establishment of new production plants. This way the economic development of less developed countries is promoted and the Federal Republic's dependence on exports reduced. Simultaneously disturbing influences of any fluctuations of exchange rates are softened through a worldwide dispersion of production.

**New Rolling Mill in India Put in Operation**

In the presence of the Chief Minister of the Indian Federal State of Mysore the medium-sized mill train, and with that part of the new rolling mill of Mysore Iron & Steel Ltd. has been put in operation at Bhadravati.

The new rolling mills supplied and installed by DEMAG AG, Duisburg, constitute such a large part of the final equipment of the high-quality steel project of Bhadravati that it will soon reach its planned capacity of 72,000 tons of high-grade steel.

The basis of this project was a steel works that had also been supplied by DEMAG. The extension of the old plant to the present high-quality steel works, called Alloy and Special Steel Plant, that had been started at the end of 1964, brought DEMAG orders to the value of about DM 45 mn. Part of the total cost of the project was financed with a DM 60 mn credit given by the Reconstruction Loan Corporation. Together with the high-quality steel works at Durgapur the plant at Bhadravati will now become India's main supplier of special and high-grade steels. Hitherto production of these steel qualities lagged far behind demand in India.

**Series of "omni"-Ships of Hamburg-Amerika-Linie**

With its motor ship "Ludwigshafen" Hamburg-Amerika-Linie puts the first of four new constructions of its new class of ships in operation. The MS "Ludwigshafen" belongs to the series of "omni"-ships and this or the next year will have three sister ships. Although individual technical innovations installed in the "omni"-ships are not unprecedented, the sum total of innovations in one unit represents an optimum rarely to be found again.

"omni", this name stemming from the Latin word "omnis" means that the new units can be used for "all" purposes. They are so expedient that they can serve the shipping companies' interests all over the world. Main aspect of these new ships is their usefulness for carrying cargo. The sum total of experiences undergone by HAPAG with its world wide liner services was at the beginning of the whole concept. The efficient and up-to-date transhipment of goods was the main target set for the shipbuilders. Therefore "omni"-ships are not only constructed for mixed cargo but also for the transport of unified loads, containers and liquid as well as solid bulk goods. Particularly bulky goods can also be transported by these vessels.

**10,000 Exhibitors Expected at Leipzig Fair**

Approx. 10,000 exhibitors from 65 countries announced their attendance at the Leipzig Spring Fair between March 1 and 10. The Federal Republic of Germany including West Berlin requires with 28,000 squaremeters the largest exhibition area, second only to the German Democratic Republic. A total of 1,020 exhibitors from the Federal Republic promised their attendance. The Soviet Union as most important trade partner of the GDR occupies an area of 13,000 squaremeters of the available space. The total exhibition area amounts to 350,000 squaremeters. The attendance of 2,000 exhibitors from East-bloc countries and 1,780 from Western states is expected.

**Industrial Production in Dec. 1969 Weaker than Usual**

After the vigorous business expansion in November, industrial production in December developed less strongly than usual at the season. As compared with November it declined by about 10 p.c. and thus decreased more than on a several-years-average of this season. The production decline of the capital goods industry, where a slight increase would have been seasonally usual, showed this trend with a particular clearness.

As compared with the previous year's corresponding period the growth rate of total industrial production declined from 11 p.c. to 7 p.c. in December. The growth rate was 11 p.c. (Nov. + 17 p.c.) in the capital goods industry, 9 p.c. (Nov. + 11 p.c.) in the basic industry and 6 p.c. (Nov. + 9 p.c.) in the consumer goods industry. The building industry was particularly affected by inclement weather conditions and its performance remained 23 p.c. below the previous year's corresponding period.

**Siemens: Many Incoming Orders Expected**

Siemens anticipates for the current business year 1969/1970 an increase of new orders booked by 5 p.c. to approx. DM 14.5 bn and a growth rate of international turnover of probably DM 1.6 bn to DM 12 bn. Investment will reach about DM 1 bn, DM 200 mn of this sum total will be invested abroad. A further increase of the returns in absolute terms is expected. The development of proceeds depends above all on whether wage and salary increases will not remain as eruptive as they were during the last months and whether and to what extent it will be possible to enforce necessary price increases.

The business year 1968/69 brought a growth rate of incoming orders of 30 p.c. to DM 13.8 bn and a turnover increase by 19 p.c. to DM 10.4 bn. The share of foreign countries in these figures declined slightly to 40 (42) p.c. due to the particularly favourable business conditions in the domestic market. DM 912 (472) mn were invested including investments abroad that rose by 36 p.c. to DM 162 mn. Production capacities abroad expanded more than hitherto, due also to the lack of manpower in the Federal Republic.

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first time. It is very often the case that the experience and technology of this size of firm is best suited to the limited market available in the developing country concerned.

### Financial Services

CDFC has played an active role in the establishment of many of the local industrial development banks established in developing countries in the Commonwealth over the last 15 years. The Company's investment in those new privately-controlled financial institutions has usually been a small one, but in three countries—India, Pakistan and Ceylon—CDFC organised substantial subscriptions to the initial equity capital from a range of British companies and financial institutions. The working relationship is much closer. In many cases, CDFC has invested in projects supported by the local industrial development finance company. And as CDFC does not maintain offices abroad, most of these institutions act as a correspondent through which local investors can learn about CDFC and make their preliminary contact with the London office.

CDFC's assistance is not confined to the investing of money. As a City of London institution, CDFC is prepared to act as financial adviser as well as financier, particularly for those firms whose management has little experience in this sphere. A fee will be charged for any services rendered. The full range of financial services and advice will be based on CDFC's own wide experience and that which it can call upon from any of its numerous shareholders. As there are 160 of those, there cannot be many branches in industry in which CDFC does not have potential access to at least some broad general advice on the choice of appropriate technology etc.

CDFC's operations should therefore become increasingly profitable in the years ahead as the low earning power of the loans in its existing portfolio is replaced by more profitable investments. The new policy of providing financial backing for sound but unproved management at an early stage in a business enterprise's development will give the portfolio something of the flavour of a "go-go" or "performance" mutual fund. These risks will be greater, but the rewards in terms of capital gains could be much greater than those achieved with equity investments so far. But given the present state of the capital market in most developing countries, these gains may take much longer to realise than they would for similar investment made in the West.

CDFC's directors consider the new emphasis on equity financing to be appropriate for the situation which the Company faces today in most of the countries in which it has invested in the past. Over the last 10-15 years, most of the developing countries in the Commonwealth have established their own institutions specialising in supplying long-term finance for privately-owned industrial enterprises. But whilst these local industrial development banks can usually supply most of the loan finance required, few of them are prepared to provide sizeable investments in the form of equity financing for enterprises whose management is not already proved and established. As a result, many business enterprises are operating in developing countries with an inadequate volume of equity financing in their over-all capital structure, and many promising smaller enterprises never obtain access to the equity funds which they need in order to grow. CDFC therefore intends to do more to help fill this gap.

The recognition that such a gap exists and that filling it is likely to be a profitable area for investment is a further encouraging sign of the maturity of the developing countries, the approach they are adopting towards their industrialisation programmes, and the men and management they are producing to run their business enterprises.

It is also surely a welcome show of support for the private enterprise system itself. Now that profits are harder to earn in Europe, North America and Japan, many internationally-minded companies recognise that they can earn a higher return on their total capital employed by investing more heavily in industrial enterprises in the developing countries. The more widely this trend is recognised, the more likely the developing countries are to attract the much larger volume of foreign private capital which most of them will need as their programmes for industrialisation accelerate in the 1970s.

In this process, CDFC has an expanding role to play. Although it is still at present an essentially British institution, the Company has always been prepared to invest in projects established in Commonwealth developing countries by European and other non-British firms. The Company recently widened its area of investment activity to include countries outside the Commonwealth. In his recent annual review of the Company's operations, the Chairman noted that CDFC would need to finance some of its future investment by raising finance outside the United Kingdom. It would not be surprising, therefore, if at some stage in the future, CDFC was to be transformed into a still more widely-owned international investment company specialising in investments in developing countries.